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PRESENTATION

Operator

Good day, and welcome to the Repsol third quarter, 2016 presentation. Today's conference will be conducted by Mr. Miguel Martinez, CFO.

A brief introduction will be given by Mr. Paul Ferneyhough, Corporate Director of Investor Relations.

May I remind you today's conference is being recorded. I would now like to turn the conference over to Paul Ferneyhough. Sir, you may begin.

Paul Ferneyhough ***Repsol - Head of IR***

Thank you operator. Good afternoon, this is Paul Ferneyhough, Head of Investor Relations at Repsol.

On behalf of the Company, I would like to thank you for taking time to attend this conference, setting out the Company's third-quarter results.

This conference call and associated webcast will be delivered by Miguel Martinez, Repsol's Chief Financial Officer, with members of the Executive Committee joining us here in Madrid.

Before we start, I advise you to read our disclaimer. During this presentation, we may make forward-looking statements, which are identified by the use of words such as will, expect and similar phrases. Please note that actual results may differ materially, depending on a number of factors, as indicated in the disclaimer.

I will hand the call over to Mr. Miguel Martinez.

Miguel Martinez ***Repsol - CFO***

Thank you, Paul; and thank you to those online for attending this conference call on our third-quarter 2016 results.

CCS adjusted net income was EUR307 million, and EUR1.2 billion for the quarter and the first nine months of 2016 respectively.

In today's call I would like to cover three principle topics: firstly, operational results; secondly financial results for the quarter and year to date; and finally, a review of our progress towards key strategic objectives.

Before moving onto the operational results, I will make some brief comments on the macroeconomic environment. The market and commodity price volatility our sector has been facing since 2014, has continued into the third quarter of this year. Even though, in recent weeks we have experienced a modest recovery, year to date Brent, crude and Henry Hub prices have averaged 24% and 18% lower respectively, than in the same period of 2015.

In the third quarter, Brent crude averaged $46 per barrel, flat quarter on quarter, and lower than the $50 witnessed in the third quarter of 2015.

Crude oil prices fluctuated within a $40 to $50 range, for much of the quarter, with news from the OPEC meeting in Algiers, helping oil price to close in September near a year-to-date high.

In the US, gas price recovered materially, in this quarter, with Henry Hub averaging $2.8 per million btu, 40% higher than the second quarter and comparable to the third quarter of 2015.

The average refining margin indicator, declined in the quarter, to $5.10 per barrel, versus $8.80 per barrel last year.

Despite the decline in margin, and lower year-on-year commodity prices, the business generated an EBITDA of EUR1.1 billion, in the quarter, EUR130 million higher than in the third quarter of 2015, demonstrating our capacity to outperform in the lower part of the cycle.

Now, let's focus on the main operational highlights for the quarter. Starting with the upstream division, production averaged 671,000 barrels of oil equivalent per day, marginally lower than the second quarter of this year, when volumes averaged 697,000 barrels of oil equivalent per day.

Third quarter volumes were impacted by the cessation of production in the Varg field in Norway, and by planned maintenance, mainly in Trinidad and Tobago, Malaysia and Vietnam.

Production was also impacted by planned outage in the UK and in Trinidad and Tobago, due to development projects.

Year-to-date average production for the first nine months of the year is 694,000 barrels of oil equivalent per day, 36% higher than in the same period in 2015. Thanks to the contribution of the acquired assets, the ramp up of Cardon in Venezuela and Sapinhoa in Brazil, and higher production in Peru.

We are expecting startup of Lapa in Brazil and the ramp up of production in Trinidad and Tobago, in the fourth quarter. Average production for the full year is still forecast to reach 690,000 up to 700,000 barrels of oil equivalent per day, in line with our prior guidance.

By the end of the third quarter, three exploratory and one appraisal well has been completed, the appraisal well [deemed] unsuccessful, and the exploration wells are currently evaluation. As of today, there are four wells in progress, one appraisal and three exploration.

With quarter end, Repsol signed an agreement in Venezuela, with PDVSA to provide a $1.2 billion credit line to the Petroquiriquire joint venture. This strength the financial structure of the JV and secures funding for the investment program over the next five years.

Under the terms of this agreement, Repsol has secured future dividends and debt servicing by linking payment security to existing PDVSA debt instruments, thereby reducing overall financial risk.

Moving into the downstream division, in refining our margin indicator averaged $5.10 per barrel in the quarter, impacted by the weaker product demand and a tightening of light to heavy spreads compared to earlier in the year.

The return of Cartagena and Tarragona refineries to full operation, post-planned maintenance, improved our distillation and conversion utilization, increasing our total volumes and allowing us to generate a real CCS margin of $5.80, a material premium to the indicator.

So far, in the fourth quarter, it's worth noting that margins have recovered strongly with the indicator ranging between $7 and $9 per barrel, due to the strengthening demand and widening differentials.

The chemical business continued its strong performance, thanks to the steady and margins, both in line with the prior quarter. A reduction in derivative product prices was partially offset by the lower price of naphtha and a recovery in the market for basic petrochemicals.

The commercial business contribution improved compared to the prior quarter, mainly due to the seasonal higher sales in services stations. Spanish motor fuel demand maintained its ongoing recovery with the market growing in 2016 by 3.2%.

Moving into financial results. Third-quarter 2016 CCS adjusted net income was EUR307 million, EUR148 million higher than the third-quarter of 2015. CCS adjusted net income year to date was EUR1.2 billion, EUR175 million lower than the same period of last year, primarily due to the positive effect of exchange rate positions entered into in 2015.

In the upstream, adjusted net income for the quarter was EUR367 million higher in the same period of 2015 at negative EUR28 million. Operating income in the quarter for the second in a row was positive at EUR64 million.

The adjusted net income for the first nine months of 2016 amounted to EUR35 million, EUR668 million higher than in the same period in 2015.

Year on year, third-quarter variances in upstream are primarily due to the following. Lower realized oil and gas price net of royalties had a negative impact on operating income of EUR121 million. Lower exploration activity and lower amortization of dry well increased operating income by EUR157 million, excluding the impact of exchange rate movements. Third-quarter results include the write-off of two wells that were previously under evaluation.

Lower depreciation and amortization charges, principally as a consequence of a lower amortization rate in North America increased operating income by EUR88 million.

Income tax expense impacted the adjusted net income negatively by EUR95 million, principally due to better results and a higher effective tax rate due to geographic mix. This was partially compensated by the effect of local currency devaluations in the third quarter of 2015.

Finally, income from equity affiliates and non-controlling interest, exchange rate and other costs, which includes the effect of our synergy and efficiency program, and the impact in Norway of a reduction in the provision for abandoning cost at Yme and Varg explained the remaining differences. Note that the revised cost estimate in Norway has a total after-tax impact of approximately EUR28 million.

In the downstream division, CCS adjusted net income in the quarter was EUR395 million, EUR287 million lower than in the third quarter last year. Adjusted net income for the first nine months of 2016 was EUR1.3 billion, EUR326 million lower year on year.

Third-quarter variances in the downstream are primarily due to the following. In refining, lower margins and lower utilization rates reduced operating income by EUR289 million. This was due to narrower middle distillates, gasoline and light/heavy crude spreads, partially offset by the lower energy costs.

In chemicals, lower international margins, while still high, generated a negative impact on the quarterly operating income of EUR45 million.

In market marketing and LPG operating income was in line compared with the third quarter last year.

In trading, and gas and power, the operating income was EUR24 million lower than the third quarter of 2015, due to a challenging environment. Equity affiliates and non-controlling interest, exchange rate and taxes account for the remaining variance.

The corporate and other segment now includes a contribution from Gas Nat following the sale of a 10% stake. In total, corporate and others accounted for a net expense of EUR60 million in the quarter, compared to EUR128 million negative in the prior year.

In the first nine months, this segment accounted for a net expense of EUR140 million, compared to a net gain of EUR377 million in the same period of 2015, primarily due to significant gains from exchange rate positions in the third quarter of last year.

The contribution from Gas Nat to corporate and others in the third quarter of this amounted EUR80 million, lower year on year, mainly due to lower profit in the gas commercialization business.

In corporates and adjustments, the adjusted net income in the third quarter was EUR80 million negative, EUR23 million higher year on year.

Financial results in the third quarter contribute a net income result of negative EUR123 million, which compares with a net expense of EUR223 million in the third quarter of 2015.

Moving on to the Group net financial debt, at the end of the third quarter it was below EUR10 billion, a decrease of around EUR1.7 billion in comparison to the end of the previous quarter. This was primarily due to the receipt of proceeds from the partial disposal of Repsol's stake in Gas Natural.

Overall, operating cash flow, excluding working capital, covered investment, interest and dividend payments in the quarter.

The Group's liquidity at the end of the first nine months of 2016 was approximately EUR8 billion, including undrawn credit lines, which represent roughly 2 times coverage of short-term maturities.

Finally, the special items for the quarter include a net gain from the sale of Gas Nat and the pipelines in Spain, partially offset by the impact of the Venezuelan devaluation.

Let me now finish with an update on the progress of our strategic plan and the outlook to the end of the year.

During this continued period of volatility, Repsol's strategy targeting value and resilience remains on track. The strength of our integrated model has allowed us to generate predictable results whilst continuing to strengthen our balance sheet through expenditure optimization, efficiencies, synergies and investments.

Year to date our delivery on strategic objectives has maintained good pace and, by yearend, we expect to surpass some of the principal KPIs set for the year.

Let's start with our efficiency and synergy program. By the end of the quarter project have commenced that will secure our original savings target for the year.

The progress achieved in the first nine months of the year put us on track to deliver well over our previously revised EUR1.2 billion target for 2016. In fact, we now believe an accelerated target of EUR1.4 billion is achievable this year.

More specifically, synergy projects already in progress have delivered, by the end of the third quarter, 90% of the run-rate target for the year.

Looking forward, more than 80% of actions required to capture the $400 million run rate for 2020 are already in place.

Turning now to CapEx, we expect to be below our guidance for 2016. This reflects ongoing project optimization, strict cost control and the referral of non-critical investments.

Total CapEx is now projected to come in well below our previous EUR3.9 billion guidance for the year.

The divestment program has already surpassed the EUR3.1 billion target set in the strategic plan for the end of 2017. In fact, the partial sale of our stake in Gas Nat has put the total figure for proceeds and benefits captured since October 2015, when we presented the strategic plan, at around EUR5 billion.

In less than a year we have been able to divest more than 10% of our capital employed at good value multiples and without sacrificing future optionality or delivery.

In conclusion, despite lower Brent and Henry Hub prices and a declining refining margin, the business's line have been able to deliver improved recurrent results year on year, both within the quarter and over the first nine months. This demonstrates a resiliency in the lower part of the commodities cycle, due to our integrated business model, capital optimization, and highly effective synergy and efficiency program.

In addition to the strong operating results, our divestment program has delivered cash to the balance sheet, allowing us to materially reduce net debt and strengthen our financial position.

We are now well placed to deliver on this year's target and are making a strong progress towards our longer-term strategic goals.

I will now hand the call back to Paul, who will take us through our Q&A session.

Paul Ferneyhough ***Repsol - Head of IR***

Thank you, Miguel. Before we move to the Q&A session, I'd just like to remind everybody if you run into any technical problems during the webcast or conference call, please address any problems to our e-mail address, investorsrelations@repsol.com, and we will contact you immediately to resolve it.

Now, I will ask the operator to just remind us of the process for placing questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions).

Paul Ferneyhough ***Repsol - Head of IR***

Thank you, operator. We'll now move to our question and answer session. Haythem Rashed, Morgan Stanley.

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

Two questions from my side, please. Firstly, if I could perhaps just come back on your comment around investments and maybe just to provide a bit more color on where you think you'll end up for this year and, actually, how that could look for 2017, because prior CapEx guidance had been obviously a fair bit higher than even the EUR3.9 billion.

Looking at where your run rate is for the year, you could come in somewhere around EUR3.5 billion/EUR3.6 billion quite easily potentially. Is that what we should be thinking about and is that the sort of level that you could be running at in 2017?

Then, secondly, I just wondered if you could provide us an update with your recent discussions with the rating agencies, whether, given the delivery you've had so far, given where the environment is, how comfortable they are with your plans, whether there are additional requirements here, how you're thinking about the different financing options, the hybrid debt?

Are there any other further measures that you might want to think about taking? Thank you.

Miguel Martinez ***Repsol - CFO***

Thanks, Haythem. In relation with the first question, I estimate we are going to end up this year around EUR3.5 billion.

Regarding 2017 we have not yet finished the budget program, but I estimate that we are going to be around that figure as well. So, EUR3.5 billion, I think it's a figure you can put in your models. We will be able to confirm that once we've finished the budget.

In relation with the meeting with the agencies, I met with them on October 19. We reviewed, more or less, all what we have been delivering all around, because normally people tend to think that hybrid is a solution, but we have to look at the picture completely.

So, we are talking here about how the CapEx has been reduced, how the synergies have been delivered better than initially expected.

The same with efficiencies; much, much better than expected in the investment plan, not only within the figure but in the multiples of each of the transactions.

It's true that we still have room to go and we have to do more things. We are still a little below, but the progression we have been able to achieve in the last 10 months, I think that has been well received by the agencies.

We will keep working and we will see how the market is, and which and in what moment it's going to be our best option. But some small extra divestments are coming.

Remember that we have not monetized yet all the LPG pipelines. We have some other minor assets that, really, are not key for us that will come along. So, it's a work in progress and we are progressing well. That's all I can tell you, Haythem.

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

Thank you very much, very clear.

Paul Ferneyhough ***Repsol - Head of IR***

Thanks, Haythem. Filipe Rosa, Haitong.

Filipe Rosa ***Haitong - Analyst***

Three for me as well. So, firstly, on working capital, you have another investment this quarter. Could you help us understand how you see this going forward? Whether you think that your working capital investment, for instance in Venezuela, has already peaked? Whether this new agreement that you have established with them could start having some positive impacts on your working capital any time soon? So, that would be the first one.

The second one relates to your investment in Buckskin. Okay, your leaving partner has given up on the project. Could you let us know what are the plans of Repsol for that project?

And thirdly, if you could provide us some sort of outlook. How do you see your downstream division going into next year? We are close to the end of the year. Do you think that it will be a similar year than you have this or do you think that there could be some sort of deterioration going into next year? Thank you very much.

Miguel Martinez ***Repsol - CFO***

Thanks, Filipe. Well, in relation with the working capital, there has been four factors that, really, have penalized enormously, approximately EUR1.1 billion in comparison with the beginning of the year.

The four factors have been in one hand, Venezuela. We think that once the grade line starts to work we can solve partially this part of the working capital increase.

We also have an impact that is a one-off, which is the reduction in CapEx, which implies that we have less accounts payable.

Third factor is the main prices. I mean, prices had a clear impact. And finally, I would say that with the contango situation traders are taking a more aggressive position with inventories.

So, all in, I would say that we would be able to handle partially some of the four factors that have generated this increase in the working capital.

Also, to mention, and I think that the question will come at a given moment, there has been increase in the prepaid taxes in Spain that will affect us in the opposite direction for the end of next quarter.

All in, I expect that by the yearend, the figure in comparison with the one we have right now will be lower; let's say, around EUR300 million, EUR400 million lower than the one we have right now.

In relation with Buckskin, I think that we are still analyzing the project and I don't perceive any decision to be taken before the third or fourth quarter 2017.

The final question regarding downstream. To predict is difficult, especially the future, but the division is showing tremendous strength. We keep with the idea of the $6.9 per barrel for the refining while chemicals maintaining a good pace, as long as the price of the barrel remains between $40 and $50.

So, if I have to make an outlook, I would say that demand keeps growing in Spain and we have passed throughout the year all the heavy maintenance we had, especially in Cartagena. So, I think it's going to be stable or slightly above for 2017.

Right now, today, the margin was $9; to be precise, $8.99, the index. So, if we put on top of that the $0.50, $0.60 we always make above it, I don't expect this to continue. But I think that, all in, throughout the year, we will end up this year in more or less around the figure we provide to the market, $6.9 - $7 on average.

Next year, I think it's going to be stable as long as the barrel remains there.

Filipe Rosa ***Haitong - Analyst***

Thank you very much, Miguel.

Miguel Martinez ***Repsol - CFO***

Thanks to you, Filipe.

Paul Ferneyhough ***Repsol - Head of IR***

Thank you, Filipe. Oswald Clint, Sanford Bernstein.

Oswald Clint ***Sanford Bernstein - Analyst***

Just wanted to talk to Miguel on your North American upstream segmental reporting. It looks like a decent profitability in the third quarter, very similar to third quarter last year, despite some lower volumes and, obviously, lower commodity prices.

So, is that an improvement in the cost structure of that North American upstream business? Could you talk about that? Could you say if it's Canada or it's US specifically?

And then maybe linked to that, just how does that make you think if that is true, it is getting better, how does that think about the CapEx in that EUR3.5 billion CapEx that you spoke about for 2017? Is there an increase going to happen as we look into 2017 for the US? Thank you.

Miguel Martinez ***Repsol - CFO***

So in relation with the first one, I think that the advantage we have had in this year were based in prior decisions. First, the improvements of the Mid-Continent that were strong and have reduced the depreciation; that has been a factor. So, lower technical amortization.

In Eagle Ford, it's true that the agreement with Statoil, which has benefit the Group, instead of having two operators, we have just one operator.

Advantage per barrel we are obtaining as a first estimate is a little around $10; $10 per barrel better having just one operator and also having just one rig. So, I would say we have lower volumes, but the cost structure it's improving.

And can you repeat the second question, Oswald?

Oswald Clint ***Sanford Bernstein - Analyst***

Yes, I just meant, if you are seeing improvements in that underlying North American business, what's the outlook for CapEx for North America within the EUR3.5 billion that you mentioned that you might spend in 2017?

Miguel Martinez ***Repsol - CFO***

I will have to answer that question in the following months. I don't have the split of the EUR3.5 billion. It's a figure that I have been commenting with both business areas, but I don't have the split of what North America will imply within this figure. Sorry about that.

Oswald Clint ***Sanford Bernstein - Analyst***

Okay. No, thank you.

Paul Ferneyhough ***Repsol - Head of IR***

Thank you, Oswald. Jason Kenney, Santander.

Jason Kenney ***Santander GCB - Analyst***

Are you able to comment on the Black Sea oil discovery, offshore Bulgaria, at all? Either way, I was looking for some guidance on the possible exploration effects going into the yearend; what have we got left to look for from exploration?

Then separately, on the tax rate, difficult time to be trying to forecast tax rates. But what is an underlying tax rate that we could be using for going into 2017? Thanks.

Miguel Martinez ***Repsol - CFO***

Well, in relation with the discovery in the Black Sea, in Bulgaria, it's definitely an oil and gas discovery. It's a (inaudible) in play, it's commerciality has not been proven, and we need to appraise those to, really, know where we are.

In relation with the second question about the guidance for exploration in the yearend, I think that is we are not going to be really much impacted. At the limit, I would say EUR120 million/EUR140 million would be the figure of the impact in P&L.

All year round, it's going to be around $700 million what we have been investing in 2016 for the exploration.

In relation with the tax rate 2017, we expected it to be around 30%/32%, if we remain with this prices of the barrel, and we remain with the split, because you have to think that the weight of the downstream division in which our tax expenditure is in the mid 20-s, will compensate the upstream.

So, I would say 30%/32% would be my guidance for next year. Is that right, Jason?

Jason Kenney ***Santander GCB - Analyst***

Yes, perfect. Thanks very much.

Paul Ferneyhough ***Repsol - Head of IR***

Thank you, Jason. Anish Kapadia, TPH.

Anish Kapadia ***Tudor Pickering - Analyst***

I had a few questions. Firstly, on Venezuela please, I was wondering if you could just update on your receivable position and explain, in a bit more detail, that deal that you did, because maybe I'm not understanding it right.

A few years ago, I thought you said that the majority of all the cash coming out of Perla was going to be domiciled abroad, so you shouldn't have any impact from Venezuelan issues or depreciation. So, if you could just clarify that?

Secondly, we've seen Repsol share count increase quite significantly since 2012; continues to increase with the scrip program. So, I was just wondering, what milestones are you looking at to be in a position to either remove the scrip or starting buybacks to offset the dilution?

And then a final one on Alaska; I was wondering if you could give an update on the appraisal program in Alaska and potential timing of FID and development. Thank you.

Miguel Martinez ***Repsol - CFO***

Well, in Venezuela, the basic figures we have there is a total capital employed of EUR2.5 billion. Within this capital employed, we have EUR667 million in account receivables. The figure has increased throughout the year in approximately EUR240 million. So, this is, more or less, the picture regarding receivables.

The idea of the credit line is, really, to liquefy the financial surfeit. They will put cargos assigned into an escrow account that would be the one that will pay suppliers, pay taxes and pay the partners.

It's a model that I think Chevron has been working with it in the last two years; has proved effectively. The total agreement was signed this month -- sorry, in October, with all the authorities there. So, it's just pending on administrative details to see how it start working.

In relation with the second one, I would say that the end of the scrip, and probably the initiation of the buybacks, would be at the moment in which our rating feels stable in the BBB level. So, depending on how things evolve, we would be able to return to regular dividends and to buybacks, depending on the evolution of our ratios with the agencies.

And appraisal program in Alaska, well, in 2017, we would be drilling an appraisal well. Conoco is also near our Nanushuk discovery, and it's also in appraisal mode.

A final feed, if things go well and the prices are there, would be between 2018 and 2019.

Anish Kapadia ***Tudor Pickering - Analyst***

Okay, thanks very much.

Paul Ferneyhough ***Repsol - Head of IR***

Thank you, Anish. Bruno Silva, BPI.

Bruno Silva ***BPI - Analyst***

I have just two small questions pending. The first one, I'm not sure if Miguel has addressed this or not, I couldn't hear. Regarding the gas realization price discount, it wasn't significant. I don't know if you could enumerate the key drivers for this evolution, and what will be a reasonable estimate for the coming quarters?

The second question is just a detail in your presentation notice said the cash flow neutrality break-even has increased to $46 year to date. I guess it's just a matter of criteria of what you use here versus the $40 you mentioned in the previous quarters. So, if you could shed some light on that, I would appreciate.

Miguel Martinez ***Repsol - CFO***

Well, in relation with the second one, I think if you look at the working capital, you'll find the solution. The increase in working capital is the one that is touching the cash flow neutrality.

But if we -- as everyone makes different calculations here, I do prefer to analyze the whole Company and the whole year. We have been at $42, on average, for the year. If we take out of the -- if we think in a like-for-like working capital, we have been able to pay all our CapEx, pay the dividends with the scrip, pay our financial interest and be neutral. So [EUR2.7 billion] would be the debt reduction in a like-for-like basis on the working capital, which precisely is the figures of divestments we have had in the year.

In relation with the first question, gas price realization, I had the same question when I looked at the figures, because Henry Hub was moving up and our realization price was going down.

The point there has been that despite a positive impact of basically Marcellus of $0.2 per million BTU, there has been an adjustment in Trinidad and Tobago prices coming from prior periods that has penalized the realization price of our gas in $0.30 per million BTU.

So, on average, despite having a better scenario, our price realization final price has been lowered due to this adjustment made in Trinidad and Tobago.

Estimate gas realization price for the next quarters, I think we have to go along with the split we have. Basically, it's 33% of our gas is linked to the Henry Hub. The rest, some 25% respectively, are linked to oil price and to fixed price. So, it's going to be aligned with the evolution of the barrel in one hand, 25% and the Henry Hub in the other, 33%. Is that okay, Bruno?

Bruno Silva ***BPI - Analyst***

Yes, thank you. Just to make it clear, the Trinidad and Tobago effect has been exhausted in the third quarter. Is that correct?

Miguel Martinez ***Repsol - CFO***

That's correct. We have adjusted -- it's an adjustment, one-off in the third quarter, due to previous discussion about prices of our gas there.

Bruno Silva ***BPI - Analyst***

Okay, perfect, thank you.

Miguel Martinez ***Repsol - CFO***

Thank you.

Operator

Thank you, Bruno. Thomas Adolff, Credit Suisse.

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

I've got a few questions as well. Firstly, I just wanted to get a view from Miguel on the cross-shareholding structure in corporate Spain and whether we should be seeing further changes there.

Secondly, more specific to Repsol, the efficiency gains which are leading to lower CapEx and lower OpEx, how do you make them stick? Has Repsol made any changes to the internal KPIs? And if so, can you give some examples there?

And the reduction in the CapEx that you talked to earlier on, can you just confirm that it is all efficiency-led, as opposed to activity-led?

My final question is on the prepaid taxes that you talked to earlier on. You mentioned also a working capital reversal of about EUR300 million to EUR400 million in the fourth quarter. Is this net of the around EUR600 million prepaid taxes that will happen in the fourth quarter? Or is it before the EUR600 million? Thank you.

Miguel Martinez ***Repsol - CFO***

In the first question, in the cross-shareholder structure, I think that you refer to some financial transactions from Sacyr; is that right, Thomas or--?

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

No, I'm just thinking, Sacyr could be one, but also Gas Nat could the other thing, right? How should I think about the 20% shareholding? What's the whole point about this cross-shareholding structure in corporate Spain? It seems very protectionist, and outdated.

Miguel Martinez ***Repsol - CFO***

Well, now I understand. I think that we keep the way we were with the 10% reduction in our stake in Gas Nat. But, basically, the way we see it is that we have shareholder, which is Caixa, with a 10% more or less of our shareholding, and we own 20% of a company, in which also Caixa is the largest shareholder. But there's not any other game around it.

In relation with the efficiencies, I would say that they are going to stay, at least our estimate is that between 75% and 80% of our efficiencies are not linked to the price reductions that the service companies have suffered in the last two years. So, I would say that at least 80% of it will remain.

In relation with KPIs, you know the profile of our CEO, so he's going to keep pushing, pushing, and tighten the objectives for next year, no doubt on that.

CapEx reduction, I would say that partially it's CapEx reduction by itself, and partially it's also a lack or a delay in some of the programs. For the future, we have three basic large projects which are Campos, (inaudible), and Alaska. We are going to delay those till the moment in which we feel that the price deck is sustainable enough to return good returns to our shareholders.

In the last one, prepaid taxes; yes, we were charged EUR600 million in taxes in this quarter, in October. The figure I gave that I expect to reduce between EUR300 million and EUR400 million, the working capital, includes the impact of the EUR600 million.

So, all in, without this impact from the change in the laws by the authorities, law that, by the way, was issued September 30, we will be able without the EUR600 million to reach EUR900 million. So, the net would be EUR300 million/EUR400 million.

Is that okay?

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

Okay, and then the EUR600 million you get back in 1Q?

Miguel Martinez ***Repsol - CFO***

Well, in 1Q I'll get back 2015 prepaid taxes which were EUR300 million. So, I'll get back the EUR600 million by January 2018. Basically, we will present our corporate fiscal declaration in July 2017, corresponding to the year 2016, and the authorities have six months to return that money back.

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

Got it. Perfect. Thank you very much.

Miguel Martinez ***Repsol - CFO***

It is the other way around; thank you for asking questions, Thomas.

Paul Ferneyhough ***Repsol - Head of IR***

Thank you, Thomas. Irene Himona, Societe Generale.

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

Two quick questions. First of all, one on DD&A, which I think year to date it's down about 20%. Is there some guidance for the full year this year, and then into 2017 on DD&A, please?

And then secondly, chemicals, which this quarter made about one-third of your total downstream EBIT; it made more money than marketing, it's up quite substantially year on year. Is there any guidance you can give us for, again, Q4?

I ask the question because a year ago we had a substantial drop in Q4 chemicals, I don't recall the reason behind that. But if there is any guidance for the full year I'd appreciate it, thank you.

Miguel Martinez ***Repsol - CFO***

Well, difficult the second one, because normally December is not a very good month for chemicals. That's normally the reason why in the fourth quarter it comes a little lower.

But, other than that, I would expect something around EUR120 million/EUR110 million for the fourth quarter at EBIT level, more or less, it's my better estimate today.

In relation with the DDA, I would say that there has been two factors that have reduced in comparison with last year. One, for sure, is the impairments we account in the fourth quarter last year. The other one is the depreciation of the exploration activity, which has been by far lower than the year 2015.

As a guidance, I would say by the yearend for the whole Company, it would be around EUR3 billion. From those, EUR2 billion will be for the EMP division.

2017, for sure it will depend on how the exploration goes, but should be more or less at the same level as this year.

Is that okay?

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

Thank you very much, Miguel, thank you. Yes.

Miguel Martinez ***Repsol - CFO***

You're welcome.

Paul Ferneyhough ***Repsol - Head of IR***

Thank you, Irene. Lydia Rainforth, Barclays.

Lydia Rainforth ***Barclays - Analyst***

Two hopefully relatively quick questions, if I could, the first one just on the debt number, Miguel. What are you actually looking at post the Gas Nat sale as being the right number for net debt for Repsol going forward, as to where you're happy with that?

And the second one, apologies, this is just a clarification question on the dividend. When we're looking at the dividend and the level that you're looking at going forward, should I be thinking about that EUR0.30 as the final dividend from 2015 and using that as a sort of multiply by two, so the full-year dividend going forward as EUR0.60 as a base?

Or, am I looking at the full-year dividend from last year, which was EUR0.80 and that's what we should be projecting going forward? Thanks.

Miguel Martinez ***Repsol - CFO***

Thanks, Lyndia. Well, the right net debt for us is the one that levers in the BBB stable. So, it's not a figure that is fixed to many other things, because that implies a flow from operations versus a net debt.

If we talk about goals internally, I would say that to have EBITDA versus debt, or debt versus EBITDA 1.2/1.3, I think that this, more or less, will equal the triple B, which is our goal in relation with the agencies.

And in relation with the second one, for me it doesn't correspond to me to decide the dividends. But it's has to be the Board decision that will be taken by the end of this month.

But depending on the situation, I would say it would be more or less aligned with what we have last year as dividends.

Lydia Rainforth ***Barclays - Analyst***

Okay, perfect thank you.

Unidentified Company Representative

It's all I can tell you, it's not my decision.

Lydia Rainforth ***Barclays - Analyst***

Understood, thank you.

Miguel Martinez ***Repsol - CFO***

Thank you, Lydia.

Paul Ferneyhough ***Repsol - Head of IR***

Thank you Lydia. Hamish Clegg, BofA Merrill Lynch.

Hamish Clegg ***BofA Merrill Lynch - Analyst***

Just wondered if you could expand a little bit on the tax position you talked about at the beginning of the call? And how there's likely to be a cash cost in the quarter, but effectively that's going to be higher than the real tax you'll pay. Could you maybe tell us about how that will affect your tax in the fourth quarter earnings?

Also, my second question is just on the sale of Trinidad and Tobago. You put that through in the quarter. Could you maybe allude to the price you paid for it and the effect on volumes?

Then, just finally, on the working capital, just to revisit that again, because I understand the gain has been mostly related to Venezuela. Can we expect a potential reversal of that and when?

Miguel Martinez ***Repsol - CFO***

Let's see if I can explain the tax situation. Trying to simplify the equation, we prepaid taxes in Spain for the corporate tax in April, in October and in December.

Normally, we have been following the fiscal rules. In September 30, they have changed that rules, and instead of being fiscal rules, they have move into accounting rules.

In that sense, this year we have transfer, I would say, a lot of dividends for subsidiaries that really doesn't have any fiscal impact on the consolidated fiscal group that we have in Spain. We also have the net gains from Gas Nat plus the dividends of Gas Nat.

So, once they change the -- or they reverse from fiscal terms into accounting terms, we have to pay -- prepay, sorry, a money that will be reversed in January 2018. So, it's not a cost, it's a prepaid money, that we'll be recovering in 13 months. I think that may help.

In relation with Trinidad and Tobago, the volumes we were talking, it's 8 billion -- sorry, 8,000 barrels a day of production, basically liquids.

Price talking, we sold the whole thing for EUR145 million, I think.

Hamish Clegg ***BofA Merrill Lynch - Analyst***

Okay, thank you.

Miguel Martinez ***Repsol - CFO***

Paul is telling me over here that I should have not disclosed that figure. Sorry --

Hamish Clegg ***BofA Merrill Lynch - Analyst***

EUR145 million, I think is the one you said. The local press was talking about EUR125 million. So, there had been a number at that.

One final just quick and easy one. Is there going be another strategic update from you guys? Obviously, the costs have been coming down more than expected and the efficiencies have been happening quicker. Are we going to get an update on your four to five-year plan next year?

Miguel Martinez ***Repsol - CFO***

I would say not in the short term. But I haven't answered your third question, which refers to the working capital.

I think the working capital may improve by the yearend, basically, for a) the agreement with Venezuela, if we are able to put it in place before the yearend.

Second, we will put more pressure on the traders in relation with their contangos.

Third, the prices are not going to -- I hope, in relation with the working capital, are not going to suffer the impact that we have this quarter, coming from by far lower prices.

And finally, as mentioned before, we are going to monetize some divestments in this fourth quarter.

That's the reason why all in, and despite the impact of the taxes, I expect the working capital to be lower by approximately EUR300 million. Okay, Hamish?

Hamish Clegg ***BofA Merrill Lynch - Analyst***

That's very clear, thanks.

Paul Ferneyhough ***Repsol - Head of IR***

Thank you, Hamish. Tom Robinson, Deutsche Bank.

Tom Robinson ***Deutsche Bank - Analyst***

Couple of questions from me. First one on the upstream. Where do you think break-even can get to in that bossiness, given the lower CapEx spend? And what is the split between sustaining and growth CapEx in the upstream?

And the second question is on tax and apologies to come back to this. But would you be able to just to clarify the impact of the prepayments and the recovery of those prepayments on the strategic plan? What, for instance, would be the impact on free cash break-even targets for 2016 and 2017? I'm presuming there would be an impact. Thank you.

Miguel Martinez ***Repsol - CFO***

Well, I'll just start with the second one. In relation with this tax, it's a prepayment. Basically, you have a recovery in -- we are not going to pay taxes for all the factors I mentioned before, dividends on subsidiaries, net gains on subsidiaries, Gas Nat and some others.

The government is taking a tax based on the accounting rules. They are taking the EUR600 million and they will pay it back to us in January 2018. This year -- sorry, in January 2017, we'll be recovering the taxes we prepaid in 2015.

So, a strategic impact -- or impact on the strategic plan, I will say nil, basically because we have been suffering this year all these disposals and dividends that were initially not taxed finally will not be taxed but initially, we have to prepay for them. So, it's just a timing issue. It's not a cost for us to say something.

In relation with the upstream break-even, I think that that's something that depends much on your CapEx program. So, it's not an easy question to be answered straight. Any project that you develop day one, you invest and you don't produce, so it's not that easy to say, that's my break-even.

We can talk about break-even of fields that are already producing. We can talk about break-evens thinking in the long term. But it's not so simple as to say, well, my break-even today is $65. So, it's not that easy.

What I can show is that you have the results of the upstream division this year and you have the average price. You can see that we have been more or less even at today prices. This is the best approach I can give you.

The split between sustaining and growth CapEx, there, we have a couple of advantages I think in comparison with our peers. The first one is that our growth has come a) because of the acquisition of Talisman we have doubled size. I would say, second, if you remember the 10 projects for former Repsol, they are either fully invested, or almost.

There's Lapa, that will come on stream by the end of this year; and Reggane that will produce their first gas next year. But we have also the ramp up there. So, CapEx is going to be small while increasing production's going to be important in all these ramp-up processes.

But if I have to give a split of all the CapEx between what is growth and what is based on existing reserves, I would say it's 40%/60%, 40% for growth and 60% for base reserves; or 35%/65% if you want, two-thirds/one-third to the limit.

Tom Robinson ***Deutsche Bank - Analyst***

Very good. Thanks, Miguel.

Paul Ferneyhough ***Repsol - Head of IR***

Thanks, Tom. Alastair Syme, Citibank.

Alastair Syme ***Citi - Analyst***

Can you talk a little bit about decommissioning, because you have quite a lot coming ahead of you? You took a EUR28 million post-tax charge on Varg and Yme this quarter. Just to confirm that they're closure costs rather than decommissioning costs? Are we going to see closure costs regularly through the business in the coming periods?

I guess also related to that, as you go out into the market and get bids on the decommissioning of these assets, are they in line with what you provisioned in aggregate?

Miguel Martinez ***Repsol - CFO***

I think it's in line with what you have seen. Basically, on there every year, we accrued what is expected and with all the book and the -- I have now a clear answer to your question. We accrue every year and we talk about total provisions of well over EUR2.2 billion. Every year we do our accounting, we analyze, and that's it. This figure that I give you, for sure, excludes the UK assets.

So, it's a going-on process that really doesn't have jumps or volatility. It's all I can -- that I can tell you. It's true that initially, and we have seen that, we have seen the Yme and the Varg decommissioning, that has been by far lower than what we have as provisions. But this is just two examples.

I think we have to look at the whole Company and, in that sense, we feel comfortable that the provisions grow every year in a reasonable basis. Right now, as mentioned, excluding the UK, it's EUR2.2 billion what we have in our books.

Alastair Syme ***Citi - Analyst***

And just to confirm, as you close an asset like you have this quarter, should we expect these sort of charges of EUR30 million a quarter to flow through, just from a physical closure aspect?

Miguel Martinez ***Repsol - CFO***

No, I don't expect other charges. I think that we are going to keep the rhythm that we have right now. I don't expect major surprises there or -- in any case, if some disruption appears, technically talking, it will run in our advantage, because right now, we are accruing with the existing technology. But other than that, we will follow the path that you have seen in the last quarters.

Alastair Syme ***Citi - Analyst***

Okay. Great, thank you very much.

Paul Ferneyhough ***Repsol - Head of IR***

Thank you, Alastair. Marc Kofler, Jefferies.

Marc Kofler ***Jefferies - Analyst***

Two questions. I was wondering if you'd been able to get back into Libya at this point, or if there's any update on the status of your facilities or operations there?

And then, more broadly, just in the upstream. Given some of the changes you're making to the capital spending profile for this year and for next year, should we be thinking about any decline rates, or should we be thinking about decline rates differently? Thank you.

Miguel Martinez ***Repsol - CFO***

Well, in relation with Libya, there no news. We have data that the installations remain stable; I mean there has not been any damage to those.

We know that, politically talking, especially the US, Italy and France are trying to put pressure in order to solve and help into a solution. But 'til now, no major changes, so we keep at zero production there.

In relation with the second one. Our decline rate may be for the existing assets a little below 4%. That's the average thing. That is not that big, because a) we are quite gassy; and b) some of our projects are -- most of them are plateau. So, no major changes.

Capital spending profile for the next year, I have to wait -- as mentioned before in relation with the question about the US CapEx, I have to wait to answer the question 'til I have the final figures from 2017 budget.

Marc Kofler ***Jefferies - Analyst***

That's great. Thank you.

Paul Ferneyhough ***Repsol - Head of IR***

Thank you, Marc. Rodolphe Ranouil, Royal Bank of Scotland.

Rodolphe Ranouil ***Royal Bank of Scotland - Analyst***

A quick question from me on the credit side. Your -- the Company's management in Q2 had guided towards EUR1.5 billion of potential hybrid issuance in the fourth quarter of this year. My question is, is that guidance maintained, or has the plan been altered by the Gas Natural disposal?

Miguel Martinez ***Repsol - CFO***

Well, as mentioned before, we still have to work in the strength of our equity structure, our capital structure. It's not that one half's taking out the other. Gas Nat, for sure, has had to improve their ratios, but we still have work in front of us. So, I do not discard the issuance of hybrid or any other measure that will help to strengthen the capital structure.

Rodolphe Ranouil ***Royal Bank of Scotland - Analyst***

Thank you. It just seems that your current guidance is a bit less precise than it used to be at the half-year.

Miguel Martinez ***Repsol - CFO***

It's not less precise. I'm trying to give you the best to my knowledge right now. I look at the hybrids daily. Today, our deal was [EUR4.6 billion/EUR4.8 billion]; three weeks ago, it was [EUR4.1 billion/EUR4.2 billion].

So, it's something that we may consider as an option, and perhaps we will go for it. But it's something that we will see, and if the opportunity's there, we'll go for it. But it's not that I'm trying to be less precise. Sorry if that was the feeling of my answer.

Rodolphe Ranouil ***Royal Bank of Scotland - Analyst***

No, that's fine. Thank you.

Paul Ferneyhough ***Repsol - Head of IR***

Thank you, Rodolphe. Giacomo Romeo, Macquarie.

Giacomo Romeo ***Macquarie - Analyst***

Three questions. One, Miguel, again, on production for 2017, so you can't give an indication where you see production, because you're still waiting for the -- to see the CapEx projection for North America.

Now, if we assume that recount stays flat there, it's -- where -- and assuming no further divestments, where do you see production for 2017 going?

The second question is, when I look at upstream Europe operating profit, it's higher than the reported EBITDA. Just trying to reconcile there what type of effects you have had impacting.

Third one is on Latin America. You had quite a big drop in your profitability there in upstream. Just wondering if it's entirely related to a reduction in gas prices, or if there are any other items we should consider? Thanks.

Miguel Martinez ***Repsol - CFO***

I would say production guidance for next year is still -- as all the questions you put on 2017, we're still waiting to have the final figures of the budget. I need the final figures of the budget and the approval of the budget before commenting anything about 2017 budget.

In the upstream operating in EBITDA in Europe, it's true that there is a -- it's higher, the EBITDA. This is, basically, due to the reversal, as mentioned in the speech, of the provisions of Varg and Yme. The moment we reverse these provisions really affected -- reduced the EBITDA. But the impact -- the net impact after tax has been of both Varg and Yme has been EUR28 million.

And, finally, the drop in profitability, basically, refers to, in one hand, Trinidad and Tobago. I mentioned that there was an adjustment from prior quarters that was executed this third quarter. And, for sure, also, the impact of the oil price in the gas we sell from Bolivia, you know that it's indexed to the oil price, with a lag of six months going to Argentina and three months going for the gas that goes to Brazil. So, this is the other factor that has reduced the results in LatAm.

Giacomo Romeo ***Macquarie - Analyst***

Perfect, thanks.

Paul Ferneyhough ***Repsol - Head of IR***

Thank you, Giacomo. We have no further questions at this time, so that brings to a conclusion Repsol's third-quarter results call.

Thank you for spending some time with us today. Goodbye.

Operator

Ladies and gentlemen, just to confirm that this concludes today's conference call. Thank you for your participation. You may now disconnect.