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REP - Q1 2010 Repsol YPF Earnings and Update on Strategy Conference Call (Listen-only mode)

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PRESENTATION

Operator

Welcome to the Repsol YPF Q1 and Strategy Update Presentation.



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

Good day, ladies and gentlemen. This is Maria Victoria Zingoni, Director of Investor Relations. On behalf of our Company I would like to thank you for taking the time to attend this presentation today on Repsol's first quarter results and strategy update. This presentation will be conducted by Mr. Antonio Brufau, Chairman and CEO. Other members of the Executive Committee are joining us, as well.

We have scheduled this presentation in two parts -- first, the quarter results; and second, the strategy update for the period 2010-2014.

Before we start, I invite you to read our disclaimer notes. 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 this slide.

I now hand the conference over to Antonio Brufau.

Antonio Brufau - *Repsol YPF - Chairman and CEO*

Thanks, Maria Victoria. Good day to all of you and thank you for joining us today. I will ask first Miguel to explain the quarter results and then I will go in detail in the strategy update. Miguel, please?

Miguel Martinez - *Repsol YPF - COO*

Thanks, Antonio. Good day to all of you and thanks for attending this conference on our first quarter results and strategy update.

In comparison terms, we are presenting strong results, with an important improvement, both year-on-year and sequentially. This quarter we release an operating income of EUR1.5 billion, 61% higher than same quarter last year and also 126% higher than last quarter 2009.

Let me please refer, first, to market conditions. In a general extent, market recovery and, in some extent, economic recovery, has boosted our results year-on-year with higher international oil prices and better prices in US terms in Argentina despite lower refining margins and negative FX from exchange rates.

Let me explain now how the different variables have influenced results in the quarter. First, our oil realization prices increased 82% compared to same quarter last year, affecting very positively our actual results.

Secondly, even though refining margins were dropping in first quarter last year, down to \$4.60 US per barrel, they were still high in comparison to the \$2.10 US per barrel shown this quarter. However, we are experiencing now a recovery trend and this \$2.10 per barrel in the quarter is significantly higher than the zero margin bottom at the end of last year.

Third, in YPF the price increases continue, beating the currency devaluation and allowing a raise in pump price in dollar terms. The results have benefited from the increase in international product prices, as well.

Fourth, the dollar has depreciated against the euro 6%, \$1.38 per euro versus \$1.30 dollars per euro same quarter 2009. On a sequential basis, all variables have performed better and we expect this recovery tendency to continue along the year.

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Let me go through our activity in the quarter. It's important to highlight that results in the quarter have been impacted not only by market conditions, but also by the improvement in many manageable variables of the business, mainly production increase and better oil and gas mix.

Production increase and a better mix have been important drivers in the quarter. Compared with same quarter last year, we have increased our production by 10.4%. Additionally, due to Shenzi, we continue raising the weight of the oil in our production mix, coming to 43% in this quarter compared to 36% same quarter last year.

We have been maintaining a drilling campaign during this quarter, with seven exploratory wells, six in Brazil and one in Venezuela. The only well which finished drilling in this quarter has been Seat. In Seat, we finished drilling with total depth of 6,550 meters. The well found 36 degrees API oil in two pre-salt intervals, but lower quality than expected reservoirs and with no commercial base in both cases. This block also contains other structures that are under study.

With a fifth one in April Perla 2 in Venezuela has given us more good news. Its results have [provided] more information on previous estimated resources, with current estimation 30% higher than the original ones, up to between 9 to 10 TCFs.

In Brazil, in Guara North, we finished drilling and we are testing the well with the same rig. This well, located 15 kilometers north of the first Guara well found a similar quality reservoir 65 meters higher than the first well and, therefore, with a higher pay.

Regarding exploratory acreage, we have been awarded 16 blocks in the Gulf of Mexico, two in Norway and one in Algeria, which shows our commitment to maintain a solid product pipeline for a sustainable future.

Before going into results, let us cover our financial position and the corporate activities. We've been able to maintain a stable liquidity position at EUR6.5 billion and we continue with the sale of non-strategic assets like an additional 5% stake in CLH and our stake in the Gaviota gas storage field.

As to the quarter's 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 65% higher than in the same quarter a year earlier.

On a business-by-business basis, starting with the ups in adjusted operating income in the first quarter 2010 was EUR432 million, increasing 134% in comparison with first quarter 2009. The EUR248 million variation in this quarter is mainly the result of the following factors. Oil realization prices, net of royalties, had a positive impact of EUR248 million. The 82.3% increase in oil realization prices is greater than the 72% improvement in the price of Brent because of higher relative sales coming from the United States following the startup of Shenzi and from Libya.

Increased production volumes of 10%, mainly in oil, on a quarter-to-quarter basis, had a positive impact of EUR184 million.

Higher exploration expenses, resulting from greater activity and the depreciation of Seat decreased results by EUR55 million. The depreciation of the dollar against the euro affected the operating results by EUR27 million, respectively. Lastly, higher depreciation charges as a result of superior production volumes in the US and other minor items explain the remaining difference.

Moving to LNG, adjusted operating income in the first quarter was EUR34 million versus EUR11 million posted in the same quarter last year.

In the downstream business, adjusted CCS operating income was EUR186 million, 43% down year-on-year. Lower results year-on-year are mainly due to lower refining margins. As I have already explained, lower demand due to the economic crisis that affected the utilization ratios of our refineries and consequently lowered our exports.



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However, we had positive news coming from the retail and the chemical business that offset part of the aforementioned effects. The retail business remains strong, supported by margins, and the chemical business is in a slow but continued recovery, approaching breakeven with both better margins and volumes.

All in all, we have had a downstream integrated margin of \$5.17 US per barrel, a high level, internationally speaking, and under current conditions. That proves, once more, the strength of our downstream business.

By business segment, in the refining business adverse impact of EUR189 million was, as mentioned, due to lower international margins and lower distillate volumes. Lower demand and program maintenance activity in our Bilbao refinery were the main drivers of the minor distillate volumes.

Positive performance of the marketing business increased operating income by EUR10 million, supported by the maintenance of strong margins and the improvement of the sales mix, which was geared towards high-margin products. Chemical activities with higher volumes and margins in bottoms first quarter last year had a positive impact of EUR73 million.

Moving on to YPF, adjusted operating income was EUR420 million in the first quarter, 176% higher than the EUR152 million recorded in the first quarter of 2009. Results increase in YPF is based on higher revenues and stable costs, higher margins, priced in dollars, and better international prices, along with stable costs, despite inflation in the country, are the main reasons for this important improvement in results.

The most significant year-on-year variations, which resulted in a EUR268 million increase in adjusted operating income, are as follows. High dollar prices for liquids at the pump, the domestic market, as well as increased sales volumes, had a positive impact of EUR186 million on operating income. Higher revenues from exports and from products sold domestically but linked to international prices had a positive impact of EUR133 million.

In relation to gas, higher prices in the industrial sector were not able to offset lower volumes, resulting in a negative variation of EUR35 million in operating income. Other effects, mainly the positive impact of Petroleum Plus, explained the remaining variations.

Production in this quarter was 8.5% lower than in the same quarter last year because of natural field declines. 12.9% gas decline was higher than the 4.7% in oil since we are concentrating our investment efforts in oil production, thanks to the benefits of the Petroleum Plus program. On the positive side, production volume was higher than the last quarter of 2009, mainly due to the absence of strikes.

In Gas Natural Fenosa, adjusted operating income in the first quarter 2010 reached EUR256 million, 51% higher than the EUR169 million posted in the same year-- the same quarter a year ago, mainly as a result of the global integration of Union Fenosa operating income and its scope of consolidation.

After this brief analysis of our performance, let me focus now on our financial situation. We are maintaining a robust financial situation. EBITDA generated in the period was 23% higher than last quarter. Our liquidity position, cash and outstanding credit lines, has been increased up to EUR6.5 billion, in line with the prudent approach we have been sustaining during the financial economic crisis period.

Net debt, ex-Gas Natural Fenosa, at the end of the quarter reached EUR4.8 billion, slightly below that at the end of 2009. EBITDA generated during the quarter, plus proceeds from investments were sufficient to cover net investments and increases in working capital that have been particularly high due to price increases which affected inventories. It's important to remember that by Spanish regulation we have to maintain a high level of inventories.



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Summing up, we have had a very good performance in the quarter. Not only the macro scenario has improved our numbers, but also management decisions such as cost cutting, retailing business in Spain and Argentina and (inaudible) are main drivers in explaining these very good results. We think it's likely that these good conditions would remain along the year.

And now I hand over to Antonio to get into the strategy update.

Antonio Brufau - *Repsol YPF - Chairman and CEO*

Thanks, Miguel. For time purposes, I'm going to present the whole strategy update myself, after which you could ask your questions via me to any member of the Executive Committee that are joining us today. I will also ask them to put more color on the specific questions of the business whenever I understand it will help us to clarify an issue.

My presentation is structured around four main topics -- a quick overview and key messages from our business; the energy outlook that explains the environment under which we have developed this plan; the strategy update itself, in detail by business; other corporate and important issues and the financial outlook of the plan. Let's begin with the overview.

There are two main reasons for this strategy update. On the one hand, the exceptional good results of our exploratory performance during 2008 and 2009, which will require a significant amount of CapEx to move on the development stage. On the other, the dramatic changes in the economic environment that affected the whole industry.

What we have to say is that our focus remains unchanged. We will deliver our commitments and we will continue developing the next wave of growth. During the period 2005-2008, we focused our activity in building the basics to the transformation of the Company, with an important effort in developing upstream capabilities, in dealing with growing nationalism and contractual changes and in designing the downstream growth strategy.

From 2008 to 2010, results were delivered in all areas -- exploration success, projects on stream and on budget, new opportunities for growth and YPF, with a divestment of 15% to a local partner, with an improvement of our results thanks to the surge of the hidden value of this asset.

The strategy for the period 2010-2014, which update we are presenting today, will continue delivering good results with high operational activity to develop the projects and setting the basis for the next wave of growth.

We have achieved goals in all business lines. In the core areas, we have delivered growth with an extraordinary exploration performance, with an improvement in operations and with divestments of non-core assets. In YPF, additionally to the divestment of the 15%, we have seen a recover of their energy prices. Moreover, YPF has proven to have a significant resilience to the crisis during last year. The acquisition of Union Fenosa by Gas Natural has brought growth and value.

Therefore, I think that our goals remain the same -- focused on shareholder returns, financial discipline and social-corporate responsibility.

For the 10 key growth projects we defined in our strategy plan in 2008, eight of them are currently operating or with a specific startup or FID already made. Only (inaudible) and Block 39 are under evaluation due to the important changes in the environment. Obviously, what is totally new for our history is the exploration success we have had in the last two years, which has added five new growth projects to our portfolio and brought other ones under study, which will create more value in the future.

In summary, we are on the right track to transform the upstream division into a growth business line in our Company, which will create value through the exploration pipeline. At the same time, we are proud of having the best-in-class downstream assets, which, no doubt, will capitalize when the market recovers.

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YPF has delivered what we were telling the market in last years, the surge on the hidden value. And the acquisition of Union Fenosa by Gas Natural gives us all types of flexibility.

We have done all this mainly organically and with a sound balance sheet, which, no doubt, will allow us to fund the future growth.

Before going through this update in greater detail, let me briefly share with you some reflections about the energy outlook that has been affecting our sector and how we understand the different variables will evolve.

We have lived in a very volatile environment in oil prices and refining margins. We see 2010 showing a slight recovery and an improvement of fundamentals that is still far below a full recovery. However, we, as others, think that the oil and gas business is a good one to be in since demand will always be there.

Thanks to the strong fundamentals, we agree with the consensus price of \$70 to \$100 per barrel for the next five years. In the case of natural gas, it is clear to us that it's going to have a primary role as an energy resource and we see prices, in some regions, decoupling from oil prices, which will create arbitrage opportunities.

In refining, we are totally convinced that the higher-conversion refineries will be better positioned to capture the value, once the market recovers and the ones in Europe with the higher middle distillate yields will have a solid advantage. A group of experienced analysts are already acknowledging this issue.

Our assumptions are aligned with the ranges of the market -- Brent price \$72 in 2010 up to \$90 2014; Henry Hub, \$5 per million BTU in 2010, to \$5.50 in 2014; Northwest Europe Brent cracking margin, \$2.27 per barrel in 2010, up to \$3.32 per barrel 2014; and an exchange rate of \$1.40 per euro in 2010 and \$1.35 per euro throughout the period 2011-2014. All the projects included in this update are also profitable under the bottom part of the range that you see on the screen.

After this overall look of the environment, let me now walk through the way we have and will create value in Repsol and through the strategy update and the goals we are setting up from now up to 2014. Our value creation will be based on the following.

In upstream and LNG we will deliver consistent production growth. We will be placed in some of the most attractive basins worldwide and we will increase the reserve replacement ratio significantly.

In downstream we will optimize returns on capital and improve our competitiveness thanks to the conversion expansion that will take place by the end of 2010.

In YPF the goal will be in pursuing the hidden value to fully arise and we can see, day by day, as you have seen in the last quarter results.

The acquisition of Fenosa by Gas Natural has created a vertical integrated leader in gas and power in which we have a 30% stake. We will be maximizing the business we can build together.

The last issue is related to portfolio management. We do have to continue divesting in YPF to have a better geographical balance and keep on divesting in non-core assets. In relation to this issue, we have also planned to others joining us through a capital increase in our operations in Brazil.

Let's go on a business-by-business line. Starting with the upstream business, we have seen an extraordinary transformation of our activities. From 2005 to 2009 we see better figures in all our variables that will allow to think that the (inaudible) for growth has been already established and the risk in achieving that growth is limited.



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I'm asked very often by investors if the success in our E&P business is just pure luck or if there is something else behind that will enable us to maintain it. The answer is very clear. Repsol's success in upstream has been built, as you can see on the screen, on human, technical and technological capabilities. Among other things, we were awarded by Platts as the best commercial technology of the year 2009.

The result of the development of the capabilities mentioned in the previous slides is the exploratory success of the Company in recent years. In 2008-2009, we had 24 discoveries in 11 different countries, with some 1.3 billion BOEs of contingent resources, with Brazil evaluated by an independent consultant. For discoveries 2008-2009, we were considered among the biggest in the world and during 2009 we were operators in two-thirds of the discoveries of that year.

We consider that we have been very successful in escalating our global footprint, expanding our operations from our traditional core areas -- Latin America and North Africa to the Gulf of Mexico and Brazil. This strategy has been key in rebalancing our portfolio in all aspects -- oil and gas balance; dilution of risk with entrance to the US; and technical expertise diversification towards the offshore.

This well-balanced portfolio is the base for a secure pipeline of projects in the next five years, on top of the ones we have on stream. In consequence, the support of our upstream growth in the medium term is based on 12 projects -- four already onstream or starting operations this year and eight in different phases of development with first oil within the next five years. In the long term, we expect new projects to come from our current core areas, as well as Morocco and West Africa.

Let me review the main characteristics of these 12 projects. The projects that are under operation or are ready to start in the short term are Shenzi in the US Gulf of Mexico where we have a 20% stake. We reached the production plateau early and 20% higher than expected and we will add 35 million BOEs of additional reserve in the next five years.

In the I & R Field in Libya, gross production plateau is expected in 2014 at 75,000 barrels per day. Canaport, the 10 BCM regasification plant in Canada within reach of the premium North America market, has started operations on time in third quarter last year.

Peru LNG is an integrated LNG project that is going to start up at the end of this second quarter 2010 with two-thirds of the uptake of the gas already committed to Mexico.

The projects that will start operations through 2013 are -- Kinteroni, one of the largest discoveries in the world in 2008, with the first gas to be produced in 2012; Margarita-Huacaya, a huge gas field that will serve the Argentinean market, thanks to the agreement of the Bolivian and Argentinean governments; Guara, one of the most important projects in our portfolio that has been considered by Petrobras of high priority, only after Tupi.

Guara will have a significant impact in production volumes and mix in our portfolio. Moreover, as Miguel has just explained, we finished Guara North and found a similar quality reservoir 65 meters higher than the first well and, therefore, with a higher pay. We are going to conduct an extended well test in Guara during the next month that will put even more color on this excellent discovery.

Reggane, where will give-- continue it into operations. Our operations in Algeria will be in 2014 or beyond.

Carabobo in Venezuela, which is the only project that doesn't come from exploration, exploration will consolidate a steady production stream for 20 to 40 years and will secure heavy oil supply to our Spanish refinery system.

Cardon IV in Venezuela, as well, is a huge gas discovery that, after the second well recently drilled, could hold between 9 to 10 TCF of gas. It will secure gas to Venezuela at steady prices.



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Starting in 2015 and beyond the period covered in this update, we have Carioca, another important discovery in Santos 9 and Piracuca, a shallow-water discovery in the Santos Basin.

On top of the 12 key growth projects, we will keep the pace in exploration, investing around \$700 million US per year to that objective. Our priorities, together with Brazil and Gulf of Mexico in the US, are in Alaska, Canada, West Africa and Norway. At the same time, we will be analyzing other opportunities to replace or even increase our exploration acreage.

As you are aware, Brazil and the US Gulf of Mexico are two areas where we will have large activity in the coming years. I would like to make a special chapter for them.

Starting in Brazil, we are the private company with the most extensive offshore exploration portfolio with 17 blocks. We have had six discoveries, four in the pre-salt and two in shallower waters. Two of our Santos pre-salt discoveries, Guara and Carioca, are large discoveries with high productive reservoirs and net resources of around 750 million barrels, evaluated under current available information by independent consultants.

On top of the three key growth projects included in this strategy update, which I explained before, we have three additional discoveries and additional prospects, which give us untold possibilities. The net risked contingent resources of these discoveries and prospects could reach some 1.2 billion barrels of oil equivalent, as evaluated by an independent consultant.

Additionally, we have an exploratory inventory of around 15 prospects to be drilled in the next years, which add up to estimated net risked resources of around 420 million barrels of oil equivalent, also based on an independent consultant evaluation.

2010 is a year marked by important activity in Brazil, with operational drilling testing for Carioca, Guara and Panoramix and continued exploration with new prospects in all of the three Brazilian basins -- Santos, Campos and Espirito Santo. We expect to maintain this drilling exploration activity in the next years.

When it comes to CapEx requirements for the period 2010-2014, the net figure will be between \$4 billion and \$5 billion US, based on the activity we have just reviewed and will be fully financed by operating cash flow, as I will explain later in this presentation. These investments will contribute to nearly triple our net production in Brazil.

An additional \$6 billion to \$9 billion US CapEx needs could be expected for the period 2015 to 2019, when Brazil's net production could reach some 50 billion barrels of oil equivalent a year, more than 10 times current volumes. The development of potential exploratory successes is not included in this level of investment.

We are studying the possibility of financing the projects with an IPO with minority rights issue, which would face excess of concentration on one single region, obviously, always for us having control on the Brazilian operation.

Moving now to the US Gulf of Mexico, we have activity at all different stages of development with Shenzi at full operation. Buckskin, with important resources, is getting ready to be operational this year and several prospects are under evaluation with three to four wells to be drilled per year between 2011 and 2014.

The future exploratory activity in the Gulf of Mexico includes the north plan of Shenzi, which, according to our internal estimates, holds, along with Buckskin, net risked resources of 125 million barrels of oil. On top of Shenzi and Buckskin, we have a portfolio of 12 additional prospects to be drilled, which ensures constant activity for several years in the Gulf of Mexico. Aside from this, we have been awarded 16 new blocks in the last lease sale, as Miguel mentioned during his presentation.

Buckskin and other potential discoveries will come onstream after 2014, when production from this region could more than double current levels. The investment requirements will be at around \$1.5 billion US for the period, with Shenzi taking approximately half of it and devoting more than \$0.5 billion US for new exploration.



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To sum up, the upstream business is extraordinarily well positioned to grow in creating value. On the one hand, long-term capabilities have been established. On the other, exploratory acreage, as well as key projects, are in place to achieve the targets for the period. The goals of increasing yearly production at least an average of 3% and maintain the reserve replacement ratio higher than 110% are supported by the aforementioned projects.

Allow me to explain now our plan for the downstream business. We run our downstream business in four segments -- refining, marketing, LPG and petrochemicals -- emphasizing the synergies that come from the integration of the whole value chain. We have ranked best in class in the sector in terms of integrated margin, which proves that our assets are very efficient.

Our priorities in our downstream business are focused on optimizing the return of our capital employed and on strengthening our competitiveness based on high conversion, integration across the value chain and regional focus. A proof of this efficiency is that the average EBITDA over the last six years has been EUR2.2 billion per year.

From 2000 up to now, we have made a continuous effort to reinforce our downstream business position in the market, as you can see on the screen. We have also been able to maintain our leading position throughout these years by improving in all variables of the business.

In relation to Cartagena and Bilbao, both will be delivered on time and within budget and will add between \$2 to \$3 per barrel of refining margin to the whole refinery system in Spain. We do think that the fundamentals which encouraged us to carry forward these projects will remain valid, despite last year's macroeconomic conditions. We have strengthened our competitiveness and we have put all our refineries among the first quartile of the European refining system.

The increase of diesel output will go from current 50% to 55% once the upgrading of Cartagena and Bilbao is under operation. Still with those and other upgradings, Spain will remain as a deficit market for middle distillates.

Regarding the other business lines which in the downstream activity -- marketing, LPG and petrochemical -- our focus will be on efficiencies, leadership and higher returns.

Let me say a word on our strategy on new energies and carbon management. We do believe that we have to develop sustainable energy solutions to the society and we think we have the skills to build up strategies in advanced biofuels, CDM and emissions, carbon capture projects and new energy vectors for transportation. And then, we want to move towards being a less carbon-intensive company, providing synergies on our Company's ongoing businesses.

Obviously, we will do that very smoothly by starting by organizing all the activities we have already been doing at home, investing deeply in research and establishing the business unit to be accountable for it.

To conclude, our efforts in the downstream business will remain in strengthening our competitive advantage. By 2012, our distillation capacity will be increased by 16%. Our middle distillate production will increase by 25%. Our conversion capacity will increase by 14% and, finally, our capability of processing lower-quality crudes will allow a mix of crudes 2.8 degrees API lower and with 23% more sulfur content than what we currently process.

Now let me continue with YPF. YPF is a fully integrated business that produces more than a third of the oil and gas volumes in Argentina and has more than 50% of the market share in the refining and marketing segments. Our goal is to manage the Company to deliver growing results, self financing its investment plan and paying adequate dividends. This will be the consequence of the trend of prices approaching regional levels, specific government programs to encourage investments and tight cost management, which will widen our viable projects portfolio and improve the economics of the ongoing activity.

Even though many things have happened in our industry and in the country, you can see on the screen how stable cash flow generation has been delivered from YPF, including 2009 with a drop significantly lower than the average in the industry. At the same time, the business has allowed to pay to Repsol an average dividend since 2000 of \$1 billion per year.



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On the screen you can see now some of the aspects I have already mentioned in the past in terms of oil and natural gas prices. You can also appreciate that domestic consumption is reaching total production of oil in the country. In natural gas, Argentina is already a net importer country.

The Argentinean authorities, being aware of the market conditions, have created specific programs to promote investments. Among them, three have significant impact on our Company. Just considering the Petroleum Plus program, YPF booked in 2009 almost \$200 million US as income thanks to the investments we made to keep oil production at the level established by this program.

With conditions improving in Argentina, supported either by price increases or by Plus program benefits, we are now focused on increasing the activities which unlock additional value in YPF. As a result of studies and updates of our reservoir models since 2005, we have been putting together a viable portfolio of projects to increase the hydrocarbon production based on improvements of the recovery factor. You have to bear in mind that each point of increasing the recovery factor level means more than 240 million BOEs of additional reserve.

To finish with the business, Gas Natural Fenosa. The acquisition of Fenosa has created a vertically integrated leader in gas and power, doubling most of the targets that Gas Natural itself posted for 2012.

We see our investment in Gas Natural Fenosa in three aspects -- first, as a financial investment contributing to EBITDA and cash flow stability to the group; second, as an operating value since it enhances the position of our LNG business; third and finally, as a stake with open options and flexibility.

Our strong focus on cost management and operational performance achieved EUR800 million of cost savings last year. Most of them will be consolidated into the future. We will keep this focus in operational excellence for the next years to come and, at the same time, we will continue divesting non-core assets. Both policies were included in the 2005 and 2008 strategy plans and will remain in place. On top of that, we will continue our efforts to divest an additional stake in YPF while keeping the majority of this company.

As you see on the screen, the objectives related to safety will keep improving. Regarding corporate social responsibility, we want to be and we are among the best, both in transparency and corporate social responsibility practices.

In addition to the CapEx program for the key growth projects and exploration activity that I have already explained during my presentation, we will have investments in our existing assets for all our businesses. In upstream, investments in the development of producing assets such as (inaudible) Bolivia. In downstream maintenance investments and regulatory compliance, health, security and environment and also (inaudible) with high returns in all the business segments -- refining, marketing and chemicals and de-sulfuring in refining.

In YPF for the E&P activity, investments to increase the recovery factor mainly in crude oil and in downstream, investments to increase the conversion capacity of our refinery system and also maintenance and regulatory compliance investments.

In relation with shareholder return, we have been increasing the payout ratio, although last year we reduced the dividend paid from 2008. We do think that in the future, and provided that the assumptions of the consensus are achieved, we will be able to go back to the trend started in 2005 in the dividends paid.

In connection to debt level, 2009 was an extraordinary one, mainly due to the harsh economic conditions and if you also consider Gas Natural, due to the Fenosa acquisition. I want to remark that among our top priorities is to keep a sound financial position. We have plenty of options in our balance sheet to keep our financial exposure safe and efficient.

I expect that what we have in front of us will generate an operating cash flow for the five years period of approximately EUR35 billion -- obviously, provided that the assumptions we have considered took place. This cash flow, together with the prospective



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divestments, will allow us to finance the CapEx plan and provide a good return to our shareholders. Our commitment is to maintain a strong operational performance and financial discipline to deliver the next wave of profitable growth.

To sum up, I will finish as I started. Repsol is well positioned for growth to create value through our existing assets, is well positioned to capture the hidden value of YPF, is well positioned to maximize operational and financially our stake in Gas Natural Fenosa, and is well positioned to fund the future growth.

Thanks to all of you and now we will answer any question you may wish to ask.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions).

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

We have first Bruno Silva from BPI. Bruno, good afternoon.

Bruno Silva - *Banco BPI SA - Analyst*

Hello. Good afternoon. I have three questions, if I may. The first one related with your comments on possible IPO in Brazil of your portfolio. I just wonder if that is a last resort strategy for funding or if-- I mean, if something else fails like selling a stake in YPF or if that is also connected with your stake Gas Nat that you have just mentioned that you have added flexibility in managing that stake? So if you'd like to clarify the issues, the IPO in Brazil and what is flexibility in Gas Nat's stake, I would appreciate.

The second question is regarding the conversion project in refining. You are now saying that you expect by 2014 an increase of \$2 per barrel, plus one, I think, related with biodiesel project. What are the assumptions behind in terms of the evolution through 2014 of the heavy/light spread and, also, in terms of spreads of middle distillate products.

And number three, if I may, going back a little bit to YPF, there are several things changing in Argentina -- in your project, as well -- things related with increasing of recovery rates and all of that. So how do you propose valuing YPF and how those uncertainties could block a deal in the short term to sell a stake in the Company? Thank you very much.

Antonio Brufau - *Repsol YPF - Chairman and CEO*

Thanks, Bruno. Your first question about the IPO in Brazil. It has nothing to do with YPF or the stake in Gas Nat. We see the IPO in Brazil in two ways. One is to have a geographical exposure into one single region, based on our balance sheet. Before, as I mentioned, we are seeing Brazil with \$4 to \$5 billion US from-- in the next five years, from \$5 to \$8 billion beyond 2014 and that's the minimum that we are seeing in Brazil, no?

Then we do think that having people joining us to finance the future it's a good move by itself, because geographically, it will allow us to have the right exposure to one single region. This why we are planning to IPO, let's say, around 40% of our stake in Brazil, not through selling shares but through a capital increase, no?

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When it's going to-- for that capital increase to happen, now we have started the process. We have asked an independent consultant to evaluate our contingent resources and now we are talking with financial institutions to see how is going to be the best way to proceed and the timing of that IPO, no? Therefore, that's Brazil, no.

In terms of refining, obviously we are totally convinced that \$2 to \$3 per barrel of additional margin, thanks to Cartagena and Bilbao, will be a reality. Maybe I can ask Pedro, the responsible for downstream, to elaborate a little bit on that. Pedro?

Pedro Fernandez Frial - *Repsol YPF - ED Downstream*

Yes. Well, as you say, we have calculated this range of between \$2 and \$3, assuming, of course, that there will be a recovery of the light to heavy spreads and, of course, a recovery of the demand of diesel. We are expecting a scenario of margins for the 2014 of around \$4-- between \$4 and \$5, speaking more specifically, between \$4.50 and \$5.50 per barrel, speaking in terms of our margins.

And using, of course, the prices and the spreads that are consistent with our scenario in such a range of margins, we have calculated this range between \$2 and \$3. But if you want to do a brief calculation to check the rationality of the number, I can do-- we do a simple number, no?

If it were improving our commercial level by 50% from 42% in terms of (inaudible) if we went up to 62%, 63%, we can assume that, well, roughly speaking, that we are going to improve our margins by 50%. And if we are speaking of our base margin of between \$4.50 and \$5.50 in 2014, we can say half of this margin will be added to the base margin to give back this \$2 or \$3. Is that okay?

Antonio Brufau - *Repsol YPF - Chairman and CEO*

Bruno, I can only-- I can add that we have replicated the last 10 years, assuming that the two installations and the conversion was there and we arrived to this \$3 per barrel, replicating what has happened in the sector in the last 10 years. And we have done the same for the next 10 years to come, obviously assuming, as Pedro was mentioning, some light and heavy spreads analysis or scenarios, no?

We are fully confident and at the end, we have taken, also, the Tarragona refinery and we have added to Tarragona refinery a coker and we have also analyzed that, comparing with existing Cartagena and Bilbao refinery and we go also to the same \$3 difference, no? Therefore, we are totally convinced and confident that the \$3-- \$2 to \$3 scenario will be there in good and bad times, no?

Your last question about YPF and the recovery factors, I will pass the word to Antonio Gomis, who is our responsible there. Antonio?

Antonio Gomis - *Repsol YPF - ED YPF*

Hello, Bruno. Yes, the last years we have been working to utilize new technologies and new people into our formula, our areas, and then what we have had (inaudible) and, as a consequence of that, we have now the-- we have identified more than 1,400 specific projects. As a result of that, putting new emphasis within for the present level of 50% in that significant manner. We have been implementing a number of (inaudible) different techniques in the past in Argentina, were not used much in Argentina, as (inaudible) recovery assistance in field tertiary-- tertiary recovery systems.

As a consequence of that, we are quite confident that we have a view of 10 years, at least, to produce a constant level of over 90 million barrels of liquids in Argentina. And after 10 years, we will be at a level of recovery of 25. If you compare this figure of

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25 with the present average level of 37 that is the average level of industry, we are quite confident that in addition to these 10 years, will be an additional 10 years more, at least 10 years more, because we have, as I said, more than one 1,400-- the total is now 1,473 projects and more new projects are coming onstream to achieve this goal.

Maria Victoria Zingoni - Repsol YPF - Director of IR

Okay. Let's go with-- Bruno, is that okay?

Bruno Silva - Banco BPI SA - Analyst

Am I allowed just a quick followup? What do you mean by flexibility of managing your stake in Gas Nat?

Antonio Brufau - Repsol YPF - Chairman and CEO

It means that we do think that we have to keep Gas Nat, because there is a lot of value-added in putting together the Gas Nat to our businesses, but at the same time, that gives us, the stake in Gas Nat, gives us the possibility to have a liquid asset. We do think that it's a very good asset in terms of business, but at the same time, if, in case of us being confronted with a big financial problem -- which is not going to be the case, but assuming that that things happened because the world goes into a big crisis, et cetera -- we have a very good asset that could be disposed very quickly and at a very good price, because the stake of 30% in Gas Nat gives us the industrial position in Gas Nat, together with the bank, no?

Therefore, I feel very confident and very comfortable with keeping that asset in our balance sheet. We do not need to dispose that asset, as far as we see today. We know that there is value in terms of business, in terms of operational business there. It creates stability to our EBITDA line in our P&L, but, at the same time, we have a very liquid asset. This is what I call flexibility.

We don't think we have to use that flexibility, but it's flexibility.

Bruno Silva - Banco BPI SA - Analyst

Okay, thank you very much.

Maria Victoria Zingoni - Repsol YPF - Director of IR

Thank you, Bruno. We have our next question from Lydia Rainforth from Barclays Capital. Lydia, please go ahead.

Lydia Rainforth - Barclays Capital - Analyst

Thank you and good afternoon, gentlemen. A couple of questions, if I could. Firstly, on YPF, as (inaudible) in your divestments to reach 2014, can you just talk through what value you have included for that and on what sort of timeframe you're looking to divest that? And then secondly, just on the downstream projects, if we can come back to that, the increase of \$2 to \$3 per barrel, can I just check, is that before any increase in fixed costs that you might have or is it net of that cost increase?

Antonio Brufau - Repsol YPF - Chairman and CEO

Timing, the sooner the better in YPF. You know that we have been talking about the divestment of YPF. Last year-- well, not last year, two years ago, we divest 15% with an option for 10% more and now we are talking with some people -- obviously, this is very confidential. We have been talking with many people. Our idea is that-- my impression is that in six months we will

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be able to-- through this period of time, not at the end of six months, through this period of time we will be able to find people joining us in YPF.

Another thing is the IPO of YPF, which is more difficult nowadays because of the markets, conditions, et cetera, but still we want to have the institutional investors we are talking with. We want to have the IPO and retail investors in YPF. When that is going to happen? We will try to have this thing already done through this year, through 2010.

In the downstream and fixed costs, your question was about if we include fixed costs in the \$2 to \$3. I'll pass the word to Pedro to answer properly.

Pedro Fernandez Frial - *Repsol YPF - ED Downstream*

No, the fixed costs are not included. This is improvement in our refining margins. That means a margin of variable cost. Of course, at the end, to calculate the final result of the value added by the project, you should keep in mind the fixed costs, depreciation and all the values. These \$2 or \$3 are speaking just in terms of refining margin, the sale margin of barrels.

Antonio Brufau - *Repsol YPF - Chairman and CEO*

Yes, and in terms of fixed costs, I don't think there is a big-- a huge increase in fixed costs in our refining system. I mean, at Cartagena, which is going to double the size from 110,000 to 220,000 barrels per day, with going from zero to 70% conversion rate, will increase by around 100 people the fixed payroll of Cartagena. Therefore, I think that it's not relevant, the fixed costs, that it's going to be added to our refining system because of the increase in conversion.

Lydia Rainforth - *Barclays Capital - Analyst*

Okay, thanks very--

Antonio Brufau - *Repsol YPF - Chairman and CEO*

Is that helpful?

Lydia Rainforth - *Barclays Capital - Analyst*

Yes, that's great. Thank you very much.

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

Thank you, Lydia. We have the next question from Irene Himona from BNP Paribas. Irene, please, good afternoon.

Irene Himona - *Exane BNP Paribas - Analyst*

Good afternoon, everyone. I have one question. In the five-year cash flow projection, including the asset disposals, you have EUR11 billion of free cash flow. Excluding the disposals, it's about EUR6.5 billion. Can you please remind us of your cumulative debt repayments, your maturities, falling due in that period? Thank you.



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Antonio Brufau - Repsol YPF - Chairman and CEO

The word to Fernando Ramirez, which is our CFO.

Fernando Ramirez - Repsol YPF - CFO

Hello, Irene.

Irene Himona - Exane BNP Paribas - Analyst

Hello.

Fernando Ramirez - Repsol YPF - CFO

The maturities that we have along this period are-- we have in Repsol EUR2.6 billion, this year; EUR481 million, next year; EUR1 billion, 2012; EUR1.1, 2013; and EUR2 billion, 2014. But this is gross. You have to consider that we have on our hands EUR2.9 billion of cash of liquid assets and on top of that we have, as you know, EUR3.7 billion on outstanding credit lines.

The short term, the amounts in 2010, we will have the maturity of one bond, EUR1 billion of one bond this year. The rest is short-term financing that we are managing on an opportunistic basis because in order to finance the different regional businesses like YPF, Peru, et cetera. But basically are commercial trading finance.

Antonio Brufau - Repsol YPF - Chairman and CEO

Irene, if you exclude Gas Nat, that is the way to see our debt level, our debt level, net is EUR4.9 billion and that is not a huge debt in terms of our operation and in terms of balance sheet, et cetera, et cetera. This is the way.

And just talking about the first question about flexibility about Bruno, so Lydia's point, again, I mean, that we feel comfortable with the type of assets we have in front of us to finance the future through the operations, but in case of that not being possible, we have other assets to sell. But that's not today's-- it's not in today's projections, because we don't think that is going to happen.

But we don't have a huge debt individually. Gas Nat by itself is financing its future. We do think we have a stake in Gas Nat, which at market value in terms of real market value could account for the debt that we have. I mean, we feel very comfortable. I mean, that is not our priority. It's our priority to focus in financial discipline, but having said so, thanks to that, we sleep very comfortable.

Irene Himona - Exane BNP Paribas - Analyst

Thank you.

Maria Victoria Zingoni - Repsol YPF - Director of IR

Thanks, Irene. We have Alastair Syme from Nomura. Good afternoon.

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Alastair Syme - *Nomura International - Analyst*

I think my question's a wee bit related to that, actually. Can I get you to express your thoughts about how you think of the dividend relative to the gearing level of the Company? You've kind of shied away a little bit from talking about gearing targets. Maybe if you could give something in terms of a range or maybe refer to a credit rating, perhaps?

Antonio Brufau - *Repsol YPF - Chairman and CEO*

I'll pass the word to Miguel just to change the color of the answers.

Miguel Martinez - *Repsol YPF - COO*

Hi, Alastair. I think that the policy we have planned since day one was to really being financially prudent to increase dividends. And we have been doing that, trying to accompany the dividend policy with the results of the Company.

If we talk about gearing ratio we really, as Antonio mentioned, don't feel much of that stress. I mean, EUR4.8 billion, ex-Gas Nat, ex-preference is not a big deal. And I think that we feel comfortable that if things moves in the direction we include in our hypothesis, we would be easily able to increase dividends by 10% in the next three years, based on the estimates.

So I don't know if I can-- if I answer you.

Alastair Syme - *Nomura International - Analyst*

You mean that-- if you're growing the dividends at 10%, you wouldn't really be leaving much capacity to reduce debt, though. Would that be right to understand?

Miguel Martinez - *Repsol YPF - COO*

Yes, but keeping the debt at the level we have it today and having a larger and bigger company, I think that if we are right now in a ratio of 28%, with the growth that the Company is going to expect due to our investments, we will be in a lower gearing ratio. So if we are able -- and I repeat, with the estimates we have included in our projections happen -- we would be easily able to increase the dividends about 10%, while at the same time protecting the gearing ratio.

Alastair Syme - *Nomura International - Analyst*

Okay, thank you very much.

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

Thanks, Alastair. We now have James Hubbard from Morgan Stanley.

James Hubbard - *Morgan Stanley - Analyst*

Good afternoon. Three questions, please. Firstly, I guess it's too early for you to be able to say anything on Guara North reserves, but can I just check my understanding. If I was to say that I believe you've previously indicated at Guara -- I take that to mean Guara South -- at 1.2 to 1.9 billion barrels. Can I make the-- is it okay to make the interpretation that we've got a bigger pay in

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Guara North, if I just assume the same aerial extent I could see a similar amount of reserves in Guara North? Or is there something wrong with that interpretation?

Secondly, you're-- most of the rest of this year you've got extended well tests going on in BM-S-9. Are you going to be booking production each quarter from those extended well tests? And will-- do you see further well tests, long-term well tests, going into 2011?

And finally, coming back to Lydia's question, in the divestment proceeds of EUR4.5 billion over the five years, could you identify what you're thinking of disposing that is not YPF and what you think those assets might be worth?

Antonio Brufau - Repsol YPF - Chairman and CEO

Nemesio is going to answer about the E&P question.

Nemesio Fernandez-Cuesta - Repsol YPF - ED Upstream

Relates to Guara North, as Antonio has mentioned, we have already discovered 65 meters higher pay. The estimation of resources from Guara, the 1.2, 1.8 billion barrels was taking into account the whole south face of the whole reservoir. Then with this discovery, we think that are in the upper limit of this range or even a little bit higher. And that's related Guara North.

And, of course, in the extended well tests we will produce and the only reserves that we plan to book is the balance that we produce. The declaration of commerciality, which is previous to the reserves booking, will take place in and by the end of 2012. It's important to take into account the taxes factor in Brazil and the tax is higher depending on the years of production.

And the years of production are the years past-- after the declaration of commerciality. Then we will try to delay the declaration of commerciality as much as we can.

Did I answer?

James Hubbard - Morgan Stanley - Analyst

Well, on the extended well test, Nemesio, I was after are you going to be booking production as in, well, you put it into-- the oil flows into the tankers and you shuttle it off somewhere. I know it's going to be massive, but it could be a few thousand barrels a day of highly valued oil as you go through the next two quarters.

And the last one was, in your EUR4.5 billion of targeted disposals, what is in there that's not YPF?

Antonio Brufau - Repsol YPF - Chairman and CEO

Yes. The EUR4.5 billion is, basically, first the selling up to 49% of YPF, remaining us with the 51%. That's first. That's our priority for these five years to come. Then after that, which is a big amount that one, no? After that, we have the selling of some specific assets of Gas Natural. You know that Gas Natural because of the acquisition of Fenosa has been forced to sell some distribution businesses and some assets in Latin America. One-third of those divestments accounts for EUR500 million, which is also included in the picture.

In addition to that, there is the selling of our remaining 5% of CLH, the distribution-- the oil distribution company in Spain and-- other 10%, sorry. I was told the 10% CLH. We sold this year 5% and there's still another 5% to be sold, no?



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Therefore, it's YPF, selling up to 49%. We have sold 15%. There is 34% remaining. Then the selling of the existing assets in Gas Nat, one-third of which account for EUR500 million and the selling of 10% of CLH. We have already sold, this quarter, 5%. Then CLH will account for around EUR250 million, EUR300 million, no? And some other minor assets, no?

But in total, the EUR4.5 billion basically are these three items.

James Hubbard - Morgan Stanley - Analyst

Okay. So it's basically 34% of YPF because 15% has already gone a couple of years ago? Is that correct?

Antonio Brufau - Repsol YPF - Chairman and CEO

Yes.

James Hubbard - Morgan Stanley - Analyst

Okay. Okay, fine. Thank you.

Maria Victoria Zingoni - Repsol YPF - Director of IR

Thank you, James. We have now Anish Kapadia from UBS. Anish, good afternoon.

Anish Kapadia - UBS - Analyst

Hi, good afternoon. I've got three questions. Just going back to Gas Natural, I disagree in terms of your view on Gas Natural, because I think most investors would prefer that you sold down your stake in Gas Natural. So I was just wondering at what share price do you think it would be attractive enough for you to sell down and would you look to sell down a partial stake in Gas Natural?

And secondly, just with regards to Sacyr, I was wondering if you've discussed this business plan with Sacyr and they're comfortable with the evolution of the business plan and your views on the dividend.

And then finally, if you could just give an update on your project in Peru on Block 39 that seems to have fallen out of your plan?

Antonio Brufau - Repsol YPF - Chairman and CEO

Okay. In Gas Nat, obviously I know that there are people that would like us to sell the stake. Others would like to keep. Others would-- many people have different views, no? Our position there is what I mentioned. I mean, we will keep that provided we don't need, financially talking, the proceeds from Gas Nat. We think that as of today that we are growing in different business lines.

It's good to have not a volatile income coming into our P&L, which is the case of Gas Nat, and I think that also the LNG business, together with Gas Nat, adds value, no? That's my position. Therefore, we do not think that, unless we are forced to do it, we are ready-- we would like to sell.

Obviously, if that is the case, it is obviously clear that we will sell a partial stake, because I mean that if we sell, let's say, half of our stake, we will destroy the value of the remaining half. I mean, the value that we have in our stake is the whole stake, because

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we are the industrial company, the industrial partner in Gas Nat and that is a value by itself. And I'm sure that in case of being forced to sell that stake, it would be better to sell to one single hand or one single company than to the market, et cetera. There is a premium to have that stake in our hands.

Therefore, which one is the value to sell? As of today, none. I'll be real, everything has-- all assets have a value, no? But not at market price and not with a premium of 50%. I think that there is more value in our stake than just, let's say, EUR17, EUR18 per share. At a given value, obviously, we would consider selling, because-- but the value is there and there is a real value in our stake as a package, as a whole, no?

Are we happy with Sacyr, with our partner, and are they happy with us? I'm totally convinced that that's the case, no? They have approved our updating of the business plan. They have approved the payment of dividends. They have approved everything.

Obviously, I hope that the noise that we have in the press during the last month are over and we will not see other chapters of this noise, no? The only thing I can tell you is that they have supported us all the time. We understand their situation and we try to help, but before everything, before everything it's Repsol and the interests of the 100% of the stakeholders or the stockholders.

Therefore, we manage Repsol for the best of everybody. And, therefore-- and Sacyr understands that perfectly and I think that we are not going to have one single problem on that, no?

Block 39 I will pass the word to Nemesio.

Nemesio Fernandez-Cuesta - *Repsol YPF - ED Upstream*

In Block 39 we have already three discoveries in three different fields, that sum up to 150 million barrels of resources. Close to our block is Block 67, which belongs to Perenco, that has a similar amount of barrels with also three different discoveries.

Then the point is that it's very heavy oil. I'm talking about 8, 10 API degrees. It's very similar to ITT fields, very close to ITT fields in Ecuador, and it's heavy to transport and to produce.

Then we think that we need more additional discoveries in order to reach the minimum economic field size. Next year we plan to drill an additional well in the big prospect, which is called Arabela and we will see if we finally reach this minimum economic field size or not and that's the situation related with Block 39.

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

Okay, Anish?

Anish Kapadia - *UBS - Analyst*

Yes, that's great. Thanks very much.

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

Okay, thank you. Our next question from Barry MacCarthy from RBS. Barry, good afternoon.



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Barry MacCarthy - CBS - Analyst

Good afternoon to you all and thank you for the presentation. Going back to the Brazil and the consideration of plans for an IPO, why are you not considering asset sales for individual assets or, if you are, why is the IPO road being preferred? And what is the timing of a potential IPO? Would it have to follow the planned transfer of rights, which Petrobras and the Brazilian government are proceeding with? And how do you manage the uncertainty on the value of the portfolio, given the extent of the exploration assets, which would be included in a potential IPO? How do you make sure that you're not selling something for less than its value? Thank you.

Antonio Brufau - Repsol YPF - Chairman and CEO

Maybe Nemesio will answer part of the question and I'll answer the other.

Nemesio Fernandez-Cuesta - Repsol YPF - ED Upstream

What we are considering is an increase of capital in Repsol Brazil. This could be through an IPO or we are considering, even, other alternatives. But it's important to consider all the preemption rights related with the different blocks. If we sell assets individually, probably, we'll have money and no more. If we get money through an IPO, we will get the money for the development of the fields and for making and increasing the value for our shareholders and our Company in the future.

But making an increase of capital with an asset combination is something that we are still considering and we think that it can also transform the shape of our assets because we can rebalance our portfolio in terms of geographical risk. But it's a different consideration that we are putting in the middle of these thoughts related with an increase of capital.

Antonio Brufau - Repsol YPF - Chairman and CEO

And in terms of value, well, we have already asked to an independent consultant to quantify the contingent resources. We have asked the financial investors to help us in defining the right timing and the best way to do the IPO. We have already discussed with Petrobras our ideas, because we want to be very close to them.

Obviously, as you mentioned, Petrobras is having an IPO in two or three months. We don't know when, but very soon. We will have to wait for them to go through this process and we will see, no? Obviously, value is something that we take very carefully in Repsol and we will do the best to improve the value, no? And today it's very soon-- it's very early to define how we are going to proceed. But we are not going to give up value. We don't (inaudible) with a lot of value. We have to maximize all our asset base.

Did I answer, Barry?

Barry MacCarthy - CBS - Analyst

Yes, you did. You suggested timing isn't imminent.

Antonio Brufau - Repsol YPF - Chairman and CEO

It's quite--

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Miguel Martinez - *Repsol YPF - COO*

Hi, Barry, this is Miguel.

Barry MacCarthy - *CBS - Analyst*

Hi, Miguel.

Miguel Martinez - *Repsol YPF - COO*

I think that the idea is first to see how the Petrobras IPO works out and then we'll take our time to move ahead. But we are not talking next month, for sure, but think more about the year end, at best.

Barry MacCarthy - *CBS - Analyst*

Super. Thank you for that.

Miguel Martinez - *Repsol YPF - COO*

And also think, regarding the value, that at this moment we have 10 exploration wells this year in Brazil, so we will know far better what we have in hand, so we expect not, for sure, to destroy any value.

Barry MacCarthy - *CBS - Analyst*

Thank you very much.

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

Thank you, Barry. We have now Dave Thomas from Citigroup. Dave, good afternoon. Please go ahead with your questions.

Dave Thomas - *Citigroup - Analyst*

Yes, good afternoon. Thank you. I've got one question. It relates to page 61 on your presentation with the cash movements that you're showing. And maybe this isn't a fair question, but I'm interested to see if you could give some color on the movements in this cash projection you've got here, compared with what you presented back with the last strategic plan, 2008 to 2012, particularly operating cash flow after tax. You've got EUR35 billion here. You were looking for EUR41 billion back in 2008.

Now what are the moving parts in here? Obviously, you've changed your oil price assumption, but also other assumptions on gas price, on currency, et cetera. I'd just like you to, perhaps, boil it all down into the constituent parts to understand this better. Thanks.

Antonio Brufau - *Repsol YPF - Chairman and CEO*

Basically, because there is plenty of things, no? And maybe [Mari] could answer deeply your question, but basically the two main differences with the scenario we had in 2008, one is the refining margin, which is significantly lower than what we expected and that the market was expecting two years ago. That's one and the second one is the changed rate. I mean, remember -- and

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we said that in 2008 -- we were assuming a \$1.22 per euro at that time and now we are assuming, 2010, \$1.40 and \$1.35 for the remaining four years, no? That's a big difference, no?

Other than that, we have others, known cases, et cetera. But basically it's refining margins, slightly less production in oil, increasing costs in Argentina 2009, not 2010, 2009, and the exchange rate between the euro and the dollar.

But it's a very deep exercise that maybe [Mari] may answer your question better in a deep way, no? We do think that even though the cash flow is lower today than it was before, because of the crisis, because of the assumptions, we do think that we are really building the future of this Company and growth is there.

Did I answer?

Dave Thomas - Citigroup - Analyst

No, that's fine. I'll take it in a bit more detail offline. Thank you. And just a follow-up question, please, on the Brazil issue, again, and the IPO. Can I just understand that part of the rationale here is to limit the amount of capital employed you've got exposed to any one country? And could you, then, comment, if that is the case, what level, what percentage, would you be comfortable with.

Antonio Brufau - Repsol YPF - Chairman and CEO

That's really the question. The answer is that clearly. We would like not to have that type of geographical exposition that we are going to have in Brazil if we do that by ourselves. Not because we don't believe in Brazil, on the contrary, but because we should try to hedge ourselves geographically, no?

How much we want to put in one single place? Obviously, we have Argentina, which weights very heavily in our balance sheet. We would like not to have more than \$4 billion to \$5 US per country, no? Today, obviously, a Gulf of Mexico, US, is one thing, Brazil is another. And other countries are different, no? In Brazil and Gulf of Mexico, in the US, maybe that quantity may be higher, \$6 billion, \$7 billion, \$8 billion US, but no more.

Dave Thomas - Citigroup - Analyst

Okay, thank you very much.

Maria Victoria Zingoni - Repsol YPF - Director of IR

Thank you, Dave. We have now Ian Reid from Macquarie. Ian, good afternoon.

Ian Reid - Macquarie Securities Group - Analyst

It's Ian Reid from Macquarie. A couple questions about the assets. On page 30, on Brazil, you've given a breakdown there of what you think you've got in total of net risked contingent resources by asset. Could you split the BM-S-9 number -- I see it's a billion barrels here -- between the Guara number. You were saying earlier between, I think, 1 and 2 billion barrels for Guara. But could you split the BM-S-9 number into the Guara piece and then the main piece?

Because it doesn't look to me like you've got a huge amount of reserves allocated to some of the fields that were discovered some time ago, such as a Carioca.

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And secondly, on Perla, Eni the other day was saying that they expect all the gas to be used domestically in Venezuela for power gen and other things. But I think I've heard you talk about LNG. Do you want to try and clear up what the development plan is there?

Antonio Brufau - Repsol YPF - Chairman and CEO

(inaudible).

Nemesio Fernandez-Cuesta - Repsol YPF - ED Upstream

Okay, related with Santos 9, our rough figure is 1 billion, net Repsol. I mean, if you remember two years ago in the (inaudible) related with the previous strategic plan, we mentioned that Santos 9 could have between 2 to 6, depending in different hypotheses. Finally, we are practically in the middle. That represents, for us, 25% or 1 billion.

Then the 1.2 is 1 billion Santos 9 and 0.2 the other discoveries. And it's current with the 0.75 only for Guara and Carioca that the other 0.25 represents the other two discoveries already made in this block.

Related with Perla, we are in the previous states of the discussions with the Venezuelan authorities. For the time being, we have been asked to plan the development of Perla in three phases, one within the framework of this plan to produce up to 300 million cubic feet a day. Then we will go up to 900 million and then 1.2 billion cubic feet a day.

But previously they wanted to dedicate this gas, as Eni mentioned, to the western part of the country. I mean, they have their refineries. They have their petrochemical complex and they need gas for injection for increase the oil production in (inaudible).

Then, for the time being, we are not considering LNG or other export projects. Nevertheless, I think that they have to come back to their agreement with Colombia. After 2011, 2012, they have to come back with the export-- the gas that Colombia is already exporting to Venezuela and perhaps in the future in Venezuela and Colombia together -- although this is future politics -- then can consider to supply Central America countries or even Caribbean areas.

But this is future. For the time being, we have been asked to produce only for Venezuelan government and Venezuelan needs.

Ian Reid - Macquarie Securities Group - Analyst

Okay, thanks. I missed those numbers you spoke about for Carioca and Guara. What was your net volumes there?

Nemesio Fernandez-Cuesta - Repsol YPF - ED Upstream

In total Santos 9, 1 billion net.

Antonio Brufau - Repsol YPF - Chairman and CEO

Net.

Ian Reid - Macquarie Securities Group - Analyst

Net, yes, exactly. And you mentioned numbers for Carioca and Guara. What were they?



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Nemesio Fernandez-Cuesta - *Repsol YPF - ED Upstream*

0.75 billion.

Ian Reid - *Macquarie Securities Group - Analyst*

Each?

Nemesio Fernandez-Cuesta - *Repsol YPF - ED Upstream*

No.

Ian Reid - *Macquarie Securities Group - Analyst*

Sorry, okay.

Antonio Brufau - *Repsol YPF - Chairman and CEO*

Both.

Ian Reid - *Macquarie Securities Group - Analyst*

All right. Sorry, yes. Thanks a lot, guys.

Nemesio Fernandez-Cuesta - *Repsol YPF - ED Upstream*

And the difference are the other discoveries that we had in Santos 9.

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

Thanks, Ian. We have James Hubbard again. James, do you have extra questions?

James Hubbard - *Morgan Stanley - Analyst*

No, sorry. All my questions have been answered. Thank you.

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

Okay. Thank you. We have now Fernando Lafuente from Cheuvreux. Fernando, are you there?

Fernando Lafuente - *CAI Cheuvreux - Analyst*

Hi. Hello. Good afternoon to everybody. Just two questions. The first one, it's a followup on the cash flow. Can you please confirm that the figure of divestments does not include any potential proceeds from a Brazil IPO? And my second question is related to

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the dividend. You said that the target is 10% annual growth in dividend. Should I assume that it's from 2009 levels or we should wait for this growth to a normalized dividend like, for example, the one in 2008? Thank you so much.

Antonio Brufau - *Repsol YPF - Chairman and CEO*

Brazil is not-- the divestment of Brazil is not in the divestment of the EUR4.5 billion. And we have not included the divestment of Brazil in the cash flow analysis. Therefore, that's clear. I mean, this is not omnipresent in the presentation. It's an idea. We are going to do this. We will do that in this semester and the cash coming there will change the data, the results, no? But this is not included.

And the dividend, I mean, the dividend is something that the board has to approve. We cannot say anything about the dividend that is going to be paid in-- based on the 2010 results. We will see. I mean, that our idea is that if the assumptions we are using are the ones that we have today on the presentation, we do think that the cash that is going to be created will allow us to pay a dividend which will be around the one that we pay this year plus 10% per annum. But that is not a commitment, because we cannot take that commitment. It's the board that takes these commitments, no?

But provided that this data is real and that our P&L appears like the one that we're seeing today, we think that we will have plenty of opportunities to have-- to allow our stockholders to have a good remuneration.

Fernando Lafuente - *CAI Cheuvreux - Analyst*

Okay. Thank you so much.

Antonio Brufau - *Repsol YPF - Chairman and CEO*

Thank you.

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

Okay, I think that was our last question.

Antonio Brufau - *Repsol YPF - Chairman and CEO*

Well, thank you. Thank you very much. We are-- as you know, I mean, that all of us are in-- ready to answer any question that you would like to put from now to the next date, no? And please call if you have any question about our faith in the strategy plan or any question that you want to place.

Thank you.

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