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REP.MC - Q2 2012 Repsol YPF Earnings Conference Call

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## OVERVIEW:

REP.MC reported 2Q12 CCS adjusted net income of EUR481m.



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**Miguel Martinez** *Repsol YPF - CFO*

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**Irene Himona** *Societe Generale - Analyst*

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**Luis De Toledo** *BBVA - Analyst*

**Hootan Yazhari** *BofA Merrill Lynch - Analyst*

## PRESENTATION

### Operator

Good morning, ladies and gentlemen. Thank you for standing by, and welcome to Repsol's second quarter 2012 results presentation. This conference call will be led by Mr. Miguel Martinez, CFO of the Company. I will first pass the floor to Mrs. Maria Victoria Zingoni, Investor Relations Managing Director, that will make a brief introduction. Maria Victoria, please go ahead.

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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 of Repsol. On behalf of our Company I'd like to thank you today for taking the time to attend this conference call on Repsol's second quarter results.

The presentation, as said, will be conducted by Mr. Miguel Martinez, CFO. Other members of the Executive Committee will be joining us as well. After the speech we'll have a Q&A session.



Before we start, 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. Recent results may differ materially depending on a number of factors, as indicated on the slides.

I now hand the conference over to Miguel.

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**Miguel Martinez** - *Repsol YPF - CFO*

Thanks, Maria, and thank you, all, for attending this conference on our second quarter results. In today's call we will cover three topics.

First we'll give an update on the YPF expropriation on both the status of the legal action and the accounting impact on the financial statements. Then we will explain the progress we have made on the actions to strengthen the balance sheet, and finally we'll cover the quarterly results and current status of the operations.

Let us start with the update on the YPF situation by reviewing the progress on the legal matters. The legal actions are related both to the 51% of the Company subject to expropriation and already occupied by the Argentine Government, and to the remaining stake held in YPF.

Repsol currently has the right to exercise both in consensual and other powers pertaining to class D shares of YPF representing a 12% stake which is composed of two parts; 6.4% which was part of the original 57.4% we own and was not subject to expropriation, and an additional 5.4% over which we have (inaudible) power as a result of the early termination of the loan agreement with the Petersen Group, and Repsol rights on the collateral of that loan agreement, according to the terms of the collateral pledge.

The other shares belonging to the Petersen Group are now in the hands of the banks or institutions which were part of the loan to Petersen at the time of expropriation. Amongst them we find the companies of the Carlos Slim Group or Banco Itau, which are now shareholders of YPF as a result of the exercise of their collateral rights.

The most relevant legal steps taken by Repsol includes the following. Repsol notified the Argentine State of the controversy resulting from a breach of the agreement for the promotion and protection of investments between Spain and Argentina, and its intention to file for international arbitration at the International Center for Settlement of Investment Disputes; ICSID.

Second, Repsol filed a claim of unconstitutionality against the temporary occupation of the shares of YPF subject to expropriation.

Third, Repsol lodged a class action lawsuit in New York jointly with Texas Yale Corporation for the part of its stake in YPF through ADRs not subject to expropriation against the Argentine State for breaching its obligation to file a tender offer in the event of gaining control of YPF, in accordance with the provisions of Sections 7 and 28 of YPF's Articles of Association, as approved in 1993, pursuant to the legal regulation of the privatization of YPF.

The class action lawsuit also includes the protection of all the ADRs held by the Petersen Group on that date, and held in favor of Repsol as a pledge for its loan to the Petersen Group.

Those rules were very clear on the procedures to be followed in case an entity wanted to gain control over YPF. These procedures were followed by Repsol during 1999 when we acquired YPF.

he Government has failed to comply with the obligation to launch a tender offer to allow the shareholders to decide if they want to remain part of the company with a new shareholder in control; a basic right which is recognized in similar transactions all over the world.

In summary, Repsol, that has always been open to a negotiated solution to the issues facing in the Argentine energy sector, has been forced to take all appropriate legal actions in defense of its rights as an expropriated party. Even against those who may attempt to take unfair advantage of an unlawful confiscation.



As current shareholder of YPF, Repsol also will require full transparency, professionalism and rigor in the management of a private company that is listed in New York and in Buenos Aires.

To finalize our update on YPF, we will explain the accounting of the expropriation.

The fact which affects our financial situation is the change of control, due to the unlawful taking of YPF's management and assets by the Argentine Government.

The accounting is as follows. First the consolidation of YPF, which is the write off of the related assets, liability, minority interest and translation differences for an amount of EUR4.7 billion.

Second, write off of all the loans related to the Petersen Group, net of the value of the 5.4% claimants' collateral, for an amount of EUR1.4 billion.

Additionally, we have recognized a provision of one amount of EUR54 million because of the guarantees granted to Petersen Group.

Third, registration of YPF shares that remain our property as financial investments for sale at their fair value.

For those shares not subject to expropriation, that is 6.4%, fair value has been calculated according to the quoted prices in the market. For the 51% [stakes] subject to expropriation, fair value should be amount the Group expects finally and effectively to receive as a result of the expropriation process.

Considering those values' criteria, which the relevant bodies (inaudible) resolving the price of compensation related to the expropriation process would reasonably apply.

The estimation of the recoverable value entails uncertainty, not only related to the amount but also to a time and terms of payment.

For those reasons, even though Repsol considers that there are sound and clear legal grounds to be compensated with the market value of the shares, subject to expropriation determined by the valuation criteria usually applied by the financial community, and that the value determined by YPF by law is clear and objective, and also consistent with those methods, and lead to a value of \$18.3 billion, we have chosen a more prudent \$14 billion valuation for the 100% of the company.

As a result of this, the 51% of the shares subject to expropriation, EUR5.3 billion, plus the 6.4% of our current holding, has been readjusted for a total amount of EUR5.6 billion.

The net effect on the P&L for the above accounting increase, plus a deferred tax FX effect of EUR524 million, results in an accounting loss of EUR38 million.

As explained in our strategic plan presentation, we're considering various actions in order to strengthen our balance sheet. Let me provide you an update of the implementation of the concrete actions taken so far.

First, we have successfully finished the scrip dividend program for the complementary dividend of 2011. The acceptance reached 63.6%. Remember there that our initial estimates was approximately 50%.

Second, with respect to the asset disposal program, we have sold our LPG operations in Chile for \$540 million in July.

This transaction, along with the sale of the 5% treasury stock in January 2012, amounts to EUR1.8 billion, delivered out of the EUR4.5 billion we have announced as an objective for the five-year duration of the strategic plan.



We continue to actively work on the main alternatives to reduce debt and improve the financial ratios and cash position, in accordance with our strategic plan and our discussions with the rating agencies.

It's important to point out that both the preference share conversion and the asset disposal process have been handled simultaneously.

However, the disposal of the LNG business should not only reduce our debt, but also increase our cash position and will not have a dilutive effect.

Therefore, the sale of our LNG is our first choice. However, we will continue working in parallel with these two alternatives to minimize the risks of not obtaining the required ratio levels.

Going into our liquidity position, at the end of the quarter we have EUR2.6 billion of cash and EUR4.7 billion of committed undrawn credit bank lines covering our short term maturities 4.4 times.

We have an executed separate share forward and share swap transactions within financial institutions for a total amount of EUR1 billion, using a 10.4% of our stake in Gas Natural as collateral, without any transmission of the shares, nor any limitation to our political or economic rights, and obtained very competitive terms.

This transaction demonstrates our access to the financial markets and allows us to have alternative ways of funding in lieu of the reduction of our EPC outstanding, and ensure we keep our liquidity position at a comfortable level in a tough financial financing environment.

Let's move now to the results and, as presented on the first quarter results, all numbers exclude YPF and Repsol YPF Gas.

During the second quarter, CCS adjusted net income was EUR481 million, and CCS adjusted operating income was EUR936 million. These results were 27% and 34% higher respectively than during the same period last year. The good results have been driven by the performance of our Upstream and LNG divisions.

In the Upstream front, the adjusted operating income was EUR518 million; 77% higher than during the same period last year.

The return to pre-conflict levels in the Libyan output and the revenues and gas realization price increase, added by the startup of the Margarita project, have been the main drivers of the good results; partially offset by the amortization of the unsuccessful exploratory wells, mainly Cuba.

In the LNG division, better margins resulted in an adjusted operating income of EUR78 million; 47% better than during the same period last year. The increase was due to higher commercialization margins. The results were lower than the previous quarter because of the seasonality effect, mainly in our North American operations.

In the Downstream business, the CCS adjusted operating income was EUR205 million; 5% lower than in the second quarter of 2011.

The improvement in refining margins and the increase in refined volumes could not offset the decline of the petrochemical product demand, and the lower sales volumes of direct retail of the marketing division. The utilization rate of the refining system was 68%, versus 70% in the same period in 2011.

The localization rates of our units was a consequence of shutdowns, due to maintenance in the Puertollano and La Coruna refineries; a catalyst change process in the Tarragona hydrocracker; and the revamp of the Petronas refinery visbreaker. Cartagena's new hydrogen and hydrocracker plants also had short shutdowns, due to mechanical adjustments.

The ban on acquiring Iranian crude caused oil mix and operational changes in our refineries; mainly in Petronas.

In Gas Natural, the adjusted operating income of EUR232 million was 23% higher than during the same period last year. The good results are a consequence of higher margins in the natural gas businesses.



In financial expenses [ex] Gas Natural during the quarter were EUR88 million; EUR32 million higher than the same period of last year. The increase is mainly due to the step up in the interest of the preference shares and the increase in gross debt, due to the bonds issued in December 2011 and January 2012.

Let us now move to the operational performance behind the results.

Production in the Upstream division within the quarter was 320,000 barrels of oil equivalent per day; 8% higher than during the second quarter of 2011. The main variations come from Libya, Bolivia and Trinidad and Tobago.

In Libya, the production reached 47,000 barrels of oil per day, which we have reached pre-conflict (inaudible) levels.

In Bolivia, production was 26,000 barrels per day; 24% higher than during the same period last year, due to the startup of Margarita phase one.

In Trinidad and Tobago, we were still affected by maintenance on the offshore platforms, and in the Atlantic LNG trains, and production reached 119,000 barrels of oil equivalent per day; 16% less than during the same period in 2011.

Since early July, production is at record levels of 350,000 barrels of oil equivalent per day, due to the recovery of Trinidad and Tobago. We expected to materialize added production from Kinteroni in Peru, Russia and mid-continent in the US in the second half of the year.

Let me now review the status of the main development projects.

The Margarita field project is running properly. Phase I of the gas development project started up in May, increasing gas delivery up to 9 million cubic meters per day. The second phase is on track to start up in fourth quarter 2013 and reach a capacity of 14 million cubic meters per day in 2014.

In Peru, the Kinteroni project carries on as planned, and we expect to reach first gas during the last quarter of 2012, with a gross production capacity of 5 million cubic meters per day, plus associated liquid.

The Sapinhoa project, before Guara, is going as scheduled. We are currently logging the P3S well, and drilling two producing wells; P4 and P5. The installation of the Guara-Tupi gas pipeline is progressing, and we expect to the FPSO in December.

In the Lubina-Montanaz projects in Spain, we are working on the subsea equipment installation, and the hookup to the Casablanca platform. We expect to start production in October.

Now let us review the status of the main exploratory activity.

Unfortunately, our well in Cuba was dry, and we will not undertake any more activity in the area. We had to suspend operations in the Jaguar well in Guyana, before reaching the main objective, because the pressure design limits for safe operations prevented further drilling, due to the high pressures encountered considered the depth we have reached.

Samples of light oil were recovered from sands above the primary objective, which is encouraging. We will be evaluating the information of the first well, both for the aforementioned presence of oil in some horizons, and the knowledge we acquire about the pressure ramps, in order to consider further exploratory work.

We are currently in operations in another four wells. Magadi 1 in the Espirito Santo 21st block in Brazil; Sararenda in Bolivia; and Sagari in Block 57 in Peru; and just start a new non-operated well in Norway. We are working on testing of Sagari, due to the positive indications we have.

We have been especially active during this quarter in seismic campaigns. We finished campaigns in Indonesia, Portugal and Alaska; and have started campaigns in Angola, Canada and Iraq.



We are including in our acreage acquisition, pending final notification, two new important areas; Namibia and Bulgaria. In Namibia, we have acquired a 44% working interest in Blocks 1910A, 1911 and 2011A from Arcadia Petroleum.

In Bulgaria, we were awarded exploratory rights in the Khan Asparuh Block in the Black Sea, along with our partners, Total and OMV.

We have also been highest bidders in five additional blocks in the Gulf of Mexico. These blocks are the result of a very selective bidding to balance the current acreage we hold.

We are also waiting for notification from authorities in our entry into the [Peninsular] Block in the Portuguese Atlantic deep water offshore, and, also, the award of offshore in Block 23B in Trinidad and Tobago.

As for the remainder of the year, we expect to finish around 12 wells; seven new wells to be added to the five that are operating. We also plan to finish testing two additional wells in Brazil, and three wells will be slipping into 2013. The total number of wells drilled in 2012 will reach 22.

On the LNG front, Peru LNG produced 575,000 million btu per day; 2% more than during the same period last year. The plant delivered, during the quarter, three out of 15 cargos to the Montenegro plant in Mexico.

In Trinidad and Tobago, deliveries were affected by maintenance on the upstream platforms, and on the train 3 and 4. Production was 10% lower than during the same period last year.

We have successfully started our delivery of projects for this year, and we are delivering on the actions we had outlined on our strategic plan as essentially to fortify our balance sheet.

We have had robust results, with Upstream being a solid pillar of the new stage of the Company. And we will continue with our delivery of both operational and financial results in the future quarters.

I would now be pleased to answer any questions you may wish to put forward.

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## QUESTIONS AND ANSWERS

### Operator

Ladies and gentlemen, the Q&A session starts now. (Operator Instructions).

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

Okay. We will start the Q&A session. There are some names that are not identified, so I would appreciate if you can identify yourself. I will start first with Morgan Stanley. It's Haythem.

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### **Haythem Rashed** - *Morgan Stanley - Analyst*

Haythem Rashed from Morgan Stanley. Three questions, if I may. Firstly, just to come back on the financing plan and the dual approach to LNG assets, plus the preference shares.

I just wondered if you could provide any update on -- particularly on the preference share transaction. Any update in terms of the timing? Is it still planned for some time in late 3Q, early 4Q? Any hurdles that need to be overcome before we get to that stage?



Secondly, just related to that, I guess, on the LNG business, given that there's indication around the preference for a sale there. Given previously the comments about the synergies between Gas Nat and LNG, has your view around Gas Nat changed at all, since we last spoke? And would you be more willing to do something around that, around your stake there now, given the potential sale on the LNG side?

My third question is just on the Downstream environment, just to get your view on the outlook for the second half of this year. And specifically, as well, how the upgrade impact is coming through on the numbers, and where you are in relation to the \$2 to \$3 positive impact from the Cartagena and Bilbao upgrades? Thank you.

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**Miguel Martinez** - *Repsol YPF - CFO*

Well, in relation with the first one, all the measures we presented to the agencies and to the market, we have to handle those in parallel.

I think it's important to realize those that have already been concluded the scrip with better result than expected, the gain of liquidity through the pre-paid forward, also the sale of the Chilean LPG, and the rest will move them in parallel.

So it's difficult to assess any detail about the preference and the conversion and whether it would be conversion or not, because we have to consider this quite cautiously. So I will have to see how the LNG process goes on, and then take decisions about the prefs.

We will keep advancing and, in that sense, we have the authorization of the Board to keep moving with the preference shares, though the final decision and the end of the process, it's linked to the LNG process. So difficult to assess now any detail about the conversion of the prefs.

In relation with the second one, I said that before analyzing Gas Natural, let's see if we are able to sell the LNG. So, for sure, it will imply many things, but let's go step by step and we'll have to think about our situation if the LNG sale goes ahead.

Finally, my outlook for the refining in Europe has not modified substantially. I think that Europe is long in approximately 3 million barrels of distillation capacity, so I'm basically bearish about the area in the following months, till the year end.

I think that the solution will never come by the demand. So some of this distillation capacity has to be, I would say, converted into logistic terminals or shutdown.

Having said so, in relation with Spain, first the data we have for the quarter is \$1 per barrel, which is below, first, the range we provide the market, which was between \$2 and \$3, and it was a little lower than in the first quarter.

The reasons for that is, I would say, basically that during April and May, the visbreaker in Bilbao has been revamped. So the coker in Bilbao has not worked at his efficiency or to his limits. With the revamping situation, and the existing situation right now, is that we are improving this \$1 per barrel. Approximately today we are at \$1.60, \$1.70 about, so improving.

And I would say that in the second part of the year, in equal conditions, we will improve the results in our refining division. Basically you have to think that it's not easy to adapt a refinery as Cartagena that was good hydro-skimming into one of the more complex refineries in Europe, first step.

Second, in relation with Bilbao, apart of the issue of the visbreaker, you have to think that the change in the diet, closing the Iranian oils and moving into other types of oils which are needing more hydrogen between many other things, people need to adapt and need to know better the behavior of this new diet we are imposing.

So I think that by the year end we will be able to reach the range between this \$2 and \$3. Did I answer you, Haythem?





**Haythem Rashed** - *Morgan Stanley - Analyst*

Great, yes. That's very helpful. Thank you.

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

BPI, Bruno Silva.

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**Bruno Silva** - *BPI - Analyst*

I would start with today's news if you don't mind, on Peru. If you could add more color on the alleged claims from Peru regarding the (inaudible) liquids or gas in the US, I guess. And potential cancelation of any sort of license you may have in the (inaudible). I'm not entirely sure what were the details of that news.

And the second, going back for the follow up on the conversion of preference shares, you have been in intensive road shows with investors.

I just wonder if you have some sensitivity to share regarding those investors in the pref shares, regarding what would be the acceptable conditions to convert, in terms of potential discount to face value, and what kind of incentives would they require to convert into common shares.

And the final question, if I may, is regarding Downstream, and you have been repeatedly booking resilient margins in the marketing unit in the context of very aggressive demand for and most likely competition should be increasing from your -- from your peers in Iberia.

I just wondered how far it can go and what are you exactly doing to sustain these kind of margins and if you can give us any sort of number, target number, for the full year, I would appreciate. Thank you very much.

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**Miguel Martinez** - *Repsol YPF - CFO*

In relation with the first one, I think it's (inaudible). I mean it's a minimum issue. We are talking totally, I think, about \$15 million or something like that, from which our portion is 8%, 10%. So I think that the issue, to point out, for give you some color, it's approximately \$1 million. So no big deal.

In relation with the preference and the conditions, I think that every shareholder, or every investor, for sure, is concerned about evolution. And that's the reason why we have to check first how the LNG business is going to evolve and which will be the impact, because I think that the LNG, under the agencies concept, implies a debt of EUR4 billion. So it will have a massive impact on the considerations of the agencies.

So I cannot go any further because first we have to check the evolution of the LNG process, and then we will analyze the prefs.

It's important to keep both projects in parallel because one thing is important; what we consider totally necessary is to keep the investment grade. So we will see. We will see. But I cannot be more clear. Okay?

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**Bruno Silva** - *BPI - Analyst*

So if you don't mind a very quick follow up on that one, you have commented in the strategic presentation a potential dilution over the coming years relating with both the scrip and the pref shares, and regarding with that, are you changing [DVR] sensitivity on the potential dilution change since then?

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**Miguel Martinez** - *Repsol YPF - CFO*

I mean, dilution it's always a great concept because we can talk about dilution in number of shares, dilution in BPA and PPS, profit per share, so it's not that clear. When I gave the figure, it was a figure.

It's not that we are modifying anything. It also depends on which is the value of the share at the given moment. So there's many factors. And, to me, the important thing is that till now, and you have seen it in all the acts we have been going on in trying to (inaudible) the balance sheet that we have been rational, and we have tried to do our job properly in order to maintain the investment grade. And we will continue to do so.

So let's analyze first how the LNG goes. In parallel, let's keep working to have everything ready if a conversion or if a optionality is be given to the tenants of the preference shares, and we will see afterwards. But I cannot advance any more than that. We're working in both areas, and we will see at the end which is the best for our shareholders, and for the Company.

And finally, in relation with the marketing margins, we keep our market quota and we keep good margins. So I don't see this type of pressure. Think that the margins (inaudible) are not that big; we are talking EUR0.026 per liter. And I expect the area to behave quite similar to the results they obtained last year.

So I keep thinking that the resilience of our marketing is enormous. And the results are there. Okay?

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**Bruno Silva** - *BPI - Analyst*

Okay, thank you very much.

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

Banco Espirito Santo, Filipe Rosa.

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**Filipe Rosa** - *Espirito Santo - Analyst*

Two questions, if I may. The first one, going back to the refining business, I was just wondering. There has been a huge improvement in the refining margin reported by Repsol; year on year it came from \$2.1 to \$4.7 quarter on quarter, from \$3 to \$4.7. However, the uplift in terms of EBIT has been quite limited.

I believe that your guidance is still for each \$1 additional to add roughly \$100 million to EBIT. But this has been quite disappointing in terms of the past few quarters. Could you explain what is happening? And whether this could be solved in the near future?

And the second question relates to the exploration activity. You have significantly scaled down your exploration plans for this year. I believe that you planned to drill around 30 wells at the beginning of the year; now you're talking about 22, I believe. So what have been the main drivers for such a significant delay? Thank you very much.

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**Miguel Martinez** - *Repsol YPF - CFO*

You have to consider in the EBIT, the impact of the stock. During the quarter it was EUR350 million of impact in the inventory losses, in comparison with last year.

The second point is that we calculate the index base on the maintenance throughout the year, and within this quarter we have full maintenance for La Coruna and for Puertollano. So basically the semester has suffered the whole maintenance for the whole year. And I think this is what really explains the variance.



Also, keep in mind that, in comparison with last year, we have an extra depreciation due to the new facilities; Cartagena and Bilbao.

And I think that if you combine the three factors, the inventory, the increase in depreciation, and the fact that we have the maintenance within this quarter, while in the index it's considered all throughout the year, you get the point.

And in relation with the number of wells that we're going to drill, there have been delays and the most of it has been in prospects that we are not the operators, has back seat, which modifies from December to January.

So it's not big delay; though in the headcount for the year makes a number.

And also it's important to note that within this (inaudible) there were eight wells to be drilled in Libya; that we have reduced the figure to two wells and delayed the process to 2013.

So basically it's Libya, but there are some delays of months. So no change in our business model.

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**Filipe Rosa** - *Espirito Santo - Analyst*

Thank you very much.

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

Nomura International, Theepan Jothilingam, Nomura International.

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**Theepan Jothilingam** - *Nomura International - Analyst*

Miguel, just coming back to the LNG business, I just want to understand, in terms of a sale process, would you consider a piecemeal sell within the LNG business? And could you just remind us what -- where some of that off-balance sheet debt lies, between the assets?

Then secondly, on production, could you perhaps give us any guidance on what you think the exit rate on production may be for 2012?

And then, lastly, just on Jaguar, I assume you may write off the cost of that well in the coming quarters. If that's right, could you tell us what you may write off?

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**Miguel Martinez** - *Repsol YPF - CFO*

In relation with the LNG, our idea is to sell it as a block. We don't share of (inaudible), so it would be a single transaction, at least initially.

And in relation with what is our off-balance debt, it basically refers to all the leases that the rating agencies consider it as debt. Basically we are talking about our 14 tankers, and all the pipelines across the US and Canada, which accounts for a few billion.

So basically the debt we have, it's EUR1 billion in our balance sheet; and the agencies account the debt for EUR4 billion, just to the fact that I mentioned.

If I have, today, to give you an idea for the year production, and I'm always wrong with my projections, but I think that if you take 330,000 barrels per day on a yearly basis, you will be close.



And finally, in Jaguar, the Jaguar well was finished in July, and would be accrued, or write it off, in the third quarter this year. And we still have to analyze all the information of the well to look for -- to drill another one.

Also, having said something that the impact on our P&L is not going to be that big, our stake there is 15%. Okay?

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**Theepan Jothilingam** - *Nomura International - Analyst*

Okay, perfect. And then coming back to the LNG business, I know it's early days but have you had -- can you indicate any level of interest in that, that you've had so far in that business?

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**Miguel Martinez** - *Repsol YPF - CFO*

I can tell you that we have a strong team in our side, with the Government, plus some consulting group, [Linklaters]. We have also, I think it's Deloitte's, or KPMG. So we have all the groups working, and we have already received interest from more than 10 companies. So we will see how it develops.

But our idea is, as mentioned, to move it fast in order to have more possibilities to -- in front of the agencies, see whether or not we need to go for extra measures, as the one we mentioned in our strategic plan. Thanks, Theepan.

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**Theepan Jothilingam** - *Nomura International - Analyst*

Perfect. Thank you.

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

Barclays, Lydia Rainforth.

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**Lydia Rainforth** - *Barclays Capital - Analyst*

A couple of questions, if I could. First one, just on the working capital side, and, clearly, it was quite a good release of working capital from the quarter. Can you just talk about how you expect that to move for the rest of the year?

And then secondly, if I come back to the LNG and the preference shares issue, clearly selling the LNG was not part of the original plan from the strategic side. And I just want to understand, is there a maximum level of dilution that you would look at for being acceptable through issuing the preference shares?

And the other bit we haven't talked about is the sale of the treasury shares, and where you currently stand on that issue as well? Thank you.

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**Miguel Martinez** - *Repsol YPF - CFO*

In relation with the -- and congratulations for your promotion, okay?

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**Lydia Rainforth** - *Barclays Capital - Analyst*

Thank you.



**Miguel Martinez** - *Repsol YPF - CFO*

First one, in relation with the working capital, I think we improve this quarter in approximately EUR400 million. Reason for that, basically, the price of the oil.

So my estimate is that by the year end, in equal terms, from the beginning of the year, we should be reducing our working capital between EUR200 million and EUR300 million.

In relation with the LNG and the prefs, no, we don't have a magic figure. We have to keep working at [managing], first, the LNG process to see where we are, and then we will take the decision.

One thing is clear; we have to keep the investment grade, and we will look at the, first, at the results of the LNG, and, if necessary, we will go to the preference shares. So we keep with both process in parallel. And we will see. In today's financial markets, and in today's -- I mean, volatility's the name of the game; so it's quite difficult to assess what is going to happen in two weeks.

So we will keep working on the LNG, and then we will take our decisions. This is all I can tell you.

And final question was -- can you repeat it, Lydia?

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**Lydia Rainforth** - *Barclays Capital - Analyst*

Just around the treasury shares and how you think about those?

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**Miguel Martinez** - *Repsol YPF - CFO*

Oh yes, the treasury shares, yes, sorry. To me, the treasury shares somehow would be the last bullet to keep the investment grade. I think that it would be a very bad signal to the market if we sell our shares at this price, which, in my perception, are ridiculous.

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**Lydia Rainforth** - *Barclays Capital - Analyst*

That's perfect. Thank you very much, Miguel.

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

Citi, Alastair Syme.

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**Alastair Syme** - *Citi - Analyst*

At the risk of laboring the same point, just on the LNG, can I just clarify whether this is an either/or with the preference shares? Or would there be a scenario where you might consider doing the both? I know you've talked in the past about trying to provide some liquidity to preference shareholders.

Secondly, can I just ask, I know it's not your company, but what your thoughts are on the Sofia situation, given that you have participated in that in the past?



And thirdly, just to clarify on the Peru LNG cargoes that you send away, where is the tax liability paid on those arbitrage cargoes? Is it paid in Peru? Or is it paid by corporate Repsol somewhere else? Thank you.

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**Miguel Martinez** - *Repsol YPF - CFO*

In relation with the LNG, the priority is to keep the investment grade. We are going to move faster with the LNG, and in parallel with the pref shares.

If the LNG gives us enough room to working with the agencies, find a status in which the investment grade thus is not in danger, then we will look for a solution for the preference shares totally different from capital.

There are other formulas that can solve the situation of liquidity of the preference shares not being capital. But, having said so, I need first to know how the LNG process is going ahead.

So I will solve both the issues, but once -- I need a variable to be solved, which is how the LNG and how the agencies will analyze the Company once the LNG is sold.

Also I think it's important to mention, when we talk about LNG we are not talking about the Upstream assets linked to the LNG. Okay?

So, basically, first step, let's see how the LNG works; then let's solve the problem of the preference shares. If the rating agencies give us comfort, and we know that we can keep the investment grade, then there are formulas to provide liquidity to the tenants of the preference shares not affecting the capital; let's say hybrids, or many other options.

But I cannot give you more flavor today, because first I need to know how the agency will react once we move into the LNG process.

In relation with Sofia, well not much to say. I don't have anything to say on that.

And finally in Peru, basically the royalties are logically paid in Peru. And those royalties are dependent on the price that the LNG reaches. Basically depending on the destination; whether it's Europe, US or Far East.

So it's an issue of royalties and, as mentioned, I think it was Bruno, I think that the major impact for us would be around \$1 million, or something like that. Okay?

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**Alastair Syme** - *Citi - Analyst*

Thank you very much.

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

Mark Bloomfield, Deutsche Bank.

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**Mark Bloomfield** - *Deutsche Bank Research - Analyst*

Sorry to return to the LNG business, but just a quick question on timing. You've indicated that you'd like to do the preference redemption in October, all other things being equal, of course.

Assuming you've not completed the LNG sale by that point in time, but you're fairly confident of doing so, hypothetically, in the next two to three months, have you had conversations with rating agencies about potentially deferring the conversion of press to, say, later this year, going into next? So would they give you a period of grace to do so?

The second question is just on your divestments target. You obviously outlined a target as part of the strategic plan. You've talked about looking at the LNG assets. You've obviously sold the LPG assets in Chile. Are there any additional assets that you're looking at selling? And, if so, could you perhaps give us some sense of scale and timing?

And then the final question is just on CapEx. I think year-to-date CapEx is coming in at around EUR1.5 billion, pre-Gas Nat. The full-year target was around EUR4 billion. Run rate looks a bit light. Could you give us some indication of whether the EUR4 billion target is still valid? Or have you been able to make some savings on the CapEx front? Thanks.

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**Miguel Martinez** - *Repsol YPF - CFO*

In relation with the first one, I'd say that we are in permanent contact with the agencies. So with one of them, for example, we have already talked about this issue. And I think the time is there. I think what is important for the agencies, is to see the direction in which we are moving.

And the (inaudible) change, I would say that at least the last meeting we had, I ended it up quite optimistic. Basically the scrip was there, the initial of divestment was there, and we gain liquidity. So basically it's not a fixed date.

I think that if by September, we'll have a lot of flavor about how the LNG process will go, and then we will sit with the agencies. And once we speak with them, we will realize whether or not we have to move in one direction or the other. And this is all I can tell you.

In relation with divestments, I don't see any major ones. There would be small and non-significant ones, but not any major ones before the year end.

And finally, with the CapEx, I don't know how it happens, but it's always more loaded in the second part of the year. Without Gas Nat our estimate was EUR3.5 billion, and we are right now at EUR1.5 billion. So we are EUR2 billion below, which is not much. So I think we will end it up in the figure we gave as indication for the whole year, which is EUR3.5 billion, without Gas Nat, or EUR4 billion, with Gas. Okay, Mark?

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**Mark Bloomfield** - *Deutsche Bank Research - Analyst*

Perfect, thank you.

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

Peter Hutton, Royal Bank of Canada.

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**Peter Hutton** - *RCB Capital Markets - Analyst*

Miguel, you must be wondering how many questions you're going to get on LNG and the prefs. So I've got one more, and then on to development and exploration, so it's not just this focus.

But there was one area that Haythem asked about. You've been very clear about the running of these elements in parallel, but you mentioned that the selling of the treasury shares would be the last bullet. Not really mentioned about holding in Gas Nat. Would that be a medium bullet in between? Or is that no bullet, at the moment, when you've -- if there's any delay on LNG?

The second question is just a little bit more on the timing that you mentioned on Sapinhoa. I think you said that you were drilling wells four and five. Just what the lead time on that is, and when those start to connect, in line with the FPSO fully starting up on first oil next year.

And the third one, Namibia and the action plan. Now that you have the three blocks at 44%, offshore Namibia, where do you go from here? And what's the kind of indication on when you'd assess drilling well locations and access to rigs?

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**Miguel Martinez** - *Repsol YPF - CFO*

Okay. I don't if I have more bullets or not, but my perception is that I think it's important and this is something that we always transmit to the rating agencies.

We have a lot of optionalities, a lot of them, both to gain liquidity and to improve the balance sheet. And we have play those in what we think is the best for our shareholders.

So if at the given moment, it's necessary to put Gas Natural on the table, we will analyze it as any other optionality. It's not in the plan today. In the plan today we have LNG, and the prefs, but the rating is what really concern us.

And in relation with Sapinhoa, I think that the number for -- [SB] number for (inaudible) will be media, broad media within three months they would be there.

It's also important to mention that the last development well we drill was drilling 43 days, which has been the best performance to total debt so far in the [pre-trial] centers.

And in relation with the Namibia, still it's early stages. So before 2014 there, we shouldn't expect any news from Namibia. There will be more internal works, seismic and geo (inaudible) physical works. So 2014, Namibia would be (inaudible), okay?

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**Peter Hutton** - *RCB Capital Markets - Analyst*

Perfect, thank you very much.

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

UBS, Daniel Ekstein.

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**Daniel Ekstein** - *UBS - Analyst*

Couple of questions. Firstly, on the credit rating, and it's a question on how seriously you perceive the risk that you could -- or your rating could be affected, based on the position of the Spanish sovereign, in the near term. I know one of the agencies recently downgraded your outlook, based not on the Company-specific issues, but on sovereign issues.

So I guess the question would be, in the near term, is your fate entirely in your hands, do you think? Could you elaborate on the dialog you've had there?

And secondly, on refining, just to get a bit more detail. This was clearly not a ratable quarter in refining, due to the heavy maintenance activities that were going on. Could you tell us how costs in this quarter for refining, either on a per barrel basis or an absolute number, would compare to a more normal quarter, without the maintenance and with high utilization? Thanks.





**Miguel Martinez** - *Repsol YPF - CFO*

In relation with the first one, we will see. For sure, we are in Spain, and we would be partially affected, if not totally affected. But we will have to see. What we can do is try our best, strengthen the balance sheet to the limit, and at the end we have part of our activity, an important one, which is outside Spain; first point.

Second, our liquidity position is quite strong.

Third, I would say that our relation with the banks is quite reduced; only approximately 18% of our debt is with banks. So even if the banking system is affected, it would only affect us partially. And we have, basically, this relation with the banks outside of Spain. So we'll have to see, and see how the agencies react, but we are trying to do our best to strengthen the balance sheet.

We started last year, which, I think, is an important issue. Remember that we issued bonds in December last year, and in January one of them was [EUR750 million], the other [EUR850 million], and we tap also for approximately [EUR250 million] in the 2019 bond.

So we are preparing, and I think it's a mission of the financial area to prepare the Company for the worst, and then let's see what happens. And this is what we are doing.

I cannot predict what is going to happen with the rate of Kingdom of Spain, but, at least, we have to do our best, even getting ready for the worst situation.

In relation with the refining, two factors to be mentioned. The first one, I would say that maintenance costs were approximately EUR40 million, which is -- also we consider that our distillation capacity has been working at 68%, in comparison with -- right now, for example, that we are 80%. You will have all the data.

Let's put it the other way around, if you want. Basically, in a normal year, we should distillate approximately 280 million barrels, which is 70 million barrels per quarter. So, on average, this maintenance represents roughly \$0.50.

As we have been distilling only 60%, this will account for a little more, let's say \$0.75, \$0.80 per barrel. Okay, Daniel?

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**Daniel Ekstein** - *UBS - Analyst*

Was it EUR30 million you said, for the cost?

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**Miguel Martinez** - *Repsol YPF - CFO*

EUR40 million.

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**Daniel Ekstein** - *UBS - Analyst*

Thank you.

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

Sanford Bernstein, [Ian Pile].

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**Ian Pile** - *Sanford Bernstein - Analyst*

I think most of my questions have been answered. But perhaps, on the gas realizations, given that the gas realization has moved up this quarter, I wonder if you could give some more detail on the realization you're seeing from Margarita.

And secondly, I wonder if you can comment on the progress with the shale assets you're developing with SandRidge in the US. And, particularly, given the low realizations we're seeing in the States at the moment, whether that has any effect on the future development plans for that. Thank you.

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**Miguel Martinez** - *Repsol YPF - CFO*

In relation with your first one, basically Margarita, if you make a thumb rule, account for 10% of the Brent price and you will be quite close.

So as we reached plateau, by the end of May I think it was, the 27th, I think that in the following quarters, you will see an extra increase in gas realization prices whilst Margarita produces for the whole quarter; so good news there.

And in relation with the shale assets, the impact would be minimum this year. I think that by the year end, on average, it will be approximately around 2,000 barrels of oil equivalent per day, with 47% of it being oil. So no major impact right now.

We'll keep drilling. We have right now 22 rigs operating. And we keep confident that the [play] we have there is going to a good one. And we expect to end up with more than 90 rigs, and obtaining the pick of production by 2019, 2020.

So right now, no more news there and, for sure, no impact at all within this year. Okay, Ian?

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**Ian Pile** - *Sanford Bernstein - Analyst*

Great, thank you.

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

Tudor Pickering, Shola Labinjo.

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**Shola Labinjo** - *Tudor Pickering - Analyst*

I have a few questions, please. I'll start with exploration. Could you just talk a little bit about Sierra Leone and Namibia and what your forward plans are for the region, given the recent oil results?

And then could you talk a little bit about what you plan to do, in terms of drilling activity and exploration activity in Bulgaria? That's on exploration.

On refining, I just wanted to clarify a few things. Could you just give us the OpEx per barrel for the quarter, as well as the premium that you achieved to Brent on a per barrel basis for the quarter?

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**Miguel Martinez** - *Repsol YPF - CFO*

Starting with the exploration, we just entered. We haven't even, I think -- in Bulgaria, we have not received the confirmation of the award. We know the award. So basically it would be to start seeing any other part, seismic works and there wouldn't be any news until 2014, 2015 at the best.

And in the OpEx per barrel, I don't have the figure with me. I don't work with (inaudible) refining OpEx per barrel but you will receive the data through our IR people, okay?

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**Shola Labinjo** - *Tudor Pickering - Analyst*

And then Sierra Leone and Liberia?

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**Miguel Martinez** - *Repsol YPF - CFO*

Sierra Leone and Liberia. We had the disappointment of Mercury 2. And our people are analyzing and studying back all the registers we get from the wells, both Mercury 1, Mercury 2, plus Jupiter.

And they are studying it, so I don't have any extra input to provide you, okay?

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**Shola Labinjo** - *Tudor Pickering - Analyst*

Yes, thank you.

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**Operator**

Marc Kofler, Macquarie.

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**Marc Kofler** - *Macquarie Research - Analyst*

Just two very quick questions, please. Given the moving parts around the exploration activity for this year, I was just wondering if there was any material updates in terms of the total exploration budget for this year.

And then also, given some of that exploration activity previously penciled in for this year is moving into next, I just wanted to clarify if you were still comfortable around that EUR1 billion spend on exploration next year.

And then just, secondly, just very quickly, I think there was some downtime at Shenzi during the third quarter. I was just wondering if you were able to quantify that. Thanks.

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**Miguel Martinez** - *Repsol YPF - CFO*

Well, in relation with the exploration program, no major changes. I think that the Libyan wells are really cheap. We are talking there EUR2 million, EUR3 million, up to EUR5 million at the maximum. per well; so no impact there.

And also, those that are delayed, as mentioned before with (inaudible) are delayed from December to January. So in December there wasn't any extra charge. So basically no change in the budget.

And in relation with Shenzi, I think that our net loss was something like 1,000 barrels per day during four days, or something like that. So it was totally minor the impact of the hurricane, okay?

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**Marc Kofler** - *Macquarie Research - Analyst*

Yes, that's great. Thanks very much.

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**Operator**

Thomas Adloff, Credit Suisse.

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**Thomas Adloff** - *Credit Suisse - Analyst*

Three sets of questions, please. First on the transaction you did recently vis-a-vis your Gas Nat stake and obviously some other derivatives stating that you cannot hedge out the Gas Nat share price risk.

Can you confirm that this is completely fully hedged out, so there's no risks to, let's say, if Gas Nat share prices fall. That's the first one.

The second one is on oil refining. Obviously, you just said utilization rate's gone up to 80%. But in view of the longer term outlook for European demand and capacity being added elsewhere in the world, it's fair to assume that utilization rates in Europe will never really go up. If anything, they will continue to decline.

Have you thought about any sort of closures of certain CDU units in one of your refineries, like Total did with Gonfreville or Exxon with the Fawley refinery? Is that something you would consider doing?

And then, finally, on Argentina, I guess. Obviously you have the YPF bye laws. Argentina is ignoring that. I was wondering whether you actually have any other insurances in place, like the Lloyds' political risk insurance.

And then, also following on from the recent comments by President Chavez, pushing Repsol for a friendly agreement with Argentina, can you update us on whether you've had any negotiations or any discussions or approaches with the Argentinean Government. Thank you very much.

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**Miguel Martinez** - *Repsol YPF - CFO*

No, well, starting by the last part, no, we did not have any contact from the Argentine authorities.

And also, one of our concerns refers to all the information that the company basically is not providing to the market. We think that they're withholding information. Having said so -- and in that I can include some of the stories we have to read in the press [Hana] and these 129 which were discovered several months ago.

But I think that Chavez's comment, we agree with it. We would be really happy to really close the page. We have been able to negotiate with many governments. We did so in Bolivia. We did so in Ecuador. We did it in Libya. We did it in the main Venezuela.

So I think that Repsol YPF has been totally open to any negotiation process. And I think it's a good idea what Chavez is mentioning. But until we receive this possibility, we have to keep moving in order to protect our shareholders, and that's it.

In relation with Gas Natural, yes, it's fully hedged, fully hedged.

And finally, in relation to refining, as I mentioned, I agree with you that improvement of refining in Europe is not going to come by the demand side. But we are not thinking of any closing at all. What we did in the past, and we finished last year, was to put all our refining systems in the first quartile. So even if we have low margins, the rest -- our peers in Europe will be losing a fortune.

So, to me, the final picture is closings are needed. I know that in some countries the social impact is important, but at the end, especially those that are not, I would say, big companies, will not stand for long.

Look at Petroplus last year. We'll see a lot of this. There is a lot of small refineries in Europe not integrated, with low conversion that are going to be the first victims. They will become logistic terminals sooner than later.

And 'til then, at least we know that we will be in the top quartile line obtaining positive results and positive cash. But I agree with you in your general view about refining growth. Did I answer you everything?

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**Thomas Adolff** - *Credit Suisse - Analyst*

Yes, thanks. If I can just have a quick follow up. If you can remind us on the maturity of your committed undrawn credit facility. I think you mentioned it was EUR4.5 billion or so. If you can update us on the maturity.

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**Miguel Martinez** - *Repsol YPF - CFO*

In the maturity, we only have short term; approximately EUR1 billion. The rest, which is EUR3.7 billion plus EUR1 billion, the other EUR3.7 billion are long term. Okay?

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**Thomas Adolff** - *Credit Suisse - Analyst*

Okay. Thank you very much.

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

Goldman Sachs, Henry Morris.

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**Henry Morris** - *Goldman Sachs - Analyst*

I've just got three quick questions, please. First of all, in your discussions with the rating agencies, what's the most important metric that they want you to meet in order to maintain your investment grade rating?

Secondly, could I just confirm what you said earlier on the call, that the total debt that you consolidate from the LNG business is EUR1 billion of straight net debt plus EUR3 billion of finance leases?

And thirdly, just on Kinteroni, I know it's still up in the fourth quarter of this year, should I assume that's towards the beginning of the quarter or the end of the quarter for first production? Thank you.

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**Miguel Martinez** - *Repsol YPF - CFO*

Basically, the rating agencies, what they look for is a division. They put on top of it the cash flow you generate, but a cash flow with their considerations. It's not the cash flow we normally use and, as a dividend -- I'm sorry, and they divide that by a debt. That debt is not the debt we are used to; it's also a type of debt they consider.

So in their metrics, and with that I will answer the second question, they consider the leases and they calculate the present value of these leases and considerate it as debt today.



So, in that sense, our LNG division has approximately EUR1 billion in debt and, with the considerations of the agencies, they consider EUR4 billion. And the difference, these EUR3 billion, are due to the leases, basically the tankers and the pipelines in Canada and in the US. Okay?

And finally in relation with Kinteroni, it would be fourth quarter. If I have to bet, I would go by the end of November.

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**Henry Morris** - *Goldman Sachs - Analyst*

Great, thanks very much. And sorry just to follow up quickly on the LNG, is it then your impression from the ratings agency that if you were to sell this entire business, obviously it depends on the price you get, but that would be enough to maintain the investment grade and you therefore wouldn't need to convert the preference shares?

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**Miguel Martinez** - *Repsol YPF - CFO*

It's something we have to reach. We haven't -- we don't know yet which is going to be the process we are going to make. But I think that the perspective from the rating agencies would be by far more positive if we are able to sell the LNG.

Think that the equation they put, and I'm talking just by mind, but probably the EBITDA we have in that division is approximately EUR600 million, and if you divide that by the EUR4 billion they are considering as debt, you realize that the ratio is quite below what the agencies are asking for as the investment grade.

So my perception is that it would be, I would say, an important step to keep the investment grade.

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**Henry Morris** - *Goldman Sachs - Analyst*

That's great. Thanks very much.

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

Soc Gen, Irene Himona.

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**Irene Himona** - *Societe Generale - Analyst*

I had two questions, please. So first of all, going back to YPF, you're carrying EUR5.6 billion as the net book value. Clearly the credit agencies would assume that is zero. You've already written off the Petersen Group loans. Do you anticipate a time when you might take a write-off on that YPF value?

And, related to that, is there any timeframe for when you may change accounting on Gas Natural away from consolidation to equity accounting?

My second question just, it's been obviously discussed at length, but do you perceive that, as far as the credit agencies are concerned, there is some sort of, let's say, time limit whereby you have to achieve certain financial milestones by year end or by a specific date? Or is it purely the direction of, for example, asset disposals, that, as long as you're progressing on that route, they're happy to see that continue. Is there a time limit on the metrics? Thank you.

**Miguel Martinez** - *Repsol YPF - CFO*

In relation with YPF accounting talking, there would be a change once the financial -- right now we have a financial asset there. At a given moment, once the negotiation has started, then we send a letter to the Argentine authorities to start conversation with no answer till the moment.

Once the Argentine Government establish a price, that would be the moment in which our valuation will have to be modified from our financial investment into an account receivable. Even if we ask for more, at that moment we'll have to account the 51% for the proposal of the Argentina and so on.

At that moment the account will change, either in one direction or the other. We should assume a write-off or a net gain, but the moment would be that in which the Argentine authorities offers a compensation.

In relation with the timeframe to account for Gas Natural, legally it would be 2014. One idea we're thinking of is to work on the pro forma to start giving you some flavor, but legally it would be January 2014.

And in relation with the last one there is no date. With the rating agencies, basically what they want is a clear direction from the Company and delivery. And I think that right now -- until now both are in a good pace, but there's no fixed date. It's more direction and what we do is to keep permanent contact with them to let them know how we are moving and why we are taking the decisions we are taking. Okay, Irene?

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**Irene Himona** - *Societe Generale - Analyst*

Thank you, Miguel.

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

Morgan Stanley, (inaudible).

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**Unidentified Participant**

I promise I'll not ask you anything on LNG. I have two questions now. On your Downstream business what do you think can be a good approximation of your operating income and what you want to end by end of this year as your main 1995 a bit depressed oil price. So what can the operating income guidance you can have at the end of 2012?

And secondly on (inaudible) shares, the 5% you have, would you consider anything on the strategic, placing it within a strategic buyer? Maybe not -- because if you come to the markets now, or maybe three months, four months your stock price is too depressed; you can't really get EUR1.3 billion. So do you want to place it with a strategy buyer?

And thirdly, and most importantly, if your ratings are downgraded to non-investment grade with no fault of your own, like, for example, if Spain goes to BA3, BB minus, I would have thought may have to come down to non-investment grade.

Will you still stick to this plan, or this balance sheet repair plan that you have outlined? Or will you say that okay, look our ratings have been downgraded so we -- this plan doesn't really hold. But do you think this plan will still hold at its sales or conversion, etc., etc., in case if it's downgraded beyond your control? Thanks.

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**Miguel Martinez** - *Repsol YPF - CFO*

In relation with the (inaudible) at current cost of supply, I would say will be around EUR1.1 billion. This is my estimate today.



In relation with the preference shares, as mentioned is the last bullet, so we still have a lot of room to work with other ideas. Sorry (inaudible) restructuring. It's our last bullet and we still have a lot of things to work on before taking care of those. So we haven't had a specific -- no shareholder already decide. It will be the last bullet and the last area to work in.

And final question, yes the investment grade. At least what we are -- as you know, we can be two notches. Any company can be as far as two notches above their country, based on how dependent his financials, his bank and his business from the country in which he is working.

So I think that if we follow the divestment plan we're in, we have very good possibilities that even in the case of a loss of the investment grade of the Kingdom of Spain, would be above it. We have to keep working and beat our breast, but we will see. It's difficult to make that guess.

What I can tell you is that we are putting everything on the table to guarantee the investment grade, even in the worse scenario.

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**Unidentified Audience Member**

Thank you so much, thank you.

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

Santander, Jason Kenney.

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**Jason Kenney** - Santander - Analyst

Firstly just a small request, if I may. I was wondering if it's possible to put the breakdown by turnover back into the quarterly results release; certainly be helpful for my modeling.

Secondly a question, can you give me the timing of a return to the (technical difficulty) well? Sorry if you did mention that earlier but I did have an interruption in the call. So when you expect to start redrilling back in Guyana?

And then going back to LNG, maybe a slightly different angle. In the May 29 presentation you showed a consensus sum of the parts detail for the LNG business at EUR2.7 billion at the end of 2011 and EUR2.4 billion at the end of May 2012. I'm just wondering your view on either of those numbers which both look particularly low in certainly my estimations.

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**Miguel Martinez** - Repsol YPF - CFO

In relation with the break, Maria will give you a call. And we will say sorry if you don't like the breakdown.

In the second one, it's going to depend much in the conversations with the Guyana Government, which is what we are involved right now. So still way too early to tell you anything, but we expect to have the possibility to be working short term in the second well.

And in relation with the third one, I mean, those are your estimates; EUR2.7 billion, EUR2.4 billion. We will see. I mean, we will see there at least 10 different companies which are in the process and normally I don't like to advance the result of what third parties are going to put on the table. Okay?

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**Jason Kenney** - Santander - Analyst

Okay. Many thanks.



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

BBVA, Luis De Toledo.

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**Luis De Toledo** - *BBVA - Analyst*

Most of my questions have been answered. Maybe a final one regarding tax rate. What are the reasons behind a guidance increase to 44%, if they're related to recent transactions? Or is a level we can consider reasonable going forward?

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**Miguel Martinez** - *Repsol YPF - CFO*

44% is the one we expect for the full year in the existing condition, and the shift from last year is basically dependent on the Upstream division and especially due to Libya. Okay, Luis?

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**Luis De Toledo** - *BBVA - Analyst*

Okay, perfect. Thanks.

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

Merrill Lynch, Hootan.

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**Hootan Yazhari** - *BofA Merrill Lynch - Analyst*

Two questions. One going back to the credit rating and, obviously, if we did see the sovereign getting downgraded beyond your control and you were then downgraded to junk status, would you consider playing with your domicile? Is that something that management has talked about?

And also coming back to YPF, with regard to the comments that we saw the President of Venezuela make regarding how you deal with the Argentine Government will have direct implications on your assets in Venezuela, has that changed the way that you're approaching the Argentine situation at all? Or are you going to completely ignore those comments? Thank you.

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**Miguel Martinez** - *Repsol YPF - CFO*

Well, in relation with the first one, we are not going to modify our headquarters, so we will keep it in Madrid, okay? And we will see what happens. Maria is working and working heavily to have the most chances to keep the investment grade.

And in relation with Venezuela you have to remember that we were the first company to reach an agreement in [Sophia's Micstaz]. I think it was 2005, 2006. So we are always hoping to make negotiation, but to make negotiation we need really a response from the other side.

So, basically, I think it's a good approach and we will see because we have to defend our shareholders and (inaudible) the only way we have to work out is to (inaudible). But we will be happy to reach an agreement. I mean, if Mr. Chavez will help us in the process, for sure, he will be welcome. Okay?

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**Hootan Yazhari** - *BofA Merrill Lynch - Analyst*

Fantastic. Thank you, Miguel.

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

Thank you to all of you. You will be sending the clarifications that were pending later this afternoon. Thanks again.

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