

FINAL TRANSCRIPT

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REP.MC - Q1 2011 Repsol YPF SA Earnings Conference Call

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PRESENTATION

Operator

Welcome to the Repsol first-quarter 2011 preliminary results conference call. The conference call will be conducted by Mr. Miguel Martinez, COO of Repsol. We will start with a brief introduction by Maria Victoria Zingoni, Director of Investor Relations. Please proceed, Maria Victoria.

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Maria Zingoni - *Repsol YPF SA - Director of IR*

Good day, ladies and gentlemen. On behalf of our Company, I would like to thank you for taking the time to attend this conference call for Repsol's first-quarter results. The presentation will be conducted by Miguel Martinez, the COO of the Company. Other members of the Executive Committee are joining us as well today.

Before we start, please, I invite you to read our disclaimer note. We may make forward-looking statements which are identified by the use of words such as will, expect and similar phrases. Actual results may differ materially, depending on a number of factors, as indicated on the slide.

I now hand the conference over to Miguel.

Miguel Martinez - *Repsol YPF SA - COO*

Thanks, Maria, and thank you all for attending this conference on our first-quarter results.

This quarter, we've realized a CCS adjusted net income of EUR654m, 29% higher year on year, and a CCS adjusted operating income of EUR1.4b, 11% higher than in the same quarter last year.

Our recurrent P&L has improved in relation to both the previous quarter and Q1 2010. Higher oil and gas prices, the strong performance of our LNG division, along with the recovery of the Chemical business, despite a lower production figure, have been the drivers of these solid results.

Let me say a word on a couple of relevant aspects in the quarter. In Upstream, as we anticipated at the beginning of the year, production was expected to be lower than in 2010 since no major projects are due to come on-stream in 2011. Non-manageable events have put additional pressure on the production figures.

First, the conflict in Libya. Although it has not resulted in any damage to our facilities so far, it has cast a shadow of uncertainty over the country's short-term scenario. In the quarter, we produced a daily average of 27,000 barrels per day, in comparison with the 43,000 barrels per day of Q1 2010. But since March 5, our production in the country has been completely interrupted. When it comes to shipments, we were able to sell three cargoes in comparison to four or five cargoes sold in a regular quarter.

Second, the negative impact of the moratorium in our production in Gulf of Mexico. Although the moratorium has been lifted and the activities in the area have been reactivated, which is very good news for us and our peers, it has still affected production during this quarter, with a drop of 8,000 barrels per day versus Q1 2010.

Drilling operations of our B-201 development will resume in March 2011 and they will reach target depth on April 3. The results have been positive and production from this well is expected in July and, accordingly, production in the region should start then being in line with our budget.

Third, maintenance turnarounds in Trinidad & Tobago meant that production was 11,000 barrels per day lower than last year.

The above factors were partially offset by higher output from Peru, driven by demand and the LNG plant, and by the new contract that came into force in Ecuador. For the rest of the year, excluding the PSC effect and Libya, production is expected to be similar or even slightly higher than in this quarter.

Despite this, it's important to mention that we maintain our long-term production growth targets, since the effects, as we mentioned above, are due to special circumstances. Only Libya has an uncertain scenario, but we are ready to resume operations as soon as the conflict is over. In fact, the first growth projects contemplated in the strategic plan, set to come on-stream over the next year and a half, are proceeding on time and on budget.

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Cartagena and Bilbao, progressing according to the timetable, and is scheduled to start full operations in fourth quarter this year, freeing up EUR1b CapEx per year. Kinteroni, with the appraisal campaign currently underway, will enable the first gas production to come on-stream in 2012, as planned. Margarita, where the first gas output of phase one is set to come on-stream in 2012.

Guara, the contract for its development was awarded to Subsea 7 in this quarter. It includes engineering, procurement, installation and commissioning of the riser systems between the underwater wellheads and the FPCO (sic). Contracts for FPCO (sic) house were already awarded in 2010. The project remains on schedule and will come on-stream in early 2013.

Lastly, we cannot fail to mention the corporate transaction relating to the partial sale of Repsol's stake in YPF. Repsol sold a total 11.6% stake in YPF in the market, 3.8% through direct sales and 7.7% through an IPO, including the green shoe, making great progress towards achieving Repsol's objective of diversifying its portfolio.

Due to current accounting rules, we are booking, after the previously described operations, EUR355m as reserves. Taking into account that the Petersen Group announced last week that it will exercise its 10% call option, Repsol's stake in YPF will be 58.2%. We are now ready to initiate the last stage of the plan, the placement of a stake of YPF among retail Argentinean investors.

Thanks to this transaction, Repsol is now in a very solid cash position. We have started using that cash in the redemption of one of the most expensive instruments in our balance sheet, the American preference shares. Our next step will be to find a replacement for the cash coming from YPF, producing assets, mainly in OECD countries or areas with relevant exploration upside are the kind of assets that fit into our strategic vision.

Now, going into further detail of the operational highlights of the quarter, and starting with the Upstream business. In the Upstream business, and as part of our exploratory drilling campaign, we are currently drilling five exploratory wells; two in the Brazilian Santos 44 block, Itaborai and Tingua; one in Campos 33 block, Gavea; one in Bolivia, Sararenda; and one in the US onshore, Garden Island Bay 1.

We are also forging ahead with the appraisal well drilling campaign in Peru with Kinteroni 3 and in Venezuela with Perla 5. Both Kinteroni 2 and Perla 4 already deliver promising results that reinforce the positive outlook for the development of the above-mentioned fields.

Another well that proved positive during Q1 was Carioca North-East, as we already mentioned in our previous conference call. And in the Gulf of Mexico, the Buckskin permit application was submitted in April 18 by the operator, and its approval is expected in the following weeks. The operator currently has a deepwater drilling ship in the Gulf that is awaiting the permit for this well.

Regarding new exploratory acreage, we want to highlight the farm-in into 164 blocks at Alaska prolific North Slope that we announced in March. The blocks are close to existing producing fields and cover an area of 2,000 square kilometers. The opportunity is twofold; a very low-risk portfolio in extensions of fields within the (inaudible) and a group of high potential exploration prospects in a basin that together sum up a potential of almost 1b barrels on a risk basis.

The project represents an excellent opportunity for accessing the onshore exploration blocks adjacent to Alaska North Slope fields. These blocks, governed by the laws of the State of Alaska, are close to open infrastructures with surplus capacity.

In LNG, the improvement of marketing conditions, mainly in our North America operation, is particularly worth mentioning. Marketing activities in North America benefited from low winter temperatures, thereby increasing their volume sold. Sales growth was not merely due to harsh weather, but also to increasing our capacity for supplying the plant, thanks to the agreement with Qatargas. Seven Q-Max from Qatar were delivered during the quarter. This agreement made it possible to meet supply in the area.



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Meanwhile, the marketing activities of Peru LNG benefited from the agreement executed with KOGAS, supplying eight vessels to Korea during the quarter.

Lastly, on March 12, ENARSA announced the outcome of the tender process for supplying LNG to the Argentinean Bahia Blanca terminal between May and October 2011. Repsol has been awarded nine out of the 25 shipments put out to tender, with Gas Natural Fenosa to deliver another seven shipments.

Moving into Downstream, our business obtained, this quarter, an integrated margin of \$5 per barrel, still ranking solid among the peer group and confirming once again the resilience of the business.

In Refining, better diesel and heavy/light oil spreads increased margin, although this impact was offset by higher oil prices, placing margins at the same level as in the first quarter 2010.

The volumes were affected by the programmed maintenance turnover at the Tarragona plant that reduced the capacity utilization rate compared to the last quarter of 2010, 67% this quarter versus 76% in the last quarter of 2010, although it was better than the same quarter last year.

In YPF, the strikes in December 2010 affect the drilling schedule and consequently production output in the quarter. That was below the volumes required by the drill crews in order to be entitled to tax incentives. We will do our best to regain the required volumes by the second half of the year. Unfortunately, strikes have occurred also during April and remain these days in some areas of the country.

Prices at the pump station increase on a year-on-year basis 11% in dollar terms, both for gasoline and diesel. The government of Argentina, however, enacted Resolution 46/2011 that allowed no price increases, which were already implemented at the beginning of April.

Let me elaborate on the progress achieved in relation to non-conventional resources. In tight gas, following the agreement with the mining company Vale in 2011, plans are underway for repair work and drilling operation at the Lajas Formation, to ensure that the 1.6m cubic meters per day production will be available as of 2013.

Regarding shale oil and gas, I would like to remind you that exploration work conducted in 2010 confirmed the great potential of the Vaca Muerta basin, very similar to the Backen and Eagle Ford formations. As part of these exploration activities, YPF announced last Tuesday a new shale oil discovery in the Vaca Muerta formation. The preliminary results of the first six vertical wells indicated initial flows of 200 up to 560 barrels of oil equivalent per day that along the geological and seismic studies done allows estimated 150m of technically recoverable oil equivalent in this area.

In light of these results, YPF will begin a pilot development in an area of 25 square kilometers and the appraisal of another 200 square kilometers. 17 new wells will be drilled over the remaining part of the year, and 14 existing wells will be fractured, thereby launching the first market development of oil from a non-conventional reservoir in the world outside North America.

Lastly, negotiations with the province of Mendoza made it possible to extend the concessions of YPF's 16 blocks in this region. We are also pursuing negotiations with other provinces to extend the terms of the permanent concessions.

After the quarter main highlights, I will now focus on our earnings performance. Adjusted operating income in the quarter, on the basis of current cost of supply, was 11% higher than in the same quarter a year earlier.

On a business-by-business basis, starting with Upstream, adjusted operating income in first quarter 2011 was EUR490m, increasing 13% in comparison with first quarter 2010. The following -- sorry, the variation in this quarter is mainly the result of the following factors.



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The 13% increase in oil realization prices and 15% in gas, net of royalties on a year-on-year basis, had a positive impact of EUR153m. The decreasing production volumes of 7%, mainly in oil, had a negative impact of EUR171m. Lower exploration expenses in the quarter versus the same quarter last year, when the depreciation of Seat was accrued, had a positive impact of EUR25m. Lastly, lower depreciation charges as a result of lower production volumes had a positive impact of EUR16m. Other minor items explain the remaining differences.

Moving to LNG, adjusted operating income in first quarter 2011 was EUR115m, versus EUR34m posted in the same quarter last year. The increase between the periods is due to higher volumes, mainly because of the start-up of the Peru LNG in June 2010, higher LNG marketing margins and the improved performance of the Canaport project.

In the Downstream business, adjusted CCS operating income was EUR216m, 16% up year on year. Year-on-year earnings growth is mainly due to the recovery of the chemical business.

By business segment, in the refining business the slight increase in distillate volumes in Spain, as well as greater production optimization, had a positive impact of EUR11m on this division operating income. The ongoing positive performance of the marketing business was achieved thanks to the strong margins that were able to offset lower sales volumes. Chemical activities, with higher volumes and margins, had a positive impact of EUR38m. Lastly, the variations in other activities, such as LPG and Trading and Transport, as well as other minor items, explain the remaining difference.

Moving on to YPF, adjusted operating income was EUR392m in first quarter 2011, 7% lower than the EUR420m recorded in first quarter 2010. Higher dollar denominated fuel prices in the domestic market had a positive impact of EUR151m. The increase in the revenues from exports, from products sold domestically but linked to international prices, had a positive impact of EUR104m.

The drop in the oil production and in refinery process led to an increase in oil and oil product purchases to meet growing demand. On top of this, the mandatory use of biofuels as of March 2010 made it necessary to increase the purchases of this product. The net impact of all the above mentioned was EUR95m decrease in operating income.

In gas, better prices in the industrial sector as well as the slight increase in sales to the domestic market had a positive impact of EUR15m. Higher operating costs had a negative impact of EUR122m. Other factors, mainly not having been entitled to the Petroleo Plus incentive, explain the other variations.

The production in this quarter was 4.7% lower than in the same quarter last year, mainly because of the impact of December strikes and the natural field decline. Gas production fell 5.9%, compared to the 3.5% -- sorry, 3.7% drop in oil output.

In Gas Natural Fenosa, a EUR249m adjusted operating income in first quarter 2011 was 2.7% lower than the EUR256m reported in the same year ago -- in the same quarter a year ago. Operating income in the first quarter 2011 was slightly below the figure in first quarter 2010, mainly because of lower income from electricity marketing activities in Spain and the effect in results of divestments made during 2010, distribution assets in Madrid and power generation in Mexico. Those factors were partially offset by the improvement in power distribution in Spain and enhanced earnings performance of Union Fenosa Gas.

The effective corporate tax rate in first quarter 2011 was 40%. We forecast a 38.5% tax rate, including accrued inventory effects, for the full year under [foreign] circumstances.

After this brief analysis of our performance, let me focus now on our financial situation. We are maintaining a robust financial position. EBITDA ex Gas Nat generated in the period was 24% higher than last quarter.

Operating cash flow generated in the quarter made it possible to absorb the cash outflows relating to current activities; investment, taxes, interest and the Repsol interim dividend paid in January 2011. In addition, the divestment of an 11.6% stake



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in YPF enabled us to cover the early redemption of the US preference shares, \$725m, and nearly all of the considerable increase in the working capital that was driven by a sharp increase in crude oil prices.

Our liquidity position has remained close to EUR7b, in line with the prudent approach we have been sustaining throughout the financial economic crisis period.

The Group's net financial debt at the end of the first quarter 2011, excluding Gas Natural Fenosa, amounted EUR2.180b, EUR483m more than at year-end. Taking preference shares EUR5.192b into account, and given that the US shares were redeemed, the figure is slightly lower than at the end of 2010. The net debt/capital employed ratio, excluding Gas Natural Fenosa, was 6.9%, or 16% if we take preference shares into account.

Summing up, our P&L performance this quarter was quite positive. Our numbers improved despite the difficulties in the operational [magnitude], namely in production, where the negative impacts that we mentioned before were aggravated by the unforeseen circumstances beyond our control, such as the case of Libya.

During the rest of the year, we will devote our efforts to continuing development of the growth projects foreseen in our strategic plan. We bear in mind that 2011 will be the year to lay the groundwork for the next stage of the growth processes to which we are committed in the medium and long term.

Thank you for attending, and now I'm ready for all the questions you may want to put.

QUESTIONS AND ANSWERS

Maria Zingoni - *Repsol YPF SA - Director of IR*

Okay. Thank you, Miguel. We will start with questions from Morgan Stanley. We have Theepan first. Theepan, please, good afternoon. Go ahead with your questions.

Theepan Jothilingam - *Morgan Stanley - Analyst*

Yes. Hi. Good afternoon. A couple of questions, actually. Could you firstly just clarify when you think you'll get the cash in from the retail sale and also the second tranche from the Petersen Group?

And then a follow-up. I was hoping, could you make some observations on what you think the asset market is like, in terms of to buy producing assets in the OECD? Do you think that's likely in 2011?

And then, moving onto the Downstream, if you could perhaps provide a little bit of color on how you think the Downstream environment progresses through the rest of this year, and in the current environment what you think the profitability will be from the two upgrade projects.

Miguel Martinez - *Repsol YPF SA - COO*

Hi, Theepan.

Theepan Jothilingam - *Morgan Stanley - Analyst*

Hi.

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Miguel Martinez - *Repsol YPF SA - COO*

Regarding the first one, we expect to get the money from Petersen next week. Okay?

Regarding what you mentioned, if we would be able to cover this part of the P&L we are losing due to the minority interest we're selling in YPF, yes, we expect to do some transaction, small one. I'm not thinking in a huge one. But we're trying to look for new assets in OECD short term, just to cover the part of the P&L that we are losing with the sale of the shares in YPF.

And regarding the -- my view on Downstream in Europe, my perception is that it will remain weak, though the figures we have and the models we work with show us that Cartagena and Bilbao, even in this scenario, will provide us between \$2 and \$3 extra for the whole system. So I think that since 2007, when we reached the demand peak in Europe, we have been falling. And approximately, I think that there are about -- I would say almost 3m barrels of distillation in Europe that either become logistics terminals or even they are -- or they would be losing money. So the name of the game, to me, is to get a system as the one we are going to have at the year-end, which is totally first quartile, and we will see. But I don't see it very positively, to be clear.

Did I answer your question, Theepan?

Theepan Jothilingam - *Morgan Stanley - Analyst*

Yes. No, you did. Just on the retail tranche, when do you think that would be complete?

Miguel Martinez - *Repsol YPF SA - COO*

You mean the retail in Argentina? We expect that before August we will have to be in the market and sell this small portion to the Argentine investors.

Theepan Jothilingam - *Morgan Stanley - Analyst*

Okay. Perfect. Thank you.

Maria Zingoni - *Repsol YPF SA - Director of IR*

Are you in there? Okay. Let's move to next question from Bank of America Merrill Lynch with Hootan Yazhari. Hootan, good afternoon.

Hootan Yazhari - *BofA Merrill Lynch - Analyst*

Perfect. Good afternoon. Just a very quick question. With the balance sheet now looking very relaxed and obviously having a lot more flexibility, how is the Board looking at the dividend policy and returning cash to shareholders? Has that moved up the ladder of importance or are you still looking to maintain cash in order to fund your very aggressive CapEx program? Thank you.

Miguel Martinez - *Repsol YPF SA - COO*

Hootan, second option is the one. We attach to what we have been saying in the past. Due to the financial situation and due to, as you mention, the CapEx program we have in front of us, we'll keep that money for us -- I mean for the Company. Our announce that we did, I think it was in Antonio Brufau presentation in the fourth quarter, is that we expect to increase the dividend at a minimum of a 10%, and this is what we are thinking right now to the -- I mean dividends will be increased. And



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we can guarantee for the next three years that dividends will be increased by 10% in the existing market conditions, and that the money that we are raising through the share -- sales of the shares in YPF will be dedicated to new assets in Upstream.

Hootan Yazhari - *BofA Merrill Lynch - Analyst*

Thank you very much.

Maria Zingoni - *Repsol YPF SA - Director of IR*

Thank you, Hootan. We have next question from Unicredit with Stefano Vitali. Stefano, good afternoon.

Stefano Vitali - *Unicredit - Analyst*

Good afternoon, everyone. A couple of questions, please. First one is on Venezuela taxation. How do you think that will impact your two big projects there?

And the second one is if you could give us some details about your exploration activity -- continued exploration activity in Sierra Leone and Cuba, please.

Miguel Martinez - *Repsol YPF SA - COO*

Okay. Thanks, Stefano. Well, regarding the impact of the new Venezuela taxation rule for our two projects that you mentioned, I suspect you refer to Cardon and to Carabobo. Well, first it has to be said that we have the law but we don't have yet the development of the law. But our perception today is that first, regarding Perla, it will not affect it. The law was referred to crude oil and Perla is gas, so we don't expect an impact there. In relation to Carabobo, actually, we expect that our rate of return to be increased by this decree by 2%. The reason for that is that the approach of the Venezuelan government is to help new developments.

So, in both cases, in one it doesn't affect and in the other it's going to help us. I think that the new law includes that this taxation rule will apply only after the CapEx of the companies have been recovered, so it helps a little. On top of that, it has also clarified that it's not the Brent, the index to which it relates, but the basket of Venezuelan oil. So, for us, I think it's a help. Okay?

Stefano Vitali - *Unicredit - Analyst*

Yes. Thanks.

Miguel Martinez - *Repsol YPF SA - COO*

Okay. And regarding the second one, in the exploration of Sierra Leona and Cuba, I would say that, starting by Cuba, we will be drilling in the fourth quarter the Scarabeo platform -- Scarabeo 9 platform. It's being built and almost finished in Singapore, and we will help it to remove it to the area by September. So, fourth quarter this year, we are going to be drilling in Cuba.

Regarding West Africa, three wells there, the first one in Liberia. The three of them will be in the second part of the year. The first one in Liberia, then the same platform will move into Sierra Leone for the appraisal of Mercury, and then after that they will be drilling Jupiter. So we kept with the initial plan. And as you can see, we are heavy loaded in exploration in the second part of the year. Did I answer?

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Stefano Vitali - *Unicredit - Analyst*

You did answer. Thank you very much.

Miguel Martinez - *Repsol YPF SA - COO*

Thank you, Stefano.

Maria Zingoni - *Repsol YPF SA - Director of IR*

Thank you, Stefano. We have the next question from Tudor, Pickering and Holt with Anish Kapadia. Anish?

Anish Kapadia - *Tudor, Pickering, Holt - Analyst*

Hi. Good afternoon. A couple of questions. Firstly, just thinking of your Upstream, the Alaska deal did sit perfectly with your strategy. I was just wondering if you're looking at further deals in the US, either unconventional US assets or Gulf of Mexico, given where valuations are at the moment.

And then the second question on YPF. The Company seems to be getting more opportunity rich with the tight gas, the shale oil, but seems like it might be constrained by the agreement to pay a 90% dividend payout ratio. I was just wondering, how would you look to fund an increase in CapEx if you do go ahead with full-scale development on the unconventional side in Argentina?

Miguel Martinez - *Repsol YPF SA - COO*

Anish, in relation with the first one, I think that Alaska fits for us perfectly well. I think we will cover with Alaska part of what we have sell in Brazil, to say something. So it's a big project. It's OECD; it's the US, so it's an area that we think really that we are balancing our portfolio with this transaction. Regarding the new one, I cannot tell you right now whether we will end.

But one thing is clear, at least to me, I don't see right now in the projects that I have analyzed any value on the shale gas. So my bet will be always against that type of business, because I think that the money has already been made by the developer. So, not shale gas, but there are areas we are looking, basically OECD and basically areas in which we think that some extra exploratory potential is there. But I cannot be more precise on that.

And in relation with YPF, you are right in one sense. The shale gas acreage in the Vaca Muerta source rock is enormous. Our net there is 3m acres, which is huge. I think that the news that appeared on Tuesday from Argentina referred to 81,000 acres, and the whole acreage is 3m acres. But I don't have problems when I have such a big quantity of oil. There is always finance to come and the problem is not to have it.

So first I would say we are starting, and we will see once we finish this year -- we are going to invest almost \$200m. And we will see, once we finish these 17 wells we will be drilling this year, we will have a better picture on how the whole shale of Vaca Muerta looks like.

Second, the 90% payout ratio, I wouldn't get that as something fixed in mind. We are more looking at a figure that is \$1.2b in dividend. So if the -- if YPF develops in the way we think, this payout ratio will be decreasing because actually we think that the results in YPF will be growing and our -- what we need is \$1.2b in dividend, not the 90%. But anyhow, if at the end it show us that it's a very, very big project, we'll look to farm-in someone. No problem with that. Okay?

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Anish Kapadia - *Tudor, Pickering, Holt - Analyst*

Okay. Thank you.

Maria Zingoni - *Repsol YPF SA - Director of IR*

Thanks, Anish. We have the next question from Espirito Santo. We cannot identify the name. It is not identified. So is there anyone in there who'd like to ask a question? No? Okay. Let's move to next question.

Filipe Rosa - *Espirito Santo - Analyst*

Hello. Are you hearing me?

Maria Zingoni - *Repsol YPF SA - Director of IR*

Yes.

Filipe Rosa - *Espirito Santo - Analyst*

Hi. It's Filipe. Hi. Filipe Rosa from Espirito Santo. A couple of questions, if I may. Are you hearing me?

Miguel Martinez - *Repsol YPF SA - COO*

Yes, perfectly well.

Filipe Rosa - *Espirito Santo - Analyst*

Okay. The first question goes for you mentioned that you are currently drilling in Brazil, and you also mentioned that you have drilled the Carioca well in the beginning of the year. Could you update us on when you expect to have the results from these three important wells that you are drilling now, and regarding the drilling -- the drillstem tests of Carioca which you were very positive on on being able to revise that for your expectation of recoverable oil?

And the second question regards still the follow-up question on non-conventional resources on YPF. You already have -- I don't know if you're already providing any guidance on the sort of -- of oil breakeven -- oil price breakeven that you would need to develop these shale oil resources that you found now. Thank you.

Miguel Martinez - *Repsol YPF SA - COO*

Thanks. Well, regarding our existing exploration right now in Brazil, right now we have finished the Gavea well, which is positive but we'll have to reevaluate the results of it. In Itaborai and in Tingua, we are still drilling so we haven't yet arrived to the horizons we expected. Guara North was positive and it confirmed the resources we were thinking of. Carioca North-East is a positive one, and initially for us it represents an increase in our reserves estimation. [Though] in Carioca, a second well will be performed throughout the year; we call it Sela. It's in the middle of the formation and it's the one that will give us somehow the final picture about Carioca.

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On top of that, we also have a -- we are drilling as well Guara Sur, which is drilling right now, and [Guara RBI] as well in drilling process. And finally, we have an appraisal well in Piracuca 3, which we are analyzing the final works. Okay?

Filipe Rosa - *Espirito Santo - Analyst*

Okay.

Miguel Martinez - *Repsol YPF SA - COO*

And that's regarding Brazil. Regarding shale and breakeven point of shale gas, our analysis today -- and I want, before to get into figures, to give a first comment, which is that we just have six wells being drilled there. So we have to be prudent in all our estimates, okay? But our figure shows that if -- we need each well to produce 300,000 barrels of oil to make a good return there. And right now the figures -- as I mentioned, there have been only five, six months of production in the wells that initially we drill, so it's way too early to say. But we are quite optimistic.

I think that in the area we analyze we are estimating -- if we reach the 150m barrels of resources based on 26b barrels per square kilometer, 5% recovery factor, and we believe that both figures are quite conservative. So we are quite optimistic but, as I mentioned before, it's way too early to give you more data. We are in the very early stage of analyzing Vaca Muerta.

Filipe Rosa - *Espirito Santo - Analyst*

Thank you very much.

Miguel Martinez - *Repsol YPF SA - COO*

You're welcome.

Maria Zingoni - *Repsol YPF SA - Director of IR*

Thank you, Filipe. We have the next question from Lydia Rainforth from Barclays Capital. Lydia, good afternoon. Please go ahead with your question.

Lydia Rainforth - *Barclays Capital - Analyst*

Thanks, and good afternoon. A couple of questions, if I could, please. Firstly, on the YPF stake, you seem to be suggesting the final stake will be 55%. That's different from the 51% you talked about at the strategy presentation. Or is it just that you will want to do another 4% next year?

And then, secondly, can you just talk about what you're seeing in terms of natural gas pricing in Argentina at the moment, and just whether there has been any progress in terms of putting up prices on the natural gas side? Thanks.

Miguel Martinez - *Repsol YPF SA - COO*

Well, in relation with the first one, when we mentioned 51%, was simply because -- as an indication to the markets that we are going to get the majority. Okay? So whether it's 51%, 53%, 55%, I don't know exactly a figure. We even can allocate some, or put some better sale to reach this 51%. But the idea behind the 51% and the message was that we are going to get the majority in YPF. Okay?



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And regarding price, the gas price in Argentina, basically, there has been no move. On average, the small variance we have, which was little -- it was positive but little --- was based on the industry's. We were able to increase the industry price from 3.9 last year, first quarter last year, up to 4.4 this year. Is that good enough? I would say no, it's not. And though gas prices keeps working, it's way too slow to really catalyze the prices into I would say a regular situation. Okay?

Lydia Rainforth - Barclays Capital - Analyst

Perfect. Thanks, Miguel.

Maria Zingoni - Repsol YPF SA - Director of IR

Is there anyone else who would like to ask any questions? I think that the system is not working properly and we are receiving some emails to ask questions. We have emails from Irene from Soc Gen, Jon from UBS. So are any of you in there that could hear us and could answer -- could ask a question, sorry? Why don't you write up an email with the questions and we will answer them, please?

Operator

(Operator Instructions).

Maria Zingoni - Repsol YPF SA - Director of IR

Okay. We have the listener now. Irene, please go ahead with your question.

Irene Himona - Societe Generale - Analyst

Good afternoon. Can I ask --- apologies if any of this has been asked before. First of all, on LNG guidance, your full-year guidance is EUR250m. You delivered about 4% to 6% of that in Q1. Are you raising the guidance or still sticking with it?

My second question is on cash flow. So, if we exclude working capital, you delivered EUR2.1b of cash from operations in the quarter. Annualized, it's in line with your plan for EUR8b. But your CapEx in the quarter was only EUR1.1b out of the budgeted EUR6b. Do you expect still to spend the EUR6b in the year or are you likely to fill the gap with asset acquisitions? Thank you.

Miguel Martinez - Repsol YPF SA - COO

Thanks for the questions, Irene. In relation with the first one, my people keep telling me that the EUR250m -- because I think that in the last conference call I'm (inaudible) dollars, but it's EUR250m --- will remain. So, as a Company opinion, yes, we kept with the EUR250m. If you want my personal opinion, I would expect a little more than that. Okay?

And regarding investments, I would say that we are at the present time only short in -- and we will be short first in Argentina. Due to the strikes we have been delaying investments. I think that the whole month of April and in these first days of May basically all the strikes have blocked the Santa Cruz province and also part of the Chubut province. So investment there will be a little lower. And also you have to decrease -- if you consider that the situation in Libya will remain as it is today for the whole year, we had in that EUR6b investment EUR110m were expected to be invested in Libya. Apart from that, yes, we kept with the EUR6b. I think that in Downstream, and partially in Upstream, the year is more loaded in the second part. So we kept with the EUR6b.

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Irene Himona - *Societe Generale - Analyst*

Thank you.

Maria Zingoni - *Repsol YPF SA - Director of IR*

Thanks, Irene. We have the next question from Daniel Ekstein from Jefferies. Daniel, good afternoon.

Daniel Ekstein - *Jefferies - Analyst*

Good afternoon. Thanks. A couple of questions from me. Firstly, on the Upstream and your oil realization, they moved up only by about \$2 per barrel from the fourth quarter, and international prices moved up by about \$19 or \$20. Could you explain why your discount widened and what the outlook is there, going forward?

And secondly, on YPF, I think you mentioned that you'd missed out on Petroleo Plus bonus during the first quarter. Do you think you will be able to achieve this bonus at any point in 2011? It seems like it might be a challenge with the strikes, etc., ongoing. Thanks.

Miguel Martinez - *Repsol YPF SA - COO*

Well, in relation with the first question, you have to take into account two factors. First one is Libya. Libya is important. And this quarter we produced 27,000 barrels per day, while in -- for example, in the first quarter 2010 we were producing 43,000 barrels of oil per day. So, Libya weighs in that equation. And the second reason is Ecuador. In Ecuador, last year, we were accounting at market value the barrels we produced, and those barrels were reduced by 38%, almost 40%, because of the royalty was paid in kind. This year, with a new contract, we are valuing those barrels at \$36.9.

And if you put in the table both factors -- so it's a pure mathematical problem in Ecuador. The value is the same as we had last year, even growing. And in Libya, it's the impact of Libya. So those two factors are the ones that make the average oil increase \$2 per barrel in comparison with last quarter.

And in relation with Petroleo Plus, as you mentioned, I don't think we were going to be able to obtain the Petroleo Plus in the second quarter, and right now we are working to see how we handle it for the third quarter. So, our initial estimate at the beginning of the year, and due to the strikes in December, whilst the first quarter was totally lost and we have to battle for the second. Right now, the second quarter, we will not be able to reach it. My opinion. Did I answer you then?

Daniel Ekstein - *Jefferies - Analyst*

Yes, you did. Thank you.

Maria Zingoni - *Repsol YPF SA - Director of IR*

Thank you, Daniel. We have now Jon Rigby from UBS. Jon, please go ahead with your question.

Jon Rigby - *UBS - Analyst*

Thank you. Two questions, actually, just going back on questions that have been asked. But the first is on LNG. Can you just go through where your cargoes contracted are likely to be going in the second and third quarter, the summer period, and confirm

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that the Argentine deliveries will be oil price related rather than Henry Hub related, give some idea of the structure of profitability, say, vis-a-vis the first quarter?

The second is just to circle back on Argentina again. I'm sorry about this. I noticed that -- although you mentioned you got a price increase at the pump in April, I also noticed that year-over-year inflation is running significantly high. Is it going to get to a point, if you don't achieve more price increases this year, that you start cutting CapEx in operation merely because some of the marginal activity has started to become unprofitable? Or are you willing to go through this process to get to 2012, in the hope that prices then start to move up? Thanks.

Miguel Martinez - Repsol YPF SA - COO

Well, in relation with the LNG, first, in Argentina the prices of the LNG did not relate to liquids. They relate to Henry Hub. And we have signed contracts between Henry Hub plus 5 and Henry Hub plus 7. So it's Henry Hub with this margin.

Where are the cargoes going to go? Well, we have several contracts, but basically it's going to be to those areas in which we obtain a better price. We will commit with the contracts we have with KOGAS, and the rest is going to be the place in which we maximize our results. Okay?

Jon Rigby - UBS - Analyst

Right.

Miguel Martinez - Repsol YPF SA - COO

And in relation with Argentina, it's true that in the quarter -- the only moving prices we had this year was in April. It was 5% and 6% in pesos term, which represents 2 for gasoline and 3 for diesel in dollar terms. It's true that it's quite modest, especially if you compare it with the cost increase. But we also have to mention that we had a very good increase in prices in December.

So my perception is that we will be able to keep increasing those prices. Our goal is to reach 15% in dollar terms for the whole year, and let's see if we can do it. I know it's a difficult year; it's an election one. But also, all the strikes are putting more pressure because there is a scarcity of products, and that means imports, and that at the end means that the price increases have to reach the pump.

Jon Rigby - UBS - Analyst

Right. Can I just follow up on the LNG again? Since March, have you seen --- I'm conscious that your Peruvian supply is actually quite well located --- have you seen greater interest in pulling those cargoes into Asia over and above your existing Korean contract?

Miguel Martinez - Repsol YPF SA - COO

Yes. Yes, we are selling cargoes in Japan.

Jon Rigby - UBS - Analyst

Thank you.



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Maria Zingoni - Repsol YPF SA - Director of IR

Thank you, Jon. We have the next question from Credit Suisse with Thomas Adolff. Thomas, please go ahead.

Thomas Adolff - Credit Suisse - Analyst

Good afternoon, gentlemen. I guess three questions. First, on Brazil, Guara and Carioca, given the operational issues you have had with Guara extended well tests, are you considering shortening your test period there to avoid delays to the Carioca extended well tests, in view of the deadline for the [Canary Carioca] commercial?

And on Carioca as well, how important is the third well you're drilling there? Is this why first oil is uncertain now for phase one until this one is drilled?

Secondly, on Creal-B in Albacora Leste, is there anything you can say on the prospect size now? I'm hearing this could be a huge prospect.

And finally, Angola pre-salt, I know it's early days but my question I guess here is have you agreed so far on the work commitment? And if so, what is your current thinking in terms of activity there time-line? Thank you.

Miguel Martinez - Repsol YPF SA - COO

In relation with why extend that well, once we finish the repairs it will turn back. We expect it shortly. And we will be producing some extra three months in Guara. And we expect a -- on average, a production of 16,000 barrels of oil per day. This will imply a small delay, for sure, in the Carioca extended well. But as you mentioned, important part of Carioca is the Sela well. Right now, we have very good news in the northern part of Carioca and in the southern part, and now the hypothesis is that in between those we would like to see how the reservoir behaves. And this is the goal of Carioca Sela. The results will come once we drill. Okay?

And in relation with Creal-B, we will be drilling an appraisal in Creal-B in the second part of the year, mostly, I would say, in the fourth quarter, and quite difficult to announce now any expectation. We were positively surprised last year, when we made the finding, and it's still way too early to make any extra comment. We will be drilling in the fourth quarter this year. Okay, Thomas?

Thomas Adolff - Credit Suisse - Analyst

Thank you. And on Angola pre-salt?

Miguel Martinez - Repsol YPF SA - COO

Okay. In relation with Angola, the commitments are okay and we will be drilling in 2013.

Thomas Adolff - Credit Suisse - Analyst

Okay. Thank you.

Maria Zingoni - Repsol YPF SA - Director of IR

Thank you, Thomas. We have now Barry MacCarthy from RBS. Barry, good afternoon.



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Barry MacCarthy - RBS - Analyst

Good afternoon. And thanks for taking the question and for the presentation. Going back to the oil shale project in Argentina, can you say of those wells that you plan to drill over the rest of this year if you will begin horizontal drilling, which might give a different perception of the magnitude of the flow rates that we might get from this field? Thanks.

Miguel Martinez - Repsol YPF SA - COO

Thanks, Barry. Well, as you know, the six wells we have drilled up to now were all vertical. The reason for that is that the thickness of the source rock is, I would say enormous, between 100 and 400 meters thick. And we were obtaining these results with the vertical wells. The cost of these vertical wells have been \$7m per well, \$3.5m for the well and \$3.5m for the frac.

We will be drilling horizontal. We are in the learning curve and throughout the year we will be drilling horizontal wells. We expect the cost almost to double in these wells, and we will see which the results are. But yes, the answer is yes, we will be drilling horizontal wells throughout the year. Not all of the 17, but some of those. Okay?

Barry MacCarthy - RBS - Analyst

Perfect. Thank you very much.

Maria Zingoni - Repsol YPF SA - Director of IR

Thank you, Barry. We have the next question from Luis de Toledo from BBVA. Luis, good afternoon.

Luis de Toledo - BBVA - Analyst

Good afternoon. I just would like to know if you can provide any kind of guidance regarding depreciation. It seems that first-quarter figures came a little below our expectations, and I was wondering if it's related with the fact that your volumes in [production] have been lower. Do you plan any significant pick-up in the positions along the year?

Maria Zingoni - Repsol YPF SA - Director of IR

Sorry, Luis; are you asking about production?

Luis de Toledo - BBVA - Analyst

No, sorry. Depreciation figures.

Maria Zingoni - Repsol YPF SA - Director of IR

Depreciation, okay.

Miguel Martinez - Repsol YPF SA - COO

Okay. Depreciation figures, which I'm talking just by memory were about 800 and something million euros, are a little below our expectations for the whole year. For the whole year, in your model you can put EUR4b. You have to think there are two

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factors. First, in this first quarter we didn't have any depreciation in exploration and that along the year I expect some charges in exploration. For the whole year, expect something as \$500m, including G&G and G&A. And then you have also to consider that in the third quarter -- sorry, in the fourth quarter this year we will have Cartagena and Bilbao, which will represent also an increase on the depreciation.

On top of that, it's true that our estimate of EUR4b was based in a production that is shrinking, due basically to Libya. So you have to adjust that. And to me the final figure would be something around EUR3.8b or something like that.

Luis de Toledo - *BBVA - Analyst*

Okay. Thank you.

Miguel Martinez - *Repsol YPF SA - COO*

Thank you.

Maria Zingoni - *Repsol YPF SA - Director of IR*

Thank you, Luis. We have next Fernando Lafuente from N+1. Fernando, good afternoon.

Fernando Lafuente - *N+1 - Analyst*

Good afternoon to everybody. Just, Miguel, a quick question on the production for this year. Could you please repeat the guidance that you expect for 2011, please?

Miguel Martinez - *Repsol YPF SA - COO*

Sorry. I would say, Fernando, that taking out Libya of the equation, which in this first quarter represents 27,000 barrels per day, our figures for the rest of the countries would be in line with this first quarter. And then, putting Libya in the figures, you may (technical difficulty).

Fernando Lafuente - *N+1 - Analyst*

Okay. Great. Thank you so much.

Maria Zingoni - *Repsol YPF SA - Director of IR*

Was the last question that we have. Any additional questions? Okay. Let me apologize for the problems in the communication that we had today. And thank you to all of you for attending the conference call.

Operator

Thank you for attending this conference call. Goodbye.

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