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PRESENTATION

Operator

Hello, and welcome to the Repsol Quarter 3 2017 Results Conference Call. Today's conference is being recorded. The conference will be conducted by Mr. Miguel Martínez, CFO. A brief introduction will be given by Mr. Paul Ferneyhough, Finance and Investor Relations Corporate Director.

I would now like to hand the conference over to Mr. Ferneyhough. Sir, you may begin.

Paul Ferneyhough ***Repsol, S.A. - Head of Finance and IR***

Thank you, operator. Good afternoon. This is Paul Ferneyhough, Head of Investor Relations at Repsol. On behalf of the company, I'd like to thank you for taking time to attend this conference call, setting out the company's third quarter results. This conference call and associated webcast will be delivered by Miguel Martínez, Repsol's Chief Financial Officer, with members of the executive team joining us here in Madrid.

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

I will now hand the conference call over to Mr. Miguel Martínez.

Miguel Martínez San Martín ***Repsol, S.A. - CFO***

Thank you, Paul, and thank you to those on line for attending this conference call on our third quarter results. In today's call, I'd like to cover 3 principal topics: firstly, I'll summarize a summary of key messages and the main operational highlights for the quarter; secondly, the financial results; and finally, an update on guidance for the end of the year.

Starting with our key messages. Operational metrics at our refineries and improved commodity prices during the third quarter have allowed Repsol to deliver around EUR 700 million of free cash flow, before dividends and interest expenses, and EUR 500 million reduction in our net debt position. We continued to focus on investing for value and resiliency, with a portfolio of assets that, in combination, more than break even at current commodity price. This is evidenced by the free cash flow generated in the third quarter on the background of an average Brent price of $52 per barrel.

We are finishing our journey to stabilize our credit rating at BBB, and our September closing net debt figure of around EUR 7 billion is a clear step towards achieving this objective.

Let me now go into detail in the main operational highlights for the quarter. At the macro level, we saw an improving trend in oil prices that continue to build on the recovery experienced by the sector during the year. However, this was partially offset by weaker U.S. dollar. The disruptions caused by Hurricane Harvey in Gulf of Mexico had a significant impact on production and refining capacity in the region, resulted in inflated global refinery margins for part of the quarter.

In the Upstream division, production averaged 693,000 barrels of oil equivalent per day, a 2% increase quarter-on-quarter. Up to September, accumulated production has averaged 688,000 BOEs per day. Quarterly volumes were positively impacted by the ramp-up of new projects, higher production in Libya and the normalization of gas sales in Indonesia. Production in Libya averaged around 25,000 net barrels per day despite being interrupted for 17 days in the quarter. Accumulated volumes in Libya through September have averaged around 23,000 barrels per day net to Repsol.

Flyndre and MonArb in the U.K. North Sea reached an average production of 7,000 net barrels a day in the quarter. In Trinidad and Tobago, Juniper achieved first gas in August as expected, providing an additional 5,000 BOEs of net average production during the third quarter.

Kinabalu in Malaysia delivered first production late in October. Development work continued at Sagari in Peru, and we expect to achieve first production later in this quarter.

We now expect Reggane in Algeria to start production around year-end. In total, the sum of MonArb, Juniper, Kinabalu, Sagari and Reggane will more than offset anticipated natural decline over the next 12 months.

Development work has continued at Red Emperor in Vietnam and Buckskin in Gulf of Mexico, following the FIDs taking earlier this year. Both products have a breakeven below $50 a barrel and are expected to start production in 2019.

Finally, in exploration, a total of 3 wells were completed in the quarter. One well was declared positive, while the remaining 2 wells were deemed negative. Additionally, one well concluded in October, was declared negative, impacting the results of the third quarter.

During the fourth quarter, our back-end loaded exploration program will result in activity in around 13 wells.

Now continuing with the Downstream. Good performance across all business lines, delivered another quarter of strong cash flow generation. In refining, our margin indicator averaged $7, supported by strong middle distillates and gasoline spreads, steady demand and the positive impact from capacity disruptions across other operators.

Completing all of our major plant maintenance in the first half of the year has allowed us to run our refineries at very high distillation and conversion factors, thereby benefiting from the positive environment during the quarter. The strength of middle distillates and gasoline spread gave us the opportunity to focus on absolute distilled volumes at the expense of premium, resulting in higher overall gas flow generation.

The one effect caused by third-party capacity disruption has gradually unbound since the end of September. Despite this, the strong underlying fundamentals of our business have maintained the refining indicator in line with the 3-quarter average into October.

In the chemical business, we saw another quarter of results driven by higher sales, thanks to robust demand, partially offset by lower margins due to the increase in the price of naphtha.

Finally, the commercial businesses maintained a steady performance, benefiting from higher sales in marketing due to seasonality and supported by continued growth in the Spanish domestic market.

Finally, a word on capital optimization efforts together with lower overall cost resulted in a net CapEx figure for the company as a whole of

EUR 645 million in the third quarter, bringing capital for the first 9 months to EUR 1.8 billion and our forecast for the year up to EUR 3 billion.

Lower CapEx requirements compared to budget are still allowing us to invest in our Upstream assets, plant maintenance activity in the Downstream and continued to achieve close to our reference production level of 700,000 BOEs per day.

Moving now on to the financial results. I will briefly summarize the principal outcomes for the quarter. Third quarter 2017 CCS adjusted net income was EUR 576 million, EUR 269 million higher than in the same period of 2016. The EBITDA at CCS stood at EUR 1.6 billion, an increase of more than EUR 400 million year-on-year. In the Upstream, adjusted net income in the quarter was EUR 148 million, EUR 176 million higher than in the same period in 2016, principally due to higher prices, higher production volumes and lower exploration expenses, partially offset by higher amortization. Lower effective tax rates also impacted the net income positively.

In the Downstream, CCS adjusted net income was EUR 502 million, EUR 107 million higher than in the third quarter of 2016, principally due to better margins and higher utilization, together with better results in chemical, trading, marketing and LPGs.

Finally, in corporate and others, adjusted net income in the quarter was EUR 14 million lower than in the same period of 2016, mostly due to lower results contribution from Gas Nat, partially offset by lower interest costs and corporate expenses. For further detail on the company's quarterly results, along with detailed analysis, I encourage you to refer to the financial statements and accompanying documents that we released today.

Let me now finish with some thoughts on guidance for full year results. Starting with our efficiency and synergy program, by the end of the year, we expect to fully deliver our EUR 2.1 billion target of final cash savings, accelerated by one full year, our original objective for the end of 2018.

The acceleration of our efficiency program, together with the higher-margin barrels coming on the stream, is allowing us to continue reducing our cost base and lower the overall breakeven of the Upstream portfolio. In fact, the breakeven for the Upstream in the first 9 months of 2017 dipped below $60 per barrel. We expect that lower investment needs, supported by more effective optimization and overall lower cost, will allow us to reduce our full year group CapEx to around EUR 3 billion without impacting production volumes over the coming years. Considering accumulated production to date, we expect to end 2017 with an average production of around 690,000 barrels of oil equivalent per day subject to fluctuations in Libya.

In the Downstream, following the results achieved in the first 9 months of the year, we expect the division to deliver above our target of EUR 2 billion of free cash flow in 2017. Up to September, the accumulated refining indicator has averaged $6.8 per barrel, well above our long-term target of $6.4.

In conclusion, and with just one quarter of 2017 ahead, Repsol remains on track to deliver or improve on its targets for the year. Our Upstream division is currently producing at close to 700,000 BOE per day. Capital investment continues to be optimized, but not at the expense of volumes or long-term average reserve replacement. In the Downstream, with major plant refinery maintenance completed in the first half, our system has returned to normal high levels of conversion and utilization. This is allowing the refinery division to maximize the benefits we're able to obtain from stronger margins since the beginning of September.

The strength of our integrated business model and the ongoing transformation of the company under the guidelines set out in our current strategy has delivered a business that is robust under current economic conditions while being able to maintain Upstream production volumes and deliver high levels of free cash flow from the Downstream.

With that, I will now hand the call back to Paul, who will lead us through a question-and-answer session. Thank you.

Paul Ferneyhough ***Repsol, S.A. - Head of Finance and IR***

Thank you very much, Miguel. In case any of you run into technical problems during the webcast or conference call, please address any problems to our e-mail address, investorsrelations@repsol.com, and we will contact you immediately to try to resolve the situation.

Now let's move to the Q&A. Operator, please, could you review the procedure for placing a question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Paul Ferneyhough ***Repsol, S.A. - Head of Finance and IR***

We'll now move to the question-and-answer session. Our first question comes from Flora Trindade at BPI.

Flora Mericia Trindade ***Banco Português de Investimento, S.A., Research Division - Analyst***

The first one is on the net debt. So considering that now you are already below the EUR 7 billion target you have for year-end and the guidance cut on CapEx, can you give us a sense of what level of net debt do you expect for year-end?

The second question is on [internal] the Sapinhoá award last week and it's in the big (inaudible) share. Can you give us an idea of the expected resources and the benefits of the combined development with Sapinhoá. And then just a small question on something that was in the press in Spain mentioning that you are studying investments in renewables on top of the OGCI funds that you are investing. So can you tell us just what kind of investments are you looking at?

Miguel Martínez San Martín ***Repsol, S.A. - CFO***

Thanks, Flora. In relation with net debt, I think that in normal conditions, we are going to have a heavy-loaded CapEx and exploration program. So basically, I would say that if things are normal, I think we would be around the figure we have today, EUR 7 billion of debt. Out of this, remember that always in the fourth quarter, we have the issue with the IRS that can modify this figure. But being conservative, I would say EUR 7 billion would be our date -- our data.

In relation with Sapinhoá, what we have done is to recover volumes with the unitization process and the new area, at least the analysis that had been made, approximately represents a 3.7% of all the volumes that we'll have in the area. So it has been a minor investment, but we think it's much better to keep the same partnership, and that's the reason we went for it.

And in relation with your third question, renewables, I'll have to say that -- I think that right now all the industry is looking at which they transition to a lower carbon emissions world would be. Probably we were the first company that had the concepts of energy, not only the concept of oil company. And in that sense, I may remember that we have been in Gas Nat for more than 20 years, which was always an optionality to whether or not we should move.

Other than that, we are involved in a net throughout Spain of electric charge in our service stations. We are working also in a project on batteries for motorcycles in Catalonia. We are also investing in floating windmills in Portugal. So we have always been around there. So basically, I would say it's part of a game that we have been in for 20 years. It's only that probably others have been moving lately and with more noise than ours. But basically, it's -- it, I think, is continuity in our concern about the carbonation. Did I answer you, Flora?

Flora Mericia Trindade ***Banco Português de Investimento, S.A., Research Division - Analyst***

Yes. Perfect. So I just understand that these investments should not be that relevant if it is mainly going through whatever you are already doing, right?

Miguel Martínez San Martín ***Repsol, S.A. - CFO***

I would say not in the short term.

Paul Ferneyhough ***Repsol, S.A. - Head of Finance and IR***

Our next question comes from Thomas Adolff at Crédit Suisse.

Thomas Yoichi Adolff ***Crédit Suisse AG, Research Division - Head of European Oil & Gas Equity Research and Director***

I've got 3 questions, if I may. Just on the net debt, I recall on the 2Q call that you had mentioned EUR 6.4 billion to EUR 7 billion range and depending on whether you can complete now EUR 600 million in disposals. So I wondered what is happening with the disposal plan. Is it just not happening?

Secondly, just on your portfolio -- Upstream portfolios, obviously, it's kind of young in nature today and also more gassy. Therefore, your portfolio decline rate today is quite low. And I wondered at what point do you expect decline rates to accelerate from today's portfolio, which then, obviously, will require to invest a little bit more. Or do you see many EUR-type opportunities that actually can keep the portfolio decline rate at current rates for many years to come?

And my final question, I guess, if there's one thing that keeps you up at night, it certainly must be Venezuela. And I wondered whether you can give us a bit more color on what is going on there and, specifically, to receivables on a quarter-to-quarter basis. And what it means to Repsol should Venezuela default on its bonds?

Miguel Martínez San Martín ***Repsol, S.A. - CFO***

Thank you, Thomas. Well, in relation with the first one, net debt is true, your comment. I mean, I mentioned EUR 7 billion being conservative. But if we recover from the IRS before the year-end, for sure, the figure would be lower. In relation with divestments or disposals, at least in my account, the figure we have to deliver from 2016 up to 2020 was EUR 6.2 billion. And we have already achieved, at least in my book, EUR 5.1 billion. So I am not working hard on that line. We know that only organically in the next 3 years that the plan was prepared for. We will be able to reach the EUR 6.2 billion that was our commitment.

Having said so, I think that right now the pressure is not on disposals. If you look at the ratio, we will end up the year with -- between net debt and EBITDA. Well, if the opportunity is there, we'll go for it, but with no hurry at all.

In relation with the second question, it's true that the -- our Upstream portfolio, it's -- our production is 2/3 gassy and our reserves are 3/4 gassy. So decline rate is lower than probably other companies. And right now with the data I have, I may say that till '21, '22 and without any of the 5 largest projects, we'd be able to keep the production a little above the 700,000 barrels a day. This is what I can tell you. So we are quite confident and more focused on value per barrel than number of barrels. Also think that we are -- I mean, 2 years ago, we were a company of 320,000 barrels a day of production. So somehow the growth has been there. And right now with a CapEx figure between EUR 3 billion for the whole company or EUR 3.5 billion, we'd be able to keep that production steady in the -- around 700,000 BOE per day.

And in relation with Venezuela, well, I don't think they are going to default. That's the first comment. Second, in receivables, we have an increase in our debt in the third quarter of EUR 75 million. What's going on? Well, actually, it's a situation quite tough. But at the end, we believe that thinking in the long term that Venezuela, it's an area which we should be in. It's where the oil is. So short term, we expect that they improve in their financial situation, and they're able, really, to recapture and be able to deliver on their commitments in our case in the receivables.

Paul Ferneyhough ***Repsol, S.A. - Head of Finance and IR***

Our next question comes from Brendan Warn at BMO Capital Markets.

Brendan Warn ***BMO Capital Markets Equity Research - Senior Oil and Gas Analyst***

So just 2 questions. You've obviously taken a couple of FIDs this year, Buckskin and Red Emperor. Can you just touch on what we're going to expect in 2018 either out of your AC/DC plus one portfolio or other?

And then my second question probably relates to the Eagle Ford. Statoil, your operator, on the call -- earlier this week or last week just talked about, obviously, they've taken an impairment and have changed the spacing. Can you just make any comment on your view of value on cash flows or expectations out of the Eagle Ford, please?

Miguel Martínez San Martín ***Repsol, S.A. - CFO***

In relation with the Eagle Ford, I mean, basically, our technical data and with the figures we have in our book for the asset and, as of today, we don't have any need of impairments. For sure, we will check, as with all the assets, by the year-end, which is going to be the impact if there are changes in the technical works that the operator is leading. But right now as mentioned, we don't expect any impact.

In relation with the -- I mean, it's becoming almost popular, the AC/DC plus 1, which is Sagitario, I would say that the first oil, first gas -- well, in CP9, we're already producing, but the new project probably will reach plateau and show its strength by 2021. In the Duvernay, we are also producing right now, and we have chosen 2 areas, which we think are the sweet spot areas and progressively would be ramping up.

Alaska, well, probably by the end of '22, '23 would be the year in which Alaska will deliver their first oil. Campos 33 will come a year later, probably by 2024; and finally, Sagitario the day after. So basically, Duvernay is still already producing that will be ramping up shortly; and then Alaska, '22, '23; Campos 33 in 2024; and finally, Sagitario by 2025. Okay?

Paul Ferneyhough ***Repsol, S.A. - Head of Finance and IR***

Our next question comes from Hamish Clegg at Bank of America Merrill Lynch.

Hamish William George Clegg ***BofA Merrill Lynch, Research Division - Director and Senior Analyst***

Two questions. Just first of all, we've had a lot of questions about net debt, and you mentioned on the last quarter that should you get the BBB from S&P, you'd be cutting your scrip fairly shortly after that. With that in mind, I noticed that BP have implemented a buyback or announced a buyback in their third quarter. Could you remind us why you'd sooner cut the scrip as to do a buyback, given there's clearly a lot of choice from your investor base to take the scrip given the uptake of it? And how that would work and why you choose one over the other.

My second question is, I wondered if you could tell us a little bit more about your new partner in Alaska, Nanushuk, who have kind of been suggesting to the market the breakeven oil price of around $45. Could you tell us what's being done on the block to kind of establish some slightly better economics? And my other one's answered. So just those 2 for me.

Miguel Martínez San Martín ***Repsol, S.A. - CFO***

Thank you, Hamish. Well, starting with the first one, I mean, it's not me, the one that is going to decide whether the scrip goes out or not. I mean, it's a board decision. But basically, what we have announced and we like to deliver on our comments is, first, we have to achieve the BBB. Second, I think that the solution given by BP, it's a very good one. It gives more flexibility. So I know that I'm not becoming quite popular with all of you with my opinion about the scrip, but I think that giving a free option to the owners of the company is something that shouldn't be penalized, first point.

Second, we can provide them this fiscal advantage while, at the same time, recapturing part of the dilution with buybacks global or partially. So I think it's a good idea. But as mentioned, first, BBB, then it's a board decision. And B, I think that the possibility of keeping the scrip while at the same time buying back either the whole scrip or part of it, it's probably the best solution.

And in relation with our new partner in Alaska, I may say that personally I don't know them, this people from Oil Search. But one thing was clear since the beginning. I mean, Armstrong is a very good promoter, but he's not a developer. So it was -- one day or the other, what's going to happen that he will dilute his presence. It's a company, Oil Search, for that. I have been able to reach him in the last 24 hours. That is a company that is well capitalized. We have some contacts with this company in the past in Papua New Guinea. And I think that our Upstream people have had already meetings with them, and the initial perception is it's positive. In our side, we keep thinking that Alaska has more potential and that the next drilling campaign this winter will de-risk the whole area. And we are going to keep working on Alaska. Okay, Hamish?

Hamish William George Clegg ***BofA Merrill Lynch, Research Division - Director and Senior Analyst***

That's brilliant. Look forward to hearing how the campaign goes.

Paul Ferneyhough ***Repsol, S.A. - Head of Finance and IR***

Our next question comes from Biraj Borkhataria at RBC Securities.

Biraj Borkhataria ***RBC Capital Markets, LLC, Research Division - Analyst***

I have 2, please. Just to follow up on the CapEx, and you are running well below the previous guidance, and you've, obviously, reduced that. Can you talk about -- can you just give a bit more detail about what is driving that reduction and how investors can be assured that you're not necessarily underinvesting in the Upstream business?

And the second question is just a follow-up on Venezuela. Could you just, Miguel, give us a current view on where the receivables balance is for Venezuela?

Miguel Martínez San Martín ***Repsol, S.A. - CFO***

The second one, the net figure between receivables and payables with -- as I said, it's EUR 780 million. Okay? And in relation with the CapEx reduction, I would say, the most of it come from the difference between the expected prices we were going to have from suppliers and service companies versus what we have been able to achieve with all the cost reductions. And this is basically the point.

We have not cut anything, but having said so, don't extrapolate the figure of the 9 first months of the year. I mean, the fourth quarter, it comes heavy loaded, both in development and in exploration. Right now, we have 13, 1-3, well -- exploratory wells ongoing. So it's true that we reduced from the EUR 3.6 billion initial figure to this EUR 3 billion. That could end EUR 3 billion, EUR 3.1 billion. But most of this reduction has been achieved through cost savings.

Paul Ferneyhough ***Repsol, S.A. - Head of Finance and IR***

Our next question comes from Lydia Rainforth at Barclays.

Lydia Rose Emma Rainforth ***Barclays PLC, Research Division - Director and Equity Analyst***

A couple of questions, if I could. The first one just on the cost savings target. You've been doing very well on that. Do you think that continues into next year now? Or is pretty much everything you wanted to do done on that?

And then the second one was just on the refining business, which obviously did very well this quarter. Those conversion rates of 104% utilization and distillation utilization of 99%. Is that really the maximum that you can get to in any given quarter?

And then I know it's a [three-bit], but just a very quick follow-up on the credit rating. Just basing your -- so do you think that you will actually see that decision before the year-end? And I know it's not your decision by the year-end, or do you think that is actually going to be next year post the full year results?

Miguel Martínez San Martín ***Repsol, S.A. - CFO***

Thanks, Lydia. I mean, in relation with cost savings, there's always some extra room. That's first point. But I think that we have another stage to go through, which would probably be included, and I shouldn't say so, but would be included in the next strategic plan, which is how all the efforts that the company have to face in relation with the digitalization, both for all our facilities and be also in relation with our clients. So I think that the next step, either in efficiencies or cost saving, will come from the digital approach.

In relation with the utilization rates, I may say, yes. This is the maximum conversion we may get. I mean, we have been running the refineries at full speed all throughout the quarter.

And finally, in relation with the credit rate -- I mean, with the rating agencies, I mean, we'll meet with them by February with the year-end figures. And I think that with the financial situation we have, it would be amazing if they remain their BBB-. I mean, we will end it up at least in January for sure once we recapture from the IRS the EUR 600 million that we prepared last year, would be below the 1 figure. I mean, the ratio between net debt and EBITDA would be probably a little below 1. And with that, they keep -- at least they will have to explain to me how is that possible. But we will see. I mean, it's on them, not on us. We have been doing, as you know, quite well when it was in our hands. So right now, it's on them. I hope it will, but we will see.

Paul Ferneyhough ***Repsol, S.A. - Head of Finance and IR***

Our next question comes from Anish Kapadia at Tudor, Pickering, Holt.

Anish Kapadia ***Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - MD, Integrateds and Upstream Research***

First question was, I was wondering if you can give some idea of any potential negative impact of oil prices increasing from $50 to $60 on the Downstream. I assume you have some negative impacts from higher energy prices and feedstock prices and then some impact on lower marketing margins. So if you could kind of just give some idea or sensitivity of any negative impacts you've seen from that higher oil price on the Downstream.

And then the second question was, I was wondering if you can kind of give some idea of the contribution from an earnings cash flow standpoint of Bolivia. And the reason I ask is, you've seen Argentina talk about becoming self-sufficient for gas towards the end of the decade. Brazil's got a large amount of gas production coming through from the Brazilian pre-salt. So it seems like there's some risk that Bolivian gas exports will have to fall at the end of the decade and beyond, which might impact your exports. So just wondering kind of your opinion on that. And then if you can give some idea of your exposure.

Miguel Martínez San Martín ***Repsol, S.A. - CFO***

(inaudible) a positive approach. I mean, negative impact of an increase on Brent prices. I mean, I would love increase in Brent prices as a base, okay. Negative impacts, for sure, there would be some, but would be minor in comparison with the advantage of having higher prices. For sure, cost base will increase with some lag, but the service companies will increase price, because the sector will increase the drilling and will increase the activity. And in relation with the Downstream, probably chemicals, which is the more scientifical business we have with the -- the Upstream will be the one that suffers.

Having said so, I think that the main surprise for the agencies has been how strong demand is. I mean, probably, by the year-end, we'll be reaching one extra -- 1.8 million barrels per day of consumption. And this is somehow pushing not only the prices, but also the utilization of all the refining system. Think that even the hydroskimming refineries have been doing money in this quarter, and I don't see any signs of weakness in the demand side. So basically, I would say it's positive, but it will have some minor counterparts, which are basically cost increases and some impact in the chemicals. But I don't see more than that, if Brent prices go up.

And in relation with Bolivia, I'll say that Argentina -- let me -- Argentina is a country that is absolutely gasified and the gas consumption is really high. So I don't see the hypothesis of Argentina exporting gas or being self-sufficient is going to happen at least in the short term. So I think that the impacts that we have suffered this year comes more from El Niño and the year -- the hydraulic year in Brazil, which has been really good. And this has reduced the number of exports from Bolivia to Brazil. But other than that, I don't see short term an issue being Argentina self sufficient. Okay?

Paul Ferneyhough ***Repsol, S.A. - Head of Finance and IR***

Our next question comes from Theepan Jothilingam at Exane BNP Paribas.

Theepan Jothilingam ***Exane BNP Paribas, Research Division - Head of Oil and Gas Research and Analyst of Oil & Gas***

Couple of questions I just wanted to ask. Firstly, sticking with the Downstream. Could you talk about perhaps the benefits in terms of the premium margin Repsol could have achieved in Q3 and relative given that you've got some of the assets back compared to H1? And how that looks going into Q4?

The second question, just coming back to your CapEx guidance, the EUR 3 billion to EUR 3.5 billion to sustain the portfolio in the medium term. Could you just talk about what the -- what's the flex in there, that EUR 0.5 billion? What are we looking at in terms of moving parts?

Third question, you talked about the buyback, Miguel. I'm just wondering, again, in terms of timing and a process, would we think, firstly, achieve the BBB and then the AGM would be where you -- would be the forum to get approval for a buyback for the second half of 2018?

Miguel Martínez San Martín ***Repsol, S.A. - CFO***

Well, in relation with the first one, actually, the premium we obtained over the index was reduced by the percentage of distillation barrels we had. I mean, we can -- you can increase up to $1 the benefit or the premium margin. This doesn't show because we have distillate 20 million extra barrels of pure hydroskimming that only provide $1 per barrel. And that's the reason why the index was a little lower than expected. But globally talking, we generate more of it. I think that's somehow the game -- in my account, I think that in like-for-like basis, the premium was around $1. Okay?

In relation with the CapEx, most of it is already committed. So for the next year, probably only a 20% flexibility. The rest is already ongoing. So not much flexibility in our hands other than this perhaps EUR 600 million, EUR 700 million, but no more than that. And I mean, the process would be, A, as you mentioned, we have to achieve the BBB, is what we have communicated to all the markets. And then it would be on the board, whether they choose one direction or the other.

But I think that the solution that I mentioned before, keeping the scrip but at the same time buying back not necessarily 100% of it could be the better solution, because it will provide our shareholders the best of the worlds. They can choose, and afterwards, the dilution of those that take the cash would be reduced. So this would be probably what I will present to the board, but it's on the board, the final decision.

Theepan Jothilingam ***Exane BNP Paribas, Research Division - Head of Oil and Gas Research and Analyst of Oil & Gas***

Okay. And then just coming back to -- that EUR 600 million to EUR 700 million, is that -- where is that potential capital deployed? Is it mostly in the U.S.? Or are there other regions that we should think about?

Miguel Martínez San Martín ***Repsol, S.A. - CFO***

I would say that other, A, it's worldwide, and it would be allocated in the areas in which returns and efficiencies are there. In those barrels that really provide us the most, not necessarily U.S., not necessarily Colombia. I mean, just allocated in those projects that really have better returns. Or if you wanted it the other way around, those projects with lower breakeven points.

Paul Ferneyhough ***Repsol, S.A. - Head of Finance and IR***

Our next question comes from Michele della Vigna at Goldman Sachs.

Michele della Vigna ***Goldman Sachs Group Inc., Research Division - Co-head of European Equity Research and MD***

Miguel, thank you for the presentation. I was wondering for CapEx looking out 2018, 2019, do you think we should take 2017 as a good starting point or perhaps more activity on -- for the sanctioning on one side or perhaps further deflation and cost reduction on the other side should bring that CapEx budget either higher or lower? Do you think -- what do you think we should take it into consideration when trying to forecast your free cash flow generation?

Miguel Martínez San Martín ***Repsol, S.A. - CFO***

I'd say that for the model, EUR 3.5 billion on average for '18, '19. It's a [figure] increase. You are not going to be far apart from the actual figures that will flow. So I would take EUR 3.5 billion as -- for 2018 and 2019.

Paul Ferneyhough ***Repsol, S.A. - Head of Finance and IR***

Our next question comes from Irene Himona at Societe Generale.

Irene Himona ***Societe Generale Cross Asset Research - Equity Analyst***

My first question is on Libya. Apologies if you've already mentioned it. But what was the contribution of Libya to Q3 EBITDA net income? And at $60 in Q4, what would it look like?

And then my second question, obviously, you are very clearly out of the, let's say, crisis management mode. You've successfully delivered early most of your targets, synergies, disposals, net debt, et cetera. And congratulations for that. Do I take it that for you to present your next strategic plan really depends on that BBB stable? Meaning, you cannot give us a time line at this point.

Miguel Martínez San Martín ***Repsol, S.A. - CFO***

Sorry, Irene. Can you repeat the second question, please?

Irene Himona ***Societe Generale Cross Asset Research - Equity Analyst***

Yes. I was just wondering if for you to present us your next strategic plan, you need the credit rating to be moved to BBB stable by S&P first. So therefore, you're still dependent on the credit agencies. You cannot give us a date because of that.

Miguel Martínez San Martín ***Repsol, S.A. - CFO***

No. I mean, the answer is no in the sense that, A, we think we will achieve it; B, even if they do not recognize it, well, it would be at a given moment their problems, because the metrics are clear, and we're acting already in a nonstress financial situation. Having said so, the dividend to me is somehow the only point in which we have mentioned to the market that the BBB have to be there, and we like to deliver on our commitments. But other than that, the company has been run as if we were a company with a -- I mean, all of you know probably better than me. I mean, if you look at the figures, relation between net debt and EBITDA of 1, that's an -- I think it deserves the BBB.

And in relation with Libya, I mean, in the first 3 months -- sorry, in the quarter, it has provided EUR 63 million at EBIT level and EUR 26 million at after tax level. For the 9 months, Libya have provided EUR 233 million at EBIT level and EUR 96 million after tax. If the barrel in this quarter, it's $10 above what we had in the last quarter, it would be a little advantage. Probably this EUR 26 million after tax of the quarter will reach the EUR 35 million, EUR 40 million area. Okay, Irene?

Paul Ferneyhough ***Repsol, S.A. - Head of Finance and IR***

Our next question comes from Giacomo Romeo at Macquarie.

Giacomo Romeo ***Macquarie Research - Analyst***

Most of my questions have been answered, but perhaps 2 more. One on if you can give us an update where you think you see your breakeven -- free cash flow breakeven after dividends given the lower CapEx numbers and the better free cash flow generation in the Downstream that you talked in the presentation.

And the second question, it's again a follow-up on what you just said on the scrip. And I agree with you that 1x net debt-to-EBITDA, you would deserve a credit rating upgrade. But should this not come in March, would you still consider recommending a buyback to the board or the credit rating upgrade is absolutely necessary for you to move to the next phase?

Miguel Martínez San Martín ***Repsol, S.A. - CFO***

Well, in relation with the first one, I'm taking into accounts that the fourth quarter would be more loaded. On CapEx, I'd say the $40 would be the figure in which we will close the year with free cash flow. Also, taking into account that I measure the free cash flow without divestments, which is something that I don't know if other companies are doing. So basically, $40 without divestments.

And in relation with the scrip dividend, I mean, it was our commitment. But at the end, it's going to be on the board. If -- really the situation, it's clear we'll have to see. But hopefully, I hope that Standard & Poor's finally give us what I think we deserve. Okay, Giacomo?

Paul Ferneyhough ***Repsol, S.A. - Head of Finance and IR***

Our next question comes from Marc Kofler at Jefferies.

Marc B. Kofler ***Jefferies LLC, Research Division - Equity Analyst***

I just wanted to ask an Upstream question, Miguel. It looks as though, overall, the Upstream business has responded very well to the macro scenario, with the exception of North America, where earnings still seem to be a little bit lagging. So I was wondering if you can just give a few sort of overview comments around how you're feeling about that business right now and anything else that you feel needs to be done there. And then I just wanted to double-check if you would be willing to talk about or even quantify how you could see those chemicals earnings moving into next year at around the $60 reference price.

Miguel Martínez San Martín ***Repsol, S.A. - CFO***

Thanks, Marc. Well, in relation with North America, I would say that former Repsol assets are doing quite well, delivering quite well and making money. I'm thinking on Shenzi. A different issue is the Talisman former assets. And in those, they have one point that have to be understood, which is that when we did the purchase price allocation, we really put the asset at market price. Okay? So they are heavily penalized, but for a high depreciation on the figures. But Eagle Ford is the one that is probably doing a little worse. But Marcellus, it's doing quite well. So at the end, I would say that it's normal that when you buy a company and you establish high PPAs, the results are not that good. A different thing is the cash generation.

And in relation with chemicals, I think that earnings movement next year is going to be absolutely linked to the oil price, I mean, in a reverse situation. If the barrel really moves up, for sure, chemicals will have some pain. But having said so, EBIT would be between around EUR 500 million next year with the data we have today in a $59, $60 scenario. For sure, if the conditions change, the chemicals would be affected. But as of today, the figure should be around EUR 500 million EBIT level. Demand in Europe keeps strong, and we think next year also Europe will be growing at a good pace, probably even as this year above the U.S. growth.

Paul Ferneyhough ***Repsol, S.A. - Head of Finance and IR***

Our next question comes from Tristan Jerphanion at Kepler.

Tristan de Jerphanion ***Kepler Cheuvreux, Research Division - Oil and Gas Equity Analyst***

One on dividend, again, please, keeping in mind your BBB rating target, of course. We've talked about the scrip, we've talked about potential buyback. Given the very strong progress you've made on the free cash flow and the improvement of the balance sheet, would you consider a further dividend increase above the current EUR 0.80 level?

Secondly, on the CapEx, you said EUR 3.5 billion would be a sustainable run rate in the medium term. Could you, please, give us a bit of details regarding the Downstream run rate CapEx for 2018 and beyond?

And maybe a very quick last one on Buckskin. Could you, please, remind me what is the amount of recoverable resources and the plateau production net to Repsol, please?

Miguel Martínez San Martín ***Repsol, S.A. - CFO***

In relation with the dividend policy, I think we have already talked about it. Right now, the EUR 0.80 is the figure which will remain, because basically the figure of the dividend we pay is to put us in the first quartile between the IBEX 35 and the oil companies, thought to be somehow providing a deal that is important for us. So it's not only depending on us, it's also depending on third parties and how we want to be between our peers.

In relation with the second one, I'd say that Downstream, the run rate in the following years would be around EUR 900 million. I mean, think that part of the digital process will need to -- especially, in all the facilities, will generate some extra CapEx. So we'll be a little above the EUR 750 million figure that has been the run rate in the last 2 years.

And finally, in relation with the amount of recoverable resources and plateau production for Repsol in Buckskin, our people from IR will send you the data. I don't have the amount of recoverable resources in my mind. Is that okay, Tristan?

Tristan de Jerphanion ***Kepler Cheuvreux, Research Division - Oil and Gas Equity Analyst***

That's very clear.

Paul Ferneyhough ***Repsol, S.A. - Head of Finance and IR***

Our next question comes from Fernando Lafuente at Alantra.

Fernando Lafuente Seseña ***Alantra Equities Sociedad de Valores, S.A., Research Division - Research Analyst***

Just one quick one on the EBITDA targets for this year. I remembered last quarter, Miguel, you talked about something in the region between EUR 6.5 billion, EUR 6.6 billion, EUR 6.7 billion for the group. Is this still valid? Or the outlook, it's a bit better right now?

Miguel Martínez San Martín ***Repsol, S.A. - CFO***

Thanks, Fernando, for the question. Being conservative, I may say now EUR 6.4 billion, but if I told EUR 6.5 billion, I will attach to the EUR 6.5 billion. Basically, the quarter is looking good. Prices in Upstream are a little above what we had in the prior quarter. Refining is doing as well. I mean, Downstream is doing as well. So I will affect and keep attached to the EUR 6.5 billion EBITDA figure for 2017. Is that okay, Fernando?

Fernando Lafuente Seseña ***Alantra Equities Sociedad de Valores, S.A., Research Division - Research Analyst***

This is great.

Miguel Martínez San Martín ***Repsol, S.A. - CFO***

And for all of you, before I give the floor to Paul, have a good weekend.

Paul Ferneyhough ***Repsol, S.A. - Head of Finance and IR***

Thank you. That was our last question. And that brings to a close our third quarter conference call. Thank you.

Operator

Ladies and gentlemen, just to advise, that now concludes the Repsol conference call. Thank you for your participation. You may now disconnect.