

FINAL TRANSCRIPT

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REP.MC - Q3 2011 Repsol YPF SA Earnings Conference Call

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PRESENTATION

Operator

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

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Please proceed, Maria Victoria.

Maria Victoria Zingoni - *Repsol YPF SA - Director, IR*

Good day, ladies and gentlemen. This is Maria Victoria Zingoni. On behalf of the Company I would like to thank you for taking the time to attend this conference on Repsol's third-quarter results. The presentation, as explained, will be conducted by Mr. Miguel Martinez, our CFO. Other members of the Executive Committee are joining us as well today.

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

I now hand the conference over to Miguel.

Miguel Martinez - *Repsol YPF SA - CFO*

Thank you for attending this conference on our third-quarter results. I would like to focus today on four main topics. First, the third-quarter result; second, the status of our Upstream activity; third, an update on unconventional oil in YPF; and finally, the startup of Cartagena and Bilbao.

Starting with the results, this quarter we released a CCS adjusted net income of EUR429m, and CCS adjusted operating income of EUR1.2b. The CCS adjusted operating income is higher almost 6% year on year and 25% sequentially. The good results are mainly due to the performance in YPF, the LNG division and the increased results in Upstream, partially offset by the Downstream performance.

On the Upstream business, adjusted operating income was EUR322m, 4% up year on year. Higher realization prices and lower exploration expenses explain the increase in results, partially offset by lower volumes and the exchange rate effect.

(Inaudible) was effected by Libya around 40,000 barrels of oil and Trinidad and Tobago, 24,000 barrels of oil per day, decrease in gas production due to maintainers and refurbishing works in several producing platforms. However, Shenzi production is back to 2010 levels of 30,000 barrels per day. And Peru has increased because of the LNG project up to 28,000 barrels per day.

We maintain our guidance in production of an average of 300,000 barrels of oil equivalent per day for the whole year without taking into account the recovery of Libya when we are already producing 100,000 barrels per day on a gross basis versus the 330,000 barrels per day production before the start of the crisis,

Due to the uncertainties regarding the safety conditions in the country's southwest region it's impossible to make today reliable forecast on the production recovery timeframe. From a technical perspective our facilities are in good condition. The key variables for increasing production are power generation, capacity to guarantee the water injection, availability of the spare parts, and finally the possibility of moving our expatriates and those of our main contractors to the Sharara field. We are estimating in Libya for 2012 an average production of 170,000 barrels per day. However, we will keep on working to surpass this figure.

Going to the LNG business, adjusted operating income in third quarter 2011 was EUR108m versus EUR47m posted in the same quarter last year. The year on year increase was driven by higher Peru LNG volumes and stronger LNG marketing margins. We have exceeded our mid-year yearly estimate and we expect to finish the year with a result of around EUR350m, EUR100m more than our initial estimates.

In the Downstream business adjusted CCS operating income was EUR219m, 15% down year on year. In refining the improvement of the product spread could not offset the higher oil prices, and maintained the pressure on the refining margins. Earnings were

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also affected by lower utilization rate of the refining system due to the shutdown of the Cartagena refinery to do all the connections between old and new facilities for the start-up of the new refinery. On the chemical business the higher raw material cost also affected margins.

On the positive side in the marketing business the resilience of results remain, supported by an increase in the wholesale segment sales resulting in a higher market share and the improvement on margins. These two factors have helped offset the 6% year on year decrease of volumes in service station sales.

In YPF, adjusted operating income in third quarter was EUR430m versus EUR393m posted in the same quarter last year. An increase in prices at the pump in dollar terms year on year of 16% in diesel and 14% in gasoline plus an increase of 3.4% in the sales volumes drove a higher income. Additionally, the good performance of the agricultural sector caused a year on year increase of 8.5% of petrochemical product sales, mainly fertilizers.

Oil production in the quarter was still recovering from the effects of the strikes in the second quarter. We managed to increase oil production by 24% quarter on quarter from 183,000 up to 227,000 barrels of oil per day. Current production level is close to 520,000 barrels of oil equivalent per day, versus 240,000 barrels of [our] oil.

Gas Natural Fenosa at EUR199m adjusted operating income was in line with the same quarter of last year.

Going now to the non-operational part of our results, we had an increase in our financial expenses due mainly to the results of the currency hedging positions.

The \$1.8b short US dollar position which is a partial hedge of our overall long dollar exposure had a negative impact in the results, due to the dollar appreciation against the euro compared to the previous quarter. The depreciation of the Brazilian real against the dollar has affected the results as well.

Additionally, -- sorry, I would like now to update on our current exploratory activity as well as the wells that we will start drilling during the rest of the year.

Two discoveries have been announced in Brazil, Tingua and Malombe. With respect to Tingua, to properly evaluate the type of oil and deliverability, we will test the well in 2012 as soon as the right equipment is available from the operator. Malombe has been a gas discovery with reserve volumes that indicate the discovery should be commercial.

An announcement was made yesterday by our partner Anadarko, operator of the Montserrado 1 in Block LB-15 in Liberia. Also it has a limited net pay and this location is itself is not commercial, it has hydrocarbons in two levels. And we are evaluating the extensions of these intervals. On the positive side it confirms the existence of a hydrocarbon system in the area.

We are currently drilling four exploratory wells, which will be finished before year end, three in Brazil, Abare Santos 9, Pao de Azucar in Campos 33 and Itaborai in Santos 44. Although it's early to draw conclusions we feel positive about the three wells. One in Bolivia, Sararenda, which we expect to finish in December.

Moving to the appraisal drilling activity, in the Gulf of Mexico the Buckskin 2 well was successful confirming the initial range of resources. And the information is being evaluated to determine the location for the second appraisal well.

In Brazil, Guara Sul was successful and Guara RDA reservoir data decision is currently running [DSD].

Finally in the rest of the year we are expecting to start six new wells, which will be finished in 2012. Two wells in Brazil, Sagitario in block Santos 50, and Cariocasela in block Santos 9, Jupiter in the Sierra Leone Liberia Basin, Jaguar in Guyana, Sagari in Peru and Ulvetanna in Norway. The [Llewe] well in Cuba we will start early 2012 due to the delay in the reception of the rig.



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Going through a short overview on the Santos 9 activities we have drilled appraisal wells and finished a five-month extended well testing Guara with a gross production of 2.4m barrels. The results indicate a high productivity of the reservoir confirming and improving our previous analysis and models.

We started the extended well in Carioca Northeast in October 12 with very good initial results. On the progress of the FPSOs we are expecting the Cidade de Sao Paulo to arrive in Brazil before the end of the year in order to start the integration of the top sites. This FPSO is assigned to Guara where first oil is scheduled for the first quarter 2013 with no change in our initial plan.

We also want to make a short comment regarding the start-up of the Margarita and Kinteroni gas fields, with significant amount of associated liquids which is expected first and second half of 2012 respectively.

I will now give you an update on various YPF topics. I will address first the margin effect on the YPF operations of the recent change the Argentinean Government made to the regulations about the treatment of the repatriation of export receipts.

YPF has to comply now with the repatriation process that already applied to all the other exporting sectors in Argentina. Exports in YPF amounted \$1.5b last year, around 12% of our total revenues.

The previous scheme allows oil and gas companies to maintain 70% of the export receipts outside of Argentina. The new regulation implies that we have to transfer our export proceeds to a foreign office of an Argentine bank in US dollars.

Moreover, depending on the product there is a maximum of seven up to 12 months to convert those dollars into pesos. In order to neutralize the peso/dollar spread costs we can match the dollar needs of our day to day activities, imports, loan payments, dividends and foreign investments with the dollar sales coming from the exports.

In this case, the only estimated impact to YPF cost is no more than \$12m, linked to the credits and debit tax that these money inflows are subject to in Argentina.

On November 2 YPF approved the payment of dividends. The dividend amount for Repsol will depend on exchange rates and will come up to around EUR275m. The payment day is November 14.

I will now explain the progress in the oil unconventional program we have had so far. Let me first recapitulate on the information we have given so far. Out of the nine shale rocks in Argentina we chose Vaca Muerta a 30,000 square kilometers formation to start the non-conventional pilot project in Argentina.

The net acreage we hold over Vaca Muerta comes up to 12,000 square kilometers out of the above mentioned 30,000 square kilometers. We chose an area in the Loma La Lata field to start the pilot and the conclusions we got there were first, the formation is thicker than comparable basins with 200 meters of average. Second, the initial production ranges between 200 up to 600 barrels per day. Third, the estimated original oil in place per square kilometer is 43m barrels.

We also announced back in July that we had an exploratory well --- sorry, an exploratory discovery outside of the Loma La Lata field in Bajada de Anelo.

I will now -- I will refer now to the recent developments and the future plans. [We have] finished the first stage in the area of 428 square kilometers in Loma La Lata Norte with 15 positive wells in production, all of them with initial productions between 200 and 600 barrels per day of good quality crude oil with an API between 40 and 45.

Current overall production from these wells is 5,000 barrels per day. With these wells we can confirm that this first area holds recoverable resources of approximately 930m barrels of oil equivalent, split in 741m barrels of oil and 186m barrels of gas. We will start booking reserves as early as this year.



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We are still working on the development plan, analyzing several scenarios, based on different assumptions for the number of the most important manageable variables; number of rigs, combination of vertical and horizontal wells, number of fractures per well, etc.

With the information we have so far we could expect \$20 per barrel of development costs. In 2012 we plan to drill 24 vertical and 12 horizontal wells and build the required facilities to put the production on stream. In total, we will be investing next year in this first area \$400m.

On top of the above mentioned first area we are working on a second one of 500 square kilometers, from those, 300, approximately, are net to YPF. In this second area we have two discoveries north and northeast of Loma La Lata, Bajada de Anelo and La Amarga Chica.

Even though results associated to this areas is still in the evaluation process, preliminary data make us feel positive about assuming same levels of recoverable ratios than in the first area. And in consequence extend the 430 square kilometers up at almost 1,000 square kilometers. During 2012 we will proceed with further drilling in this area.

To finish, we will continue working in the still important remaining part of the net 12,000 square kilometers area. We plan to move ahead with the information gathering appraisals and developments in modules of approximately 500 square kilometers.

Going into our Downstream projects, as you may be aware the new Cartagena facilities are operating since mid-October with all the startup successfully concluded. Bilbao's coker will be ready for oil by mid-November.

As explained with these investments on stream we expect between \$2 and \$3 additional per barrel in our refining margin. This increase, in combination with a CapEx reduction of EUR700m could positively impact this year's free operating cash flow before taxes by around EUR1.1b on an annual basis.

On Tuesday we announced a joint venture with SKL, South Korean Lubricants to build a lubricant plant besides the Cartagena refinery. The EUR250m project and 630,000 tonnes per annum in which we have a 30% stake will produce lubricant base used for the production of ultimate-generation lubricants suitable for Euro 4 engines, sorry Euro 6 engines. This will be mandatory in Europe from 2014 onwards and will contribute to the reduction of greenhouse gas emissions.

This project will start operations in 2014, will allow us obtaining more value from our refining [receivables] since it will use unconverted oil from hydro-cracking units in Tarragona and Cartagena.

Summing up, we have delivered our Downstream projects achieving the objectives in terms of timing, costs, safety levels and minimum problems at a time of startup.

To finish, let me refer to our shareholder's agreement. On August 29, two of our shareholders Sacyr and Pemex announced a syndication agreement of their stakes in the company. On September 28, our Board of Directors analyzed the syndication agreement and took several resolutions regarding the situation created by it, which were publicly announced on the same day.

These resolutions include an emphasis on the importance of preserving the independence of Repsol, and the development of its own strategy. And so an invitation to terminate that syndication agreement, and enlarged amendment and analysis of the internal regulations with the aim of strengthening the protection of the corporate interest in the event of a designation of a competitor as a director and approval of related party transactions.

The Board of Directors will continue to monitor the situation created by this syndication agreement. As managers of the company, we maintain our focus in the business and confirm that, first we remain fully committed to the strategic plan which remains on track with clear objectives in terms of growth and value creation, and to continue this trend in the future.

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And second, we also maintain our full commitment not only to all our shareholders but also to the other stakeholders of the company. In consequence, we will keep our focus and efforts on the delivery of our commitments.

And now I am open to any questions you may wish to put.

QUESTIONS AND ANSWERS

Operator

The Q&A session will begin now. (Operator Instructions)

Maria Victoria Zingoni - *Repsol YPF SA - Director, IR*

We have first a question from Santander with Jason Kenney. Jason, good morning, and please go ahead with your question.

Jason Kenney - *Santander - Analyst*

Hi there. Thank you very much. I suppose I never really thought I would ever ask this question, but do you regret slightly now selling down YPF given the massive resource availability to that company in Argentina or is it still the right thing to do for your political risk and capital risk exposure within your wider business?

And then secondly, could you just remind me on the specific timing for the Jaguar well in the French Guiana?

Miguel Martinez - *Repsol YPF SA - CFO*

Thanks for the questions, Jason. Well, regarding the first one we really don't regret anything. We know first that it was a portfolio issue. We always mentioned that YPF it's a company with three clear upsides, call it prices, call it growth, both conventional and unconventional.

So, when we put it in the market it was a portfolio issue first. Second, I think that we can capitalize the value of the company better if we share it with partners, Argentine partners, international financial partners. So I think it was the right move and we are quite happy to share with others.

And regarding Jaguar our best estimate is that by mid-December we'll start operations.

Jason Kenney - *Santander - Analyst*

Many thanks.

Maria Victoria Zingoni - *Repsol YPF SA - Director, IR*

Thank you. Jason. We have the next question from Exane BNP with Alex Marie. Alex, good morning.

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Alexandre Marie - *Exane BNP Paribas - Analyst*

Hi, good afternoon, everyone. Thanks for taking my questions. The first question is on your LNG business. Clearly you've beaten your guidance by a large margin there and I think the outlook for the business globally is quite good. So can you give sort of a view on the run rate for future years on that business?

And secondly, you mentioned in the press release that the strikes at YPF in Q2 did have an impact on Q3 volumes as well. Could you please quantify that? And finally, if you could just also give a quick update on your exploration plans in Cuba and your discussions with US authorities there? Thanks.

Miguel Martinez - *Repsol YPF SA - CFO*

Alex, regarding the first question it's -- I think that the results for next year on the LNG division is going to depend a lot on when the Montenegro facility starts up its operations. I would say that as a guidance, I will aim my best estimate today would be around EUR300m for next year being a little optimistic, okay?

In relation with the strike, basically what we have suffered has been the ramp up of the fall in Q2. So the figures I can give you is we produced 183,000 barrels of oil in the second quarter, 227,000 barrels of oil in the third quarter and we expect to -- for this final quarter of the year around 240,000. So my best estimate is that it has cost us 13,000 barrels of oil more or less per day.

And regarding Cuba good news there, basically because there is no news. I mean we haven't received any problem and by the -- probably the first month of -- in January 2013 the -- we'll be -- sorry 2012 we would be starting operations.

Alexandre Marie - *Exane BNP Paribas - Analyst*

Thank you.

Maria Victoria Zingoni - *Repsol YPF SA - Director, IR*

Thank you, Alex. We have now from RBS Barry MacCarthy. Barry, please go ahead with your questions.

Barry MacCarthy - *RBS - Analyst*

Thank you for the presentation. Three questions please. Firstly, the response of the Argentine authorities this latest announcement of very significant resources of shale oil, does it reduce pressure in their minds to increase energy prices in Argentina?

And the second one is on the back of the release, and as you mentioned in your remarks the changes at the Board and the -- if you could bring us up to date on what's going on in your discussions with Pemex?

And finally, just a -- to clarify if the 12,000 square kilometers in the Vaca Muerta is that net to YPF? Thank you.

Miguel Martinez - *Repsol YPF SA - CFO*

I think with the third one, yes. It's 12,000 square kilometers net for YPF out of the 30,000 of the whole Vaca Muerta area.

In relation with the first one I think that the -- we have reached a situation with the Argentine government which really helps both parts, and it's the best way to work out. So I don't think that anything is going to change.



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Only for the small area we have started working on, which is this 428 kilometers, we would need to invest something close to \$20b. So if you want to go for investments in a country you really need to be moderate. So, we are I think there in good shape.

And regarding realization price today in Argentina it's around \$60, \$61 of -- per barrel, but you have to think that this is also a split between the light crudes and the heavy crudes. And we have in the north -- I mean in Vaca Muerta we are (inaudible) which is 41 up to 45 degrees API. So I think that with today figures those investments are profitable.

And in relation with the final question, which was your second one, which is relation with Pemex I think that both parties aim to normalize the situation. So it will take some time, but I would say that the initial tension that was generated in August is coming down. So we want to normalize our situation and find agreements with Pemex which is the logical way to look for the future.

Barry MacCarthy - *RBS - Analyst*

Thank you.

Maria Victoria Zingoni - *Repsol YPF SA - Director, IR*

Thank you, Barry. We now have from Macquarie, Jason Gammel. Jason, please.

Jason Gammel - *Macquarie Securities - Analyst*

Yes thank you very much. I had a couple of questions on the Vaca Muerta if I could please. The first question I had is what is the expectations for recovery on an individual well? Or put another way how many drilling locations would be necessary to recover the 930m barrels that you referenced?

The second question is it appears to me that in 2012 based upon the drilling plan that you laid out you'll be running somewhere in the three to four rig range. Is there any physical constraint on how quickly you could ramp up there if results are favorable, or could you get to 20 rigs relatively quickly?

And then the third question I had is, what is the thought process between -- behind drilling horizontally versus vertically, given that you have such a thick section? Is it going to be primarily a frack response issue? Thank you.

Miguel Martinez - *Repsol YPF SA - CFO*

Jason, starting with the first one, we are still in the learning curve, but right now, on average, per well, we will be reaching along its whole life, the estimates we have, we have with these 15 initial wells, 350,000 barrels of oil.

In relation with constraints, we have now five rigs and two frack equipments -- and teams there. And we are in contact with some other suppliers that have contacted us, because the work that it should be -- if news keeps coming in the good direction, could be massive.

So I don't see really with the contact we can provide the newcomers to have any problems regarding the advance, or including more subcontractors there.

Ah, yes, the third one referred to vertical and horizontal. As mentioned before, we are still in the learning curve and we have started with horizontal -- I'm sorry, with vertical wells due to the thickness of the rock. But this year we will end up with two horizontal wells, and we will see the results. Initially the cost is cheaper because -- for the vertical one. We are having costs of



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approximately \$7.2m, \$7.3m per well, while the horizontals would be a little more expensive, in the range of \$12m, \$13m per well.

So we have to see. We are still in the learning curve and we'll see, depending on the results we obtain, we'll be modifying our way of working. I think that, for example, in the range that we mentioned between 200 and 600 barrels of oil per day, those in the area of the 600 are the one we have been drilling lately.

Basically because we are learning, we are fracking more, we are including -- it's still way too early. I expect that along the next year we would be able to give you a better insight. Okay?

Jason Gammel - *Macquarie Securities - Analyst*

Yes, I appreciate that. Thank you.

Maria Victoria Zingoni - *Repsol YPF SA - Director, IR*

Thank you, Jason. We now have from UBS, Jon Rigby. Jon, please go ahead.

Jon Rigby - *UBS - Analyst*

Thank you very much. I've got three questions -- jumping around a little bit. The first is on the reserve, the recoverable reserve assumptions that you are making, what are you assuming about how you develop this? Or, to put it another way, do you think you can -- is there an issue over the economics of this thing, depending on whether it's all verticals, all horizontals, or some combination of both?

The second question is, just to confirm, would this qualify for the Petroleo Plus bonuses, etc., if you add these reserves and resources?

And then the third one is to go back to the LNG issue. I take your point that when Manzanillo opens then you start putting LNG into that terminal. But the differential, it seems to me, between selling that LNG on a WTI netback -- sorry, a Henry Hub netback price, into Mexico, as opposed to selling it into, as you, I think this quarter did, Europe or Asia is so great. That isn't -- or are you looking at some kind of infrastructure solution that could actually permanently divert those cargoes somewhere else?

Is there something that is economically sensible, maybe linking with North America that would make more sense than the current arrangement? Thanks.

Miguel Martinez - *Repsol YPF SA - CFO*

Jon, in relation with the first question, basically we are assuming the assumptions of the data we have today. And those are based on vertical wells and those are based in the initial production curves we are obtaining on these 15 wells.

So along, as I mentioned before, the next year we will probably have a much clearer view on how it will evolve. But, basically, we are thinking right now in approximately \$20 per barrel on CapEx, and approximately \$6 to \$7 on OpEx. And this is when we -- with all this data then we'll reach the 300,000 barrels -- 350,000 barrels for the whole production of one well, with a good return. Those are our assumptions today, and probably we will change it next year, but those are ---.

In relation with the Petroleo Plus, as you know we lost first, second and third quarter. And my estimate is that fourth quarter is going to be tough. We are going to be close, but probably we will not be able to gain it. Okay?

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Jon Rigby - UBS - Analyst

But going forward, would reserves recognized from this project qualify under it?

Miguel Martinez - Repsol YPF SA - CFO

Yes, for sure, Vaca Muerta will affect the thing, but right now we are only producing a 5% -- sorry, 5,000 barrels.

Jon Rigby - UBS - Analyst

Okay.

Miguel Martinez - Repsol YPF SA - CFO

So I think that the small area of 400 square kilometers in which we are working, we will reach within three years probably a plateau, approximately 4.5m barrels per annum. So -- it will help, but it will not guarantee to say something, okay?

Jon Rigby - UBS - Analyst

Okay, yes.

Miguel Martinez - Repsol YPF SA - CFO

And in relation with the LNG, yes, it is true. It's a real pity to have to sell at Henry Hub prices though, as you know, we buy also in reference with Henry Hub, so we still kept a margin there.

But you also have to remember that, thanks to this contract, we were able to obtain the product finance for the whole [liquefaction] plant. So basically we'll have to stand with the existing contract and send our regards to Manzanillo. Okay?

Jon Rigby - UBS - Analyst

Okay.

Miguel Martinez - Repsol YPF SA - CFO

Thank you.

Jon Rigby - UBS - Analyst

Thank you.

Maria Victoria Zingoni - Repsol YPF SA - Director, IR

Thank you, Jon. We now, have Soc. Gen., Irene Himona. Please go ahead with your question.



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Irene Himona - *Societe Generale - Analyst*

Yes, good afternoon. I had some questions of clarification, please. First on Libya, you mentioned 300,000 barrels a day for this year. And you then mentioned 170,000 for next year. Can I just ask, on a net basis, what do you anticipate in Q4, and then in 2012?

And then secondly, a question again for clarification, for your comments concerning Area 2 in Argentina, you said that the preliminary data is positive. Are you looking at similar levels of oil in place and recovery factors as in Area 1? Thank you.

And then -- sorry, a final question. In terms of the economics, \$20 of CapEx, \$6 OpEx, what is the current oil price realization and, given those numbers, what sort of IRR are you looking at? Thank you.

Miguel Martinez - *Repsol YPF SA - CFO*

Well, in relation with Libya, our production before -- our production before the war was 340,000 of oil. That's gross. From those our net was approximately 40,000.

Right now we are producing 100,000 barrels of oil per day, and what we have estimated for next year, but being an estimate as bad as anyone, is that we will have, on average, 170,000 of production in 2012. So, basically, I would say November and December we will be producing 100,000, from those. As a quick guidance you can take our net, multiply them by 0.14, approximately. Okay?

Irene Himona - *Societe Generale - Analyst*

Thank you.

Miguel Martinez - *Repsol YPF SA - CFO*

And in relation with the second question, Area 2. Area 2, in the two wells we have drilled, is behaving quite similar to Area 1. So the answer is, yes, initially with the data we have today, we can extrapolate up to this area.

And about realization prices in Argentina, as I mentioned, on average the Argentine price today, average, as I said before, is \$61 per barrel, though medianito, which is the type of crude we are producing in Vaca Muerta, is a little expensive. You can put \$65, \$66 per barrel. Okay?

Irene Himona - *Societe Generale - Analyst*

Thank you.

Maria Victoria Zingoni - *Repsol YPF SA - Director, IR*

Thank you, Irene. We have the next question from Credit Suisse, Thomas Adolff. Thomas, Thomas, good afternoon.

Thomas Adolff - *Credit Suisse - Analyst*

Good afternoon. I've got three questions, please. First on Libya, I understand, despite your production there, that at this stage you cannot book production profits yet. When do you expect this to be the case?

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Second, on YPF, just on the question on the Board Meeting, out of the 17 Board members, the Government rep rejected the dividend payment. And I understand this was really the first time they did that, so I wondered whether you can talk about why the Government rejected this, whether it's related to the Government wanting YPF to invest more domestically, or anything to do with money supply in the country.

The final question on Brazil and Carioca, my understanding is that the Declaration of Commerciality is due any time soon. In fact I think it's November. Has this changed because you are still doing the extended well test, and you've got the Carioca Sela well being drilled towards the end of the year, which is kind of key in terms of estimating the recoverable resources? Thank you.

Miguel Martinez - *Repsol YPF SA - CFO*

Okay, Thomas, it's true that right now we are under force majeure situation in Libya, so we cannot increase that production, though the lawyers are in contact with the Libyan authorities and we expect that shorter the situation would be solved.

In relation with the dividend in YPF, as I mentioned, the dividend will be paid and the Government doesn't have any right to cancel this dividend. It's not an issue -- that in the bylaws of the Company the Government has any right to modify the majority.

And in relation with Brazil, the due date, as you mention, it was actually tomorrow, November 11 though we have asked for an enlargement of -- we asked for an extension for two years to declare the commercialization.

In the opposite terms, we have Guara, which we are advancing. We are going to advance the commercial proposal. Okay?

Thomas Adolff - *Credit Suisse - Analyst*

Okay. Just to clarify, so you've got this extension for two years, so it's now November 2013 for the deadline for the Declaration of Commerciality there?

Miguel Martinez - *Repsol YPF SA - CFO*

That's correct.

Thomas Adolff - *Credit Suisse - Analyst*

Okay, thank you. Thank you very much.

Maria Victoria Zingoni - *Repsol YPF SA - Director, IR*

Thank you, Thomas. We have the next question from Citigroup, Alastair Syme. Alastair, please go ahead with your question.

Alastair Syme - *Citigroup - Analyst*

Yes, hi all. A couple of things. As you restart production in Libya, I'm just wondering whether you think the capital budget that you've got is sufficient, whether you're having to put in more CapEx, in other words, and how that might impact on your 2012 CapEx thoughts.

And then secondly, if I can just try and get a bit of guidance for you on where you think the EBITDA levels of YPF might be going forward. You've hit -- you've hit close to EUR790m this quarter. Is that a good run rate, do you think?



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Miguel Martinez - Repsol YPF SA - CFO

In relation with the CapEx, on a regular year we normally invest in Libya approximately \$120m. Right now -- first we have to see how -- which additional investments are required, because we don't have yet all the data. And we are also in contact with the Libyan Government to see how they are going to finance their part of the CapEx.

But I don't expect these figures to really affect our whole investments for the year. Next year probably, without Gas Natural, we would be investing EUR5.5b, so these investments in Libya will not modify the dial of the whole Company.

And for this quarter EBITDA in YPF, I would say in the first three quarters we have been able to have an EBITDA of EUR2.2b, approximately. And I really expect a good quarter (technical difficulty) I think that we modify prices in July and August. So we have had only one month in this quarter with the prices. So a little increase for the fourth quarter could be quite possible. So I will aim for the EUR800m EBITDA in fourth quarter.

Alastair Syme - Citigroup - Analyst

Okay. Thank you very much.

Maria Victoria Zingoni - Repsol YPF SA - Director, IR

Thank you, Alastair. We have the next question from Merrill Lynch, from Hootan Yazhari. Hootan, good afternoon. Please go ahead with your question.

Hootan Yazhari - Bank of America - Merrill Lynch - Analyst

Just -- hi there. One quick question regarding your Downstream upgrades. You mentioned that Bilbao's coking activities will be ready for oil later this month. I just wanted to get some clarity in terms of what sort of conversion intensity you are expecting at all the new upgrading units that you've put through.

And, consequently, what proportion of the upgrade margin are you currently capturing and do you expect to capture? Thank you.

Miguel Martinez - Repsol YPF SA - CFO

We keep with our estimates. Basically, in the beginning, as I mentioned, we should increase for the whole system between \$2 and \$3. We will be producing, next year, approximately 300m barrels, so between \$2 and \$3.

We have been monitoring throughout 2011, which would have been the effect if those investments were already in place. And those are the data we achieve. For sure, depending on the future and depending on the spreads between heavy and light goods, these will modify along the future. But, basically, I would say that we will start in the lower part of the -- approximately \$2, to give you a guidance. Okay?

Hootan Yazhari - Bank of America - Merrill Lynch - Analyst

And how much of that do you expect to capture in Q4?



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Miguel Martinez - *Repsol YPF SA - CFO*

Right now the margins are quite rotten -- today they are going -- yes. Actually today was not a good day, when you see the margin index probably would gain \$1.8, \$2 maximum, per barrel in this quarter, well, sorry, in the last two months. So, on average, with October I would say \$1.3, to 1., something like that. Okay?

Hootan Yazhari - *Bank of America - Merrill Lynch - Analyst*

Understood. Thank you.

Maria Victoria Zingoni - *Repsol YPF SA - Director, IR*

Thank you, Hootan. We now have, from Barclays Capital, Lydia Rainforth. Lydia, please go ahead with your question.

Lydia Rainforth - *Barclays Capital - Analyst*

Thank you, and good afternoon. A couple of questions, if I could? Firstly, given the resource base in YPF, what sort of peak production would you now expect to get to?

And then secondly, you did just say that you would be able to book some reserves from Vaca Muerta this year. Can you give us an indication of how much you might be able to book?

Miguel Martinez - *Repsol YPF SA - CFO*

Okay, Lydia, in relation with the first one, I can give you the peak in Area 1. It would be really not prudent to give Area 2. In Area 2 we are still starting to know the area. So -- and in Area 1 I will say that the peak is 4.5m barrels per day, which approximately is 12,000 per day. Okay? So 4.5m per annum, 12,000 per day.

And the second question?

Maria Victoria Zingoni - *Repsol YPF SA - Director, IR*

Regarding the reserves. (Multiple speakers).

Miguel Martinez - *Repsol YPF SA - CFO*

Oh, yes, refer to the reserves. Our estimates for this year is that approximately we'll be booking something close to 20m, 25m barrels. But this is our best estimate today. Okay?

Lydia Rainforth - *Barclays Capital - Analyst*

Okay. Thank you.

Maria Victoria Zingoni - *Repsol YPF SA - Director, IR*

Thank you, Lydia. We now have Peter Hutton from Royal Bank of Canada.

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Peter Hutton - *Royal Bank of Canada - Analyst*

Hi, Miguel, hi, Victoria. Just -- do you have any comment on the statement from YPF saying that the -- that Neuquen could be producing 50,000 barrels a day in the next four to five years? And, if so, what kind of -- what number of rigs do you think is going to be necessary across the various areas to reach that kind of peak production?

Miguel Martinez - *Repsol YPF SA - CFO*

I think that those were Tomas Garcia Blanco's comments on a question saying well, if everything behaves exactly the same, which will you think would be the peak? And he mentioned this 50,000, but I'm not so risky. So I kept to my first comment and in Area 4 we would be able to -- sorry, in Area 1 we would be able to produce next year -- sorry, as a peak, 12,000 barrels a day. Okay?

Peter Hutton - *Royal Bank of Canada - Analyst*

And that's based on the five rigs that you were talking about before?

Miguel Martinez - *Repsol YPF SA - CFO*

Starting with five rigs and two frack facilities, though these will increase and ramp up in the following months and years.

Peter Hutton - *Royal Bank of Canada - Analyst*

Okay, and you're not aware of any capacity restraints on pumping pressure in Argentina?

Miguel Martinez - *Repsol YPF SA - CFO*

Not at all.

Peter Hutton - *Royal Bank of Canada - Analyst*

Okay. Thank you.

Miguel Martinez - *Repsol YPF SA - CFO*

Welcome.

Maria Victoria Zingoni - *Repsol YPF SA - Director, IR*

Thank you, Peter. We now have Anish Kapadia from TPH. Anish, please go ahead with your question.

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Anish Kapadia - *Tudor, Pickering, Holt & Co. - Analyst*

Hi, a couple of questions. Just going back to the Vaca Muerta, and thinking about the ramp up over there. In the area that you've talked about, the 428 square kilometers, I think you'd need over 2,500 wells alone to develop that over time. So it sounds like capital may be the main constraint with the current dividend policy within YPF.

So I just wanted to see how you are thinking about financing the growth in YPF.

And secondly, just from the wider Repsol perspective, I was just wondering if we should expect further acquisitions in the E&P segment over the next six months. And, if so, is the focus more on the exploration side of things, or buying production or early development assets?

Miguel Martinez - *Repsol YPF SA - CFO*

In relation with Vaca Muerta, it's true that any figure you put on the table, it -- all of them are enormous. Only CapEx for this small first area, we are talking about \$20b. But there are many possibilities to finance this, with partners, with special financing for this project. But our perspective is that it still is way too early; we want to know better what we have in Vaca Muerta, before we start any correlation with third parties.

So, basically, we still have minimum of a year to do our homework, to see how Area 2 behaves, keep with the production of Area 1 and developing Area 1. For the next year, on this area we'll ask for more than \$400m. And then probably in one year or so we will be ready to make a movement.

And in relation with acquisitions in E&P, we are not looking at the present time on any transaction. Basically we -- our model is based on organic growth. That's also the reason why we invest four times more than the rest of the international oil companies per barrel produced.

So we keep attached to our model and only when we see exploration upside and exploration, additional exploration values, when we move. But we don't have anything right now in our portfolio to -- we are not looking at any acquisition today.

Anish Kapadia - *Tudor, Pickering, Holt & Co. - Analyst*

Thanks. Can I just clarify one of your comments from earlier? You said 36 wells in the Vaca Muerta. Is that just in Area 1, or is that in the whole of the Vaca Muerta, and the \$400m, again, is that just Area 1, or is that the whole of the Vaca Muerta next year?

Miguel Martinez - *Repsol YPF SA - CFO*

What I mentioned is 24 plus 12. This goes straight to a part of Area 1. Okay?

Anish Kapadia - *Tudor, Pickering, Holt & Co. - Analyst*

And so there could be wells on top of that, exploration wells on top of that?

Miguel Martinez - *Repsol YPF SA - CFO*

Yes, yes. Yes, yes, yes --

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Maria Victoria Zingoni - *Repsol YPF SA - Director, IR*

Yes.

Miguel Martinez - *Repsol YPF SA - CFO*

-- because there is -- you have to understand that we are totally in the learning process. So this is our first estimate but, for sure, depending on the results, we will act one way or the other.

Anish Kapadia - *Tudor, Pickering, Holt & Co. - Analyst*

Yes.

Maria Victoria Zingoni - *Repsol YPF SA - Director, IR*

There is, Anish, to develop part of the first area. Then you will expect some (inaudible) works in the second one and more exploratory work, as you mentioned, in the other part.

Anish Kapadia - *Tudor, Pickering, Holt & Co. - Analyst*

And the \$400m refers to just Area 1?

Maria Victoria Zingoni - *Repsol YPF SA - Director, IR*

Exactly. So the 36 wells that Miguel mentioned.

Anish Kapadia - *Tudor, Pickering, Holt & Co. - Analyst*

Great. Thank you.

Maria Victoria Zingoni - *Repsol YPF SA - Director, IR*

Okay.

Miguel Martinez - *Repsol YPF SA - CFO*

You're welcome.

Maria Victoria Zingoni - *Repsol YPF SA - Director, IR*

Thank you. We have the next question from HSBC, Paul Spedding. Paul, please go ahead with your question.



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Paul Spedding - HSBC - Analyst

Thanks very much. It's yet another question on Loma La Lata North. Most of the wells appear to have been drilled in the northern half of that license, and I was curious as to whether that was due to geology or geography, whether it was not possible to drill in much of the southern part.

Miguel Martinez - Repsol YPF SA - CFO

Yes, most of it is based on geological reasons. We know that in this area we have basically oil. So, if you move to the north and northeast, we have more oil. Moving down to the southwest, you have more gas, so that's the reason why we are moving.

And, on top of that, the reason why we choose basically to start in this area is because we have all the facilities in place, thanks to the Loma La Lata gas field.

Paul Spedding - HSBC - Analyst

Thanks. Could I ask a quick follow up on the Downstream, whether you could give us -- whether you are amortizing any of the refinery upgrade CapEx yet, and what the current book value of the refinery upgrades in Spain is?

Miguel Martinez - Repsol YPF SA - CFO

It would be between 15 and 20 years, but we will give you the exact data. Basically it's between 15 and 20, but we will provide you with the exact data. Okay?

Paul Spedding - HSBC - Analyst

Thanks very much.

Miguel Martinez - Repsol YPF SA - CFO

Through our IR people. Thank you.

Maria Victoria Zingoni - Repsol YPF SA - Director, IR

We have the next question from Berenberg, Neill Morton. Neill, good afternoon.

Neill Morton - Berenberg - Analyst

Good afternoon. Just one question left from me, again back onto Argentina. You are clearly about to embark on a fairly major drilling campaign, and yet Repsol's one of the few European companies not to have established a position in the US shale revolution in recent years. And that's clearly becoming a more scientific approach.

I just wondered whether you feel you've developed the necessary skills on your own, or do you feel that perhaps taking your position in the US could increase your level of expertise. Or, alternatively, perhaps bring in a US partner into the Vaca Muerta. Thank you.

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Miguel Martinez - *Repsol YPF SA - CFO*

Well, first comment is that we are not alone. In the Vaca Muerta area we have the Exxon, we have EOG, we have Apache and we have Total. First, we are not alone.

Second, we have been working for four years now in the Vaca Muerta area, and we have had a lot of contacts with different American institutes. So I think that we have skill enough to understand, and petrophysic capabilities enough to handle. Which doesn't mean that we keep learning well after well, and -- but I'm optimistic regarding that sense. We are not alone, we have partners, and then we have been for four years working and learning, so I'm confident. Okay?

Neill Morton - *Berenberg - Analyst*

Okay. Thank you.

Maria Victoria Zingoni - *Repsol YPF SA - Director, IR*

Thank you, Neill. We have our last question from BBVA, Luis de Toledo. Luis?

Luis de Toledo - *BBVA - Analyst*

Good afternoon. My question first to the Downstream activity and the potential outlook of the unit over the following -- on the fourth quarter and next month, in the current macro scenario for Spain. You have provided reference for refining margins, could you provide any detail on marketing and chemicals, and give some reference -- if you expect these to be floor levels of the adjusted operating incomes, providing the upgrade effect next year?

Miguel Martinez - *Repsol YPF SA - CFO*

Well, in relation with marketing, right now we keep falling at 6%, 6.5%, in the retail network, which I think is the most-clear indicator. And in relation with chemicals, we haven't had a shortage in the volumes we are selling, though the margins have shrunk from the lower EUR210 per tonne, to EUR160 per tonne.

So I would say that I will expect a breakeven, so almost zero operating profit for the chemicals, while in marketing I think that through margins we can offset the volumes fall. Okay, Luis?

Luis de Toledo - *BBVA - Analyst*

Okay. Thank you.

Maria Victoria Zingoni - *Repsol YPF SA - Director, IR*

That was our last question, so thank you to all of you for attending the third-quarter's conference call and, if you have more questions please don't hesitate to contact us, any of us at the IR team. Thank you. Good afternoon.

Operator

Thank you for attending this conference call. Goodbye.



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