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REP.MC - Q3 2012 Repsol SA Earnings Conference Call

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## OVERVIEW:

REP.MC reported 3Q12 CCS adjusted net income of EUR496m.



## CORPORATE PARTICIPANTS

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

**Miguel Martinez** *Repsol SA - CFO*

## CONFERENCE CALL PARTICIPANTS

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**Bruno Silva** *BPI - Analyst*

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

**Lydia Rainforth** *Barclays - Analyst*

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

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

**Peter Hutton** *RBC - Analyst*

**Fernando Lafuente** *N+1 Equities - Analyst*

**Daniel Ekstein** *UBS - Analyst*

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**Fernando Murillo** *La Caixa - Analyst*

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

**Luis de Toledo** *BBVA Global Markets Research - Analyst*

**Jason Kenney** *Santander GBM - Analyst*

**Nitin Sharma** *JPMorgan - Analyst*

## PRESENTATION

### Operator

Good morning, ladies and gentlemen. Thank you for standing by and welcome to Repsol's third quarter 2012 preliminary results. This conference call will be led by Mr. Miguel Martinez, CFO of the Company. A brief introduction will be conducted by Mrs. Maria Victoria Zingoni, Corporate Director of Investor Relations.

Mrs. Victoria, please go ahead. Thank you.

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

Thank you. Good day, ladies and gentlemen. This is Maria Victoria Zingoni, Director of Investor Relations at Repsol. On behalf of our Company, let me thank you for taking the time today to attend this conference call on Repsol's third quarter results.

The presentation, as mentioned, is going to be conducted by Mr. Miguel Martinez, CFO. Other members of the Executive Committee are joining us as well today.



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

Before I hand the conference over to Miguel, let me highlight that this is our first conference call in our new building. Even though we have made several noise trials, if you have any problem with hearing this conference call, please let us know immediately, either calling the IR Department or dropping an email.

I now hand the conference over to Miguel.

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**Miguel Martinez - Repsol SA - CFO**

Thanks, Maria, and thank you all for attending this conference to discuss our third quarter results. The order of our presentation today will be first, highlights on the operational activity; second, an update on the financial situations and the steps we are taking to strengthen the balance sheet; and third, the results of the quarter.

Let us start with the operational performance. Production in the Upstream division during the quarter was 339,000 barrels of oil equivalent per day; 20% higher than during the third quarter of 2011.

The end of the conflict in Libya and the startup of Phase 1 of the Margarita project are the main drivers behind the production increase. Libya is back at 44,000 barrels per day and Margarita has had almost 9,000 barrels of oil equivalent per day.

The market demand has allowed us to test the plant's operational capacity, delivering during some days a peak growth volume of 10 million cubic meters per day of natural gas.

We also started production in Russia and US mid-continent this quarter, adding around 4,400 barrels of oil equivalent per day from these two assets.

Production volume was reduced mainly in Ecuador with the sale of 20% of Block 16. For 2012 we expect to reach slightly above the committed 330,000 barrels of oil equivalent per day average production, even with lower than expected production from the [VPTTE] asset.

The Lubina project in Spain came on stream on October 15 and by the end of the year we'll have the Kinteroni project in Peru producing. Kinteroni is expected to start as planned in fourth quarter 2012, most likely in early December, to be in line with the scheduled turnaround of the Peru LNG plant.

The construction activity to expand the Malvinas processing plant and the Government approval to increase capacity of the Camisea gas pipeline will be supportive to our Kinteroni production and future developments in the area.

By the end of 2012 we will have five of the 10 strategic development projects in production; Margarita, which is already at plateau, while mid-continent Russia, Lubina, Montanazo and Kinteroni will continue to ramp up.

If we take into account that Sapinhoa, our first Brazilian producing field, will have first oil in the first quarter 2013, by first half next year we will have six out of the 10 strategic projects producing.

Regarding Sapinhoa, before Guara, in our strategic plan presented last May, a slower ramp up than originally expected was already included, and we do not expect major changes to these volume figures.

On top of the six mentioned projects that will be on stream at the first quarter next year, there are two more projects in [Minaphila] that will start production in 2014.



The remaining two other projects, Reganne and Carioca, to complete the 10 included in our plan, do not add material production during this strategic plan period. These five they included CapEx.

This allows us to ensure that delivery of the production growth established for the period 2012, 2016, will be accomplished. Moreover, our average 2013 production would be around 10% higher than the 2012 volumes.

With regards to another growth project included in our strategic plan, Cardon IV in Venezuela, on August 15 we officially declared commerciality. The development plan was approved on August 20 and it will have three phases, starting with 300 million standard cubic feet per day production by early 2014.

Let me now follow with the exploratory activity in the quarter. The Sagari well in block 57 in Peru was successful. The estimated resources are (inaudible). In October, we start drilling Mapi, the following prospect in the block.

We have had five discoveries in the year. On top of the above-mentioned Sagari, we had Pao de Acucar, in Campos 33 block in Brazil, TIHS1 in Algeria and Chipiron T2 and Cano Rondon Este in Colombia.

With these discoveries, we have surpassed the 300 million barrels of oil equivalent yearly contingent resources target established as our exploration objective in the strategic plan. We have achieved the objective in spite of falling short in finished wells, estimated at 20, mostly due to the operational setback in Alaska and delays in Libya, where several wells were initially forecasted.

In order to diminish the rigs availability risk, we have contracted two deepwater rigs; [promotion] rig and [roll on]. The first one will be exclusively devoted to the appraisal of the Campos 33 discoveries. The second one will be used mainly in exploratory campaigns in Gulf of Mexico, Angola, Namibia and the Canary Islands.

In addition to Mapi, we are currently drilling two wells; Sagitario in block Santos 50 in Brazil, and Teso 1 in Algeria. We have also finished with good result the appraisal well, Carioca North, in Santos 9.

During 2013, we expect to drill between 30 and 35 exploratory wells, depending on rig availability, and investigate about 6 billion barrels in gross terms. 70% of the investment will target oil, and drilling will take around 65% of the total budget.

The investment will be mainly concentrated in the US, Brazil, Norway, Canada, and Peru. We are fulfilling the acreage replacement goals with 23 new blocks already ratified in 2012, and nine in the process toward official award.

On the refining side of the business, we had a very good quarter, with an average utilization rate of 81% of total capacity. Moreover, during August and September the Cartogena coker and hydrocracker had been working at full capacity.

The high levels of utilizations are due to the better margins, the end of high-maintenance systems, and the previous quarter underperformance of the new units. The October utilization rate has been about 86%.

Let me now move into the financial situation. Starting with our liquidity position, at the end of the quarter we had over EUR3.9 billion of cash ex Gas Nat; EUR1.3 billion higher than at the end of the previous quarter. The level of committed undrawn credit bank lines was EUR4.5 billion, totaling EUR8.4 billion of liquidity.

In September, we issued a EUR750 million five years and five months bond, with a coupon of 4.375%, equivalent to mid swap plus 335 base points. This transaction shows that we are getting financing at reasonable rates. Several other Spanish companied issue bonds around the same week and Repsol got the best cost of finance (inaudible).



The net debt, excluding Gas Nat, at the end of the quarter was EUR4.9 billion; a EUR1.8 billion reduction compared to the level at the end of 2011. I would like to highlight that the cumulative EBITDA, excluding Gas Nat, generated during 2012 has almost covered our investments, taxes, net dividend payments and interest and leasing expenses.

Regarding the actions we are carrying out to reduce debt and improve the financial ratios and cash position of the Company, first we will continue with the scrip dividend program, with the interim dividend of 2012. We had an acceptance rate of almost 64% in the flexible dividend program for the 2011 complementary dividend paid in July this year.

Second, we have closed the sale of the LPG division in Chile, and the sale of our 20% working interest in block 16 in Ecuador during the quarter. Both transactions amounted to EUR551 million; more than 20% of the asset disposal program included in the five-year strategic plan, and generated a net debt reduction of EUR361 million.

Third, we continue with the process to dispose of our LNG division. Due to the confidentiality agreement we have signed with the participant companies, we will make no further comments or answer any questions about the process until a decision on the sale is made by the year end. Let me share with you that the process is evolving according to our expectations.

With regards to the preferred shares conversion, our first option is to avoid shareholders' dilution, as mentioned in prior opportunities. If our LNG disposal process is successful, we could still expect a conversion, but into a non-dilutive instrument, with the aim of giving liquidity to current tenants of the preferred shares.

In conclusion, we are working on the preferred shares conversion instruments, which will depend on LNG sale success.

Moving into the quarterly results, third quarter CCS adjusted net income was EUR496 million, and CCS adjusted operating income was EUR1.2 million (sic - see page 13 "EUR1.2 billion"). These results were 89% and 64% higher respectively than during the same period last year. The better results have been driven by an improved performance in all of our divisions.

In the Upstream division, the adjusted operating income was EUR634 million, almost doubling the result we obtained during the same period last year.

As mentioned in the operational chapter, in addition to the Libya production performance getting back to normal, and the continuous improvement in the Margarita project ramp-up volumes, we started production from the Russian and the Mississippi Lime operations.

Despite lower Brent prices in the period compared to 2011, there are higher realization prices in the quarter, due to the impact of the [Libyan] (inaudible) in the sales mix and the increase in [the worst] taxes.

Operating income was partially offset by exploration expenses, which were EUR114 million higher than during the same period of 2011. Higher depreciation charges, due to the production increase, also negatively affected the results.

In the LNG division, the adjusted operating income was EUR189 million; 75% better than during the same period last year. The increase was due to higher commercialization margins.

In the Downstream business the adjusted operating income was EUR307 million; 47% higher than the third quarter of 2011.

The good performance comes mainly from the Refining business, where the gasoline and mineral [distillate] differentials, as well as the lowish quality of the new crude slate and product yields, due to the Cartagena and Bilbao new units, have delivered an average margin of \$6.4 per barrel during the quarter.



The premium on the margin from the new units developed favorably during this quarter, with a \$1.6 per barrel average; going from \$1.2 per barrel in July up to \$2.2 per barrel in October. This increase in the margin premium of our refining system highlights that, when the market is running smoothly, we are able to capture a higher premium.

The good performance of the Refining business has been partially offset by the weaker petrochemical environment. The increase in naphtha prices, affected by an unfavorable exchange rate, along with the decrease in demand and margins in some of the products, were the main reasons behind the weak performance.

The LPG results, and higher volumes in the wholesale marketing of petroleum products, partially offset the decreasing margins and the 12% decrease in volumes in the retail marketing division, delivering an overall stable result.

In relation to Gas Natural, the adjusted operating income of EUR231 million was 16% higher than during the same period last year. The increase is due to improved results in the Latin American operations, and better margins from the natural gas sales.

Financial expenses ex Gas Nat during the quarter were EUR156 million, EUR72 million lower than during the same period last year.

The increase in interest expenses, due to the step up in the interest of the preference shares, and increase on the gross debt due to the bonds issued in December 2011 and January 2012, was partially offset by the results of the hedging positions.

As a recap, this quarter results are a proof of the operational solidity that is gaining momentum in the Company.

The Upstream division, this is starting to show in its result the contribution of the new projects. The Refining division has enjoyed a good market environment, which, combined with the premium of the new units, has delivered a good improvement, while the Petrochemical division is suffering some headwinds.

We expect the Upstream division to continue increasing results as new projects start, and the Downstream division to generate cash flow and deliver fair results.

Let me finish turning now to YPF. As explained in our previous quarterly presentation, we have initiated different legal actions as a consequence of the expropriation of YPF.

We have always been open to a negotiated solution to the issues facing the Argentine energy sector. We have been forced to take all appropriate legal actions in defense of our shareholders' rights as an expropriated party, even against those who may attempt to take unfair advantage of an unlawful confiscation.

As a current shareholder of YPF, we are also requiring full transparency, professionalism and rigor on the management of a private company listed in the New York Stock Exchange and in the Buenos Aires market.

Thank you, and now I will be pleased to answer any questions you may wish to put forward.

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## QUESTIONS AND ANSWERS

### Operator

Good morning, ladies and gentlemen. The Q&A session starts now. (Operator Instructions).

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

We will start with the Q&A session. Haythem Rashed, Morgan Stanley.

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

Three quick questions, if I may. Firstly on the CapEx run rate for the year, it appears relatively light. I know you've talked about in the past 4Q being a relatively heavy quarter on the CapEx side. I wondered if you -- if there's no change still to your full-year outlook for CapEx for the Group, and also what would be the main driver into 4Q for the higher CapEx level.

Second question I had was just relating to the Downstream, and you highlight that utilization rates into October still remaining relatively high, and also the margin looking still reasonably healthy there. But how comfortable are you for the rest of the year?

And, as we move into 2013, you've talked before, Miguel, about Downstream conditions still remaining -- I'm specifically referring to the Refining side for that.

And then finally just any update on the timing of the drilling on BMC-33 with the [Milos Ocean], in terms of when you plan to do that next year? Thank you.

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**Miguel Martinez** - *Repsol SA - CFO*

In relation with the CapEx one, we expect to end up the year between EUR3.2 billion and EUR3.3 billion. Our initial estimate, if you remember, was EUR3.5 billion, and the downfall has been basically in the Downstream division.

The tails from the Cartagena and Bilbao operations were smaller than we thought, so we have some CapEx saves there. And also in the estimate in the budget for the year we have EUR60 million for projects in the new energies, which has not been covered.

So basically I would say CapEx will be properly in line with the estimates in the Upstream division; and the shortfall would be between EUR200 million and EUR250 million in the Downstream division.

My estimate for the year in Refining margins. To predict is always difficult, especially the future, but we have seen a lot of the strength during October, and somehow a smaller margin in the last week. My estimates would -- which would be between approximately \$5 or \$6 per barrel.

And finally, in relation with Campos 33, our estimate is that we will start appraising at the end of next year. As mentioned in the speech, one of the rigs will be devoted to Campos 33. Did I answer you?

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

Yes, that's great. Thank you.

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

Jason Kenney, Santander. Jason, are you there? We move for the next one. Theepan Jothilingam, Nomura.

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

Just two quick questions, really. Could you just talk a little bit about the progress you're making post the SandRidge acquisition with Mississippi Lime, and just an outlook on production there?

And then, secondly, just coming back to the treasury shares. Just wanted to get an idea of whether you are still considering any other options, outside perhaps just using them for the scrip dividend? Thank you.

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**Miguel Martinez** - *Repsol SA - CFO*

Starting with the second one, for sure it's only my opinion, so at the end the final decision will be on the Board. But, in my perception, the treasury shares will go into the scrip dividend. So basically we will increase capital, and reduce, at the same time, the treasury stock. This is our initial idea, and the one we will present to the Board meeting.

We do not discard, though, that, depending on the LNG final results also, part of the treasury stock will go into the conversion of the preference shares.

But one thing is clear. Those shares will not go to the market. Either one way or the other, we will allocate those in any of the formulas; the scrip or the conversion.

And the first question refers to the Mississippi Lime and -- well, we cannot advance much at this moment. We are simply producing approximately 1,500 barrels, so we are just starting. Right now we have 22 rigs that will be ramping up until 2018, I think, in which we'll be working with more than 90 rigs.

Other comments is that basically we expect a very important ramp up of this asset, and will impact really the production, but not this year, not next year.

Basically, we keep attached to the plan, but it's way too early, because it's only five months since we presented the strategic plan. So I don't know what else can I comment you; simply that probably next year would be around 6,000 barrels of oil per day, and that will keep working.

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

Could I ask, Miguel, what type of capital investment do you think we should think about for next year for that project, and then going forward?

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**Miguel Martinez** - *Repsol SA - CFO*

\$700 million for 2013.

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

Thanks very much.

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

Bruno Silva, BPI.

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

Going back to Downstream, can you please reiterate, or make an update on the expected EBIT adjusted for the unit for this year? And if you have any view for next year I would appreciate it, particularly after these impressive results from the retail area, considering the context.

And, secondly, on LNG also would appreciate a guidance on operating income for this year and next. once again. And, looking at consensus, it looks like it was one of the major areas of positive deviations of your performance in this quarter. And that's it. Thank you very much.

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**Miguel Martinez** - *Repsol SA - CFO*

In relation with the first question, I think that the guidance I gave, I don't know if it was in March or in July, was between EUR1 billion and EUR1.1 billion.

I think that we're going -- I mean, it's going to depend for sure in this quarter, but probably we will fall a little short; between EUR900 million and EUR950 million as EBIT for the Downstream division.

I'm sorry about the second one, because we do not split in the LNG. Sorry about that.

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

Okay. Thank you.

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

Filipe Rosa, Banco Espirito Santo.

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

Two questions. The first one on your guidance for production for 2013. Could you just give us a little bit more color on how much barrels are you considering from Brazil, Russia and Mississippi? I know that you already addressed Mississippi, but I would like to have a better idea what could be the contribution in 2013 in terms of production.

And the second question is regarding the resources that you are de-risking next year. You're guiding for 6 billion growth in terms of exploration resources. Could you give us some color on the net amount that you are going to de-risk next year? Thank you very much.

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**Miguel Martinez** - *Repsol SA - CFO*

In relation with the first question, we normally do not split between regions or between countries. Basically the growth will come from the new projects. I think that we will have the ramp up of Kinteroni. Sapinhua would be there. We will have also helping not with much volume but with a lot of margin, [Lubina] Montanazo, and also we'll have for the full year Margarita.

So there you have basically the growth areas. But we do not split field by field or country by country, okay.

And the second question --

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

Was with regards to the exploration risk.

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**Miguel Martinez** - *Repsol SA - CFO*

We keep attached to what we mentioned in our strategic presentation. We are aiming, as this year, between 300 million and 350 million barrels of contingent resources. So we keep attached to what we said in May.

Basically, we are keeping the budget, and probably the only difference with the past, if you look at it, is that most of the CapEx would be in the US, Brazil, Canada and Norway; so moving into more OECD countries. But we keep with the same approach we presented with the strategic presentation.

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

Filipe, one month ago we put a presentation on our web page with regards the growth contingent resources -- prospective resources that were going to be investigated. And we'll be holding again in January next year our Exploration Day and we will give more information with regards the exploratory plans for the year.

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

Okay, thank you.

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

Lydia Rainforth, Barclays.

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

Two questions, if I could. The first one, just on the preference shares, Miguel. When you're looking at non-dilutive instruments, can you just talk to us a little bit more about what those options are, and over what time period you'd expect to get any conversion done?

And then, secondly, I appreciate what you said about not giving individual country guidance, but for Trinidad can I just ask, have you included the similar level of production for this year, or have you got some of that recovering in 2013 numbers? Thank you.

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**Miguel Martinez** - *Repsol SA - CFO*

In relation with the preference shares, a solution which is -- at least the one I like most, is to simply put a bond for 10 years. In that sense, we will not convert any part of these preference shares into new capital and be non-dilutive. And it's the option I would prefer.

And our estimate for 2013 in Trinidad and Tobago, you know it's an asset we do not operate, but our estimate is flat in comparison with 2012.

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

Perfect. Thank you very much.

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

Irene Himona, Societe Generale.

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

Just a couple of questions, please. So first of all, six months on from the confiscation of YPF can you perhaps update us on your discussions with the credit agencies, and their current thinking regarding your financial position?

And then secondly, you had formed a strategic cooperation agreement, I believe, with Pemex, and I was just wondering if there's anything to report on that. Has anything come out of that agreement which you can talk about? Thank you.

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**Miguel Martinez** - *Repsol SA - CFO*

In relation with the first one, once YPF was confiscated we met with the rating agencies, and we present them all the measures we were going to take. And I think that we have been delivering one after the other, and with better results than our initial estimates.

We expect that once we sign the offer of the LNG to sit with them, and this probably will happen in January next year, okay.

And in relation with Pemex, I would say that basically it's simply to recover the relation we had before August 2011.

If you remember, in August 2011 there was, I would say, some confusion, and we are simply turning back to the initial point, and share with them those areas in which we have a win-win situation for both. Call it using our refining system, taking their Maya crude into our system. I would say back to basics. Okay?

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

Thank you very much.

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

Oswald Clint, Sanford Bernstein.

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

First question was just if I could get a bit more detail on the Refining margin uplift sequentially. I wonder if you can say what was the uplift there just from the general margin environment, and then what was the uplift from the refinery upgrade, if it is possible to split that out, please.

And the second question was on Russia and your alliance -- or your JV with Alliance Oil. There's been a lot of favorable tax incentives over the summer in Russia for tight oil exploration. Is that something you're discussing with Alliance, or something you'd like to investigate within Russia? Thank you.

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**Miguel Martinez** - *Repsol SA - CFO*

I think that, more or less, I gave you the split during the speech.

In July the margin of the new facilities were not that good, 1.2%, and we ended up with an average of 1.6%, finishing September with 1.9%. We reached the peak by mid-October at 2.44%; only one day. On average, October was 2.2%. So, basically, I would say that we are starting to see the returns we were expecting from the units.

I think that there has been several factors, despite the general situation. It is not easy to adapt new facilities, especially when they are as important, and they modify the structure of the refinery so drastically, I would say.

And, second, we have the issue with the Iranian crew. We have to change our diet, and this has also affected the performance of the sites.

It looks as if the fine tuning is already there, and, basically, those are the figures. So you can account. At least in October, 2.2% for the -- it's again obtained from the new units.

And your second question was in relation with Alliance. I think that with Alliance there are many projects in front of us, and we are analyzing them all. And, right now, there's nothing special to comment, other than they provide us the first asset. The second one is coming this quarter, Tatnefteotdacha. And we will keep working.

But I'm not aware of anything related to the tax you mentioned, other than we are working with them in a daily basis.

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

Let me highlight, Oswald, that the premium that Miguel mentioned applies over the total capacity of our Spanish refining system, and not only of the new capacity. Okay? It's over the whole refining capacity.

Peter Hutton, Royal Bank of Canada.

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**Peter Hutton** - RBC - Analyst

Two questions. A follow up on the option you were talking about on the conversion of the prefs. Can you just explain to me, and maybe I'm being a bit thick here, on the issuance of the bond, and how that gets the prefs treated in a different way in terms of the treatment by the credit agencies, which was one of the areas that you were looking at?

So just understanding the mechanics of that a little bit.

The second one is, again back to the Downstream, and retail volumes held up better than expected, but not so much in Spain. They were a record in Europe. There seems to be a large jump outside Spain, and I'm trying to understand that and how sustainable that is looking forward.

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**Miguel Martinez** - Repsol SA - CFO

In relation with the first question, the word is liquidity. Any bond of Repsol will be liquid day two, while the prefs really doesn't have a market.

And the social problem we have in Spain with preference shares is that most of them are linked to the savings banks. So we have to somehow make, or take, a decision to provide liquidity to these preference shares. And we think that the bond is one way to do it.

In relation with volumes, in Spain the figures of the quarter were pretty bad. Volumes fell 12% in the quarter in comparison with the same quarter 2011. And, on average, throughout the year, we are falling 9% on accumulated basis.

So I do not know how volumes evolve in other European countries, other than Spain, Portugal and Italy. But it has been a strong impact.

I think also that the VAT was modified with an increase of 3% by September 1. We said that the impact there would be between 2% and 3%. So basically I would say that, on average, probably a 1% or 2% jump between months, but it's bad news; 12% fall within a quarter. Okay.

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**Peter Hutton** - RBC - Analyst

Okay. Thanks, Miguel.

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

Fernando Lafuente, N+1.

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**Fernando Lafuente** - N+1 Equities - Analyst

Just one -- sorry to come back again on the preference shares, one further question. Regarding the possibility of including the treasury shares in the conversion, how could this be a [structural] action point, assuming that, at the end, the LNG business is finally sold?

And a second question regarding the guidance you gave in Q1 for the Upstream business of an EBIT in the region of EUR2.2 billion to EUR2.4 billion. I was wondering if this is still maintained, or what should we expect from this business? Thank you so much.

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**Miguel Martinez** - Repsol SA - CFO

Well, in the first one, it's simple. With the valuation of the shares we can give one share of the treasury stock to each tenant of the prefs, plus a bond. And this will be their conversion.

Second, in relation with the EBIT for the Upstream division, we keep attached to what we say. We will end up around EUR2.3 billion for the year end. But always to make guesses is difficult, but this is our best estimate today.

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**Fernando Lafuente** - N+1 Equities - Analyst

Okay, thank you. Just one follow up on the first question, Miguel, if I may. Could it be possible to include in this conversion kind of an exchangeable bond for these treasury shares, including initial premium or something like that?

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**Miguel Martinez** - Repsol SA - CFO

For sure, Fernando, and we have analyzed many other options. But, as mentioned before, my first idea is, if possible, 100% nominal conversion into a bond which, I would think is the clear solution. I think that those tenants are basically fixed-income investors. So if the LNG goes in the way we expect it, I think that the conversion will be through a 10-year bond, or something like that.

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**Fernando Lafuente** - N+1 Equities - Analyst

Okay, great. Thank you so much.

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

Daniel Ekstein, UBS.



**Daniel Ekstein** - UBS - Analyst

First questions are on the Downstream. It's good to see some improved financial performance coming through this quarter.

Perhaps, going back to the guidance you gave at the end of July, that was referenced in an earlier question, I think it was EUR1 billion to EUR1.1 billion, we're now talking about a lower number than that. It perhaps implies that your Q3 results didn't quite match your own expectations. Is that fair?

And, if so, could you explain a little bit more about the moving parts within the business, and where the underperformance came versus that which you were expecting in July.

Following on from that, Refining was stronger, but you've talked about the operating performance perhaps not being at optimal levels at the moment. Could you also talk about whether the -- the impact with the local market environment is having? I'm talking about low demand and a number of upgraded refineries in the Iberian region. What impact is that having on your pricing power?

Then, on a completely different note, assuming the LNG deal were to complete, how would you view the scrip dividend option in 2013? If it were to continue, would there be anti-dilutive measures taken?

And then, finally, you gave us some production guidance for this year and next, which was very helpful. Could you talk about an exit rate for 2013, rather than just the average growth for the year? Thank you.

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**Miguel Martinez** - Repsol SA - CFO

I think that the difference between the EUR1.1 billion and EUR950 million we're applying today, has two reasons.

First one refers to the chemical business, which is behaving, both in volumes and margins, lower than expected. The second one refers to volumes in the retail division. For sure, we were not expecting a 12% fall in the volumes of the [net]. And those are the main reasons for the fall initial estimate of the Downstream EBIT.

In relation with the scrip, the idea is, yes, to keep it. And this is my idea. I don't understand why some people consider this a dilutive process. What we are giving the investor is an option, for free, in which if they want the cash, they have it.

For sure, it will imply some dilution. But for those who take the cash, for those who take the shares, the transaction will be accretive. And 64% of our shareholders took the -- in the shares. So I think it's a good option for the shareholder. And it's for free. So we will keep attached to it.

And, in relation with the (inaudible) production next year, 10% is what we are going to grow. But I'm not going to detail monthly which would be the production. Sorry about that.

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**Daniel Ekstein** - UBS - Analyst

Okay, thank you.

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

Thomas Adloff, Credit Suisse.

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

I have three, as well. First one on Upstream, obviously nice growth; 10% year on year. But specifically what I'm interested in is how do you see the Group Upstream margin evolve year on year in 2013 on flat oil prices? I'm assuming the overall Upstream cash margins should improve from these new projects.

Secondly, on Venezuela, when thinking of your current production and the future production now in the case of Carabobo and [Tela], is it fair to assume that most of the sales in Venezuela is linked to the US dollar and not to the peso? And, therefore, any price evolution is linked to the US inflation index rather than anything that is happening in Venezuela.

And the final question, I guess, on your ideal scenario on the pref share conversion of taking a 10-year bond. I was wondering whether you've worked out what sort of savings you can achieve from this vis-a-vis interest rates, I guess. The bond will be lower than the preference share coupon, unless I'm mistaken. Thank you.

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**Miguel Martinez** - *Repsol SA - CFO*

Starting with the last one, I forgot the first one, I would say that you can consider savings of approximately 20%. It's more or less what a fair deal would represent.

I think that over here we are somehow playing with the interest of our shareholders versus the interest of the tenants of the prefs. So our estimate today, but for sure depending on the evolution of our CDS, is approximately 80%. So the saving, if you consider that, would be EUR600 million; 20% applied to the EUR3 billion we have as preferentials.

In relation with Venezuela, we mostly take the money -- we get paid in dollars. Cardon, for example, will be [\$369] and I think that (inaudible) is one area in which we have parking dollars and those expenses that are related to the local currency are paid in local currency. But basically I would say US dollars.

And first question?

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

What's the EBIT per barrel, or the margin per barrel, that we are making in the Upstream business?

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**Miguel Martinez** - *Repsol SA - CFO*

We don't disclose that but one thing is clear, the mix is going in the right direction. If you compare this year with last one, the mix between liquids and gas becomes higher and we expect to keep that trend.

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

Okay, perfect. Just one question I had, this is a follow up, just now longer term beyond your medium-term target of 2016 now. (inaudible) stated last week that you're going to tender for second FPSO on Carioca and that the tender process probably going to start sometime next year. So I'm assuming this is something for the period just before 2020, the second Carioca FPSO. Thank you.

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

You ask, Thomas, just to be clear, you ask about the second FPSO in Carioca, if it is going to be before 2020?



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

Yes, or just before 2020. I mean it's going to be post 2016, though.

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**Miguel Martinez** - *Repsol SA - CFO*

Carioca will be -- at the present time we are thinking just in one FPSO and this will have to come on stream by the end of 2016. And the second one is contingent, so we will see. Right now it would be only one FPSO in Carioca.

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

Okay, perfect. Thank you very much.

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

Anish Kapadia, Tudor.

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

Just a couple of questions, just a multi-faceted question on the Mississippi Lime. I just wanted to go into a bit more detail.

We've seen a number of companies complaining that infrastructure, in so much as oil takeaway capacity, being a big issue. Just wondering how you're coping with that at the moment. Also whether the mix of oil to NGLs to gas is as expected. And also what WTI price would cause you to cut activity back in the area?

The reason I ask is we've seen companies, such as Chesapeake, more than halve their rig count over the last quarter in the Mississippi Lime, so just wanted to get an idea of how you're seeing things over there.

And then the second question was on Trinidad. We've seen production weak this year. I was wondering if you could give a production estimate for next year and then how you see Trinidad production evolving over the next five years or so. Thank you.

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**Miguel Martinez** - *Repsol SA - CFO*

Infrastructures in the Mississippi Lime, at least in our area, in the one we have been drilling right now, it's already what's already there; so we're simply paying the fee of someone else's infrastructure. And we are pretty close to those infrastructures, so even if it would be a real small CapEx there.

Second, yes, it's way too early. We're producing, yes, 1,500 barrels per day but, right now, the mix is the one we expected; approximately 50% gas, 50% oil.

And in relation with the Trinidad production, our estimate, as I mentioned, is flat. So it would be -- our estimate has been to produce the same this year. Though probably it's a very conservative approach, but it's an [unoperated] asset.

And knowing that BPTT has been extremely conscious in all the maintenance and modifying the structure of the platforms, we want to be conservative. So, despite considering a flat production in Trinidad and Tobago, we aim for a 10% increase in the global production of the Company for 2013.



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

Anish, could you repeat the last question, the third question, with regards the pricing, the WTI (inaudible)? We didn't hear it quite well. Can you repeat it?

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

In terms of the Mississippi Lime joint venture, I just wanted to know at what WTI price do you look to either stop adding rigs or actually cut back on the number of rigs that you're allocating to the Mississippi Lime. You've got WTI at around \$85 at the moment, wondering what level it has to fall to for you to consider cutting investment.

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**Miguel Martinez** - *Repsol SA - CFO*

I don't have the figure in my mind, but one thing I can tell you, at this price, the price goes ahead. So we will keep drilling this 3 million per well and we'll keep performing. But through Mar-Vi, we will provide you the exact figure at which we will stop production. Okay, Anish?

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

Okay. And sorry, just on Trinidad, in terms of your longer term production forecasts, just wanted to know are you expecting production to stay at that flat level over the next five years or so? Or do you expect production decline in Trinidad?

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**Miguel Martinez** - *Repsol SA - CFO*

Let me provide you some data first to put it in perspective what Trinidad and Tobago represent for us, because it's true that the production level sounds big. It represents roughly almost 40% of the total production of the Upstream. But if we move down to the EBIT level, it only represents 15% of the EBIT level. So those are a type of barrels with not much value.

So having this in context, I would say that we expect an increase in the existing production once all the maintenance has finished. But, as mentioned, for the good or for the bad, those barrels are not the most profitable we have in our portfolio. Okay?

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

Great, thank you.

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

Fernando Murillo, La Caixa.

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**Fernando Murillo** - *La Caixa - Analyst*

My questions have been made already, thank you very much.

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

Hootan Yazhari, Merrill Lynch.



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

I had two areas I wanted to focus on. First of all on the chemical side, which has obviously been very difficult for you, what steps are you taking to address the poor profitability in this business?

And are you looking at, in the medium term, potentially closing this down, given from a cost perspective you won't be competitive with all the new capacity coming on in the US, which obviously enjoys low natural gas prices. Just wanted to get your thinking around there.

And then the second point was a point of clarification. I thought I heard you mention that you're looking to drill 30 to 35 wells in 2013. If that was the case, that represents a slightly lower number than you mentioned earlier, which was 36 to 40 wells. That was in a recent presentation you put in the market. I just wanted to see which wells or which areas were being affected, if that is the case? Thank you.

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**Miguel Martinez** - *Repsol SA - CFO*

The question about chemicals, if you remember two years ago, I think it was, or last year, we did a lot of reduction within the business and right now we are analyzing which the future of this segment of the Company looks like. But, basically, I could agree with you that naphtha versus gas prices today, especially those in the US and in the Middle East, it's a tough area.

So we don't have still any drastic decisions taken. But we are analyzing the whole business, being concerned that, in one hand, the demand is quite weak in Europe, and, in the other, that to compete with people that can produce the same as you with a [prime ball] that is six times lower is a tough task.

And regarding exploration, I suspect that you got the data from [Marcos] about a couple of months ago, or a month ago.

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

Yes.

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**Miguel Martinez** - *Repsol SA - CFO*

And quite nice contingent; we are talking 30, 35. Imagine that Libya, for example, this year we were expecting some wells, but, at the end, we were not able to do it.

What I can tell you is that the important ones, those that are really, I would say, expensive, those are exactly the same as the ones Marcos was considering a couple of months ago.

So the variance would be in small wells, most of them in Libya, I would assume. But I don't know exactly the split with whom Marcos mentioned that.

But to clarify the whole thing, Mar-Vi is signing me that there will be an Exploration Day in which we will update with our estimates for next year. Okay, Hootan?

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

Understood. Thank you very much.

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

Luis de Toledo, BBVA.

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**Luis de Toledo** - BBVA Global Markets Research - Analyst

I have one question regarding the dividend. There's been now speculation in Spain regarding the potential EUR1 dividend for next year. I guess you stick to your guidance and maybe it's too early to discuss this.

But I assume you are taking consolation there, the reported net profit for the year, taking consolation regarding the range you provided; 40% to 55%. I don't know if you could add some on that?

And I'm sorry to go back to the LNG, I'm not referring to the future. Just on the strong performance in the quarter, we're aware of stronger volumes in places. Is there anything we should take into account, any measures you have taken in the quarter? Thanks.

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**Miguel Martinez** - Repsol SA - CFO

In relation with the dividend, you know that this is a proposal that the Board will put on the table. And normally the Board take that decision by the end of November, the last Board of November. So, I'd say it's 20 days to know better, okay?

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**Luis de Toledo** - BBVA Global Markets Research - Analyst

I can wait.

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**Miguel Martinez** - Repsol SA - CFO

That's after these comments or our prior comments and those that were made. But, basically, it's only -- you have to wait 20 days for the answer of that.

And in relation with the LNG, I would say that there has been very good results in the quarter. And those have been, basically, in three factors.

First, volumes were higher. Second, there was less cargo sent to the US, where the margins are not that good, so we got better margins. And, on top of that, there were some spot cargoes that really make very good profit, so we got better margins and more volumes.

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**Luis de Toledo** - BBVA Global Markets Research - Analyst

Okay, thank you.

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**Miguel Martinez** - Repsol SA - CFO

This is the answer.

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

Jason Kenney, Santander.



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**Jason Kenney** - *Santander GBM - Analyst*

So a good results today and well done on those. I did have a number of questions, but I'm left with two.

I just wondered, have you been approached by significant sovereign wealth funds or potential industrial players to take a stake in Repsol directly? Certainly that's been mooted in the press.

And then secondly, a bit more operationally focused. On your current drilling, can you tell me if Mapi, in Peru, is of a similar pre-drill prospect size to Sagari? And also, if you have any update on the return to the Jaguar well in Guyana.

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**Miguel Martinez** - *Repsol SA - CFO*

In relation with the sovereign funds, at least they didn't approach me, okay?

On top of that, I would say that today it's quite difficult for any of the shareholders to reach any agreement, due to the acquisition price. So I think that it must be difficult to be a press man and to fill every day a newspaper. So I don't see any approach or any possibility on that.

And the other option would have been our treasury stock, but, as mentioned before, we are going to use that treasury stock. And I would say my first priority or possibility would be to apply this stock into the scrip dividend.

And in relation with Mapi, I would say that it's a little more riskier than Sagari, basically because the height of Mapi is lower than the one in Sagari. But we will see. We are getting close to it. And probably there will be some news, let's say, before the year end. Okay?

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**Jason Kenney** - *Santander GBM - Analyst*

And on Jaguar?

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**Miguel Martinez** - *Repsol SA - CFO*

On Jaguar, sorry I forgot that one. Geologists were really optimistic about the first prospects, so we applied for a new license to the Guyana Government, and things are moving in the right direction. So we expect to go ahead in a couple of years.

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**Jason Kenney** - *Santander GBM - Analyst*

Okay, we'll have to wait for that one, thanks. (laughter).

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

Nitin Sharma, JPMorgan.

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**Nitin Sharma** - *JPMorgan - Analyst*

Two questions, if I may; the first one back on dividend. Miguel, I'm also willing to wait 20 days, but maybe if you could please explain what will be the key factors that you'll consider in deciding a particular payout within that 40% to 55% payout range? My obvious focus is interims.

And second one on tax rate, you guided on a tax rate of 44% for this year. Is that for the CCS-adjusted earnings? And what tax rate should we factor in for 2013 for CCS-adjusted earnings, please? Thanks.

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**Miguel Martinez** - *Repsol SA - CFO*

Nitin, in relation with the dividend, I've mentioned, let's wait for the Board meeting. I'm not going to (inaudible) a decision that is going to be made by the Board within three weeks.

And in relation with the second one, I know that there has been some people have got confused with our indication about the tax rates.

Our indication refers to the Spanish accounting system, which is MEFO. So there is a difference between the results you analyze, which are the recurrent CCS (inaudible) used for MEFO results, which include the inventory gains plus all the non-recurrent issues. And, during this quarter, we have had EUR120 million of inventory gains plus the sale of Amodaimi and the sale of the Chilean LPG.

So when you take this into account, the guidance I gave is based on the MEFO results with non-recurring items included, which is the one I paid at the end to the Spanish IRS. Sorry about that, but I cannot provide both, okay?

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**Nitin Sharma** - *JPMorgan - Analyst*

Okay, thanks.

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

Fernando Lafuente, N+1.

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**Fernando Lafuente** - *N+1 Equities - Analyst*

Just, Miguel, a confirmation of the CapEx plan for the future. This year it was -- or you said, if I am not wrong, that it was going to be lower in the case of the Downstream. Are the targets for the future both for Upstream and Downstream still valid?

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**Miguel Martinez** - *Repsol SA - CFO*

It will be around EUR3.5 billion. So similar to the initial estimate for 2012. And from those, the most of it, as you know, would be in the Upstream division. And within the Upstream division, I think it's for the third time, or for the second time, development will take the most, while keeping, at the same time, the level of investment in the exploration, okay?

All of these figures are ex Gas Nat.

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**Fernando Lafuente** - *N+1 Equities - Analyst*

Okay, so it's EUR3.5 billion per annum in the future, right?

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**Miguel Martinez** - *Repsol SA - CFO*

Yes, EUR3.5 billion ex Gas Nat, the same as we gave you last year for 2012.



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**Fernando Lafuente** - *N+1 Equities - Analyst*

Thank you so much again.

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

I think we are done right now with the questions. If there is anything further, you can get (inaudible) discuss further, don't hesitate and give us a call and we'll be glad to take them.

Thank you very much for attending the conference call with us and Mr. Martinez.

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**Miguel Martinez** - *Repsol SA - CFO*

Thank you so much.

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