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# EDITED TRANSCRIPT

REP.MC - Q1 2014 Repsol SA Earnings Conference Call

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**OVERVIEW:**

REP.MC reported 1Q14 net income of EUR807m and adjusted net income of EUR532m.



## CORPORATE PARTICIPANTS

**Angel Bautista** *Repsol SA - Director, IR*

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

## CONFERENCE CALL PARTICIPANTS

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

**Alejandro Demichelis** *Exane BNP Paribas - Analyst*

**Jon Rigby** *UBS - Analyst*

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

**Bruno Silva** *BPI - Analyst*

**Matt Lofting** *Nomura - Analyst*

**Lydia Rainforth** *Barclays - Analyst*

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

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**Peter Hutton** *RBC Europe - Analyst*

**Jason Kenney** *Santander - Analyst*

**Filipe Rosa** *BES - Analyst*

## PRESENTATION

### Operator

Hello and welcome to the Repsol first-quarter 2014 primary results conference call. Today's conference is being recorded. Today's conference will be conducted by Mr. Miguel Martinez, CFO. A brief introduction will be given by Mr. Angel Bautista, Head of IR. I would now like to hand the call over to Mr. Bautista. Please go ahead sir.

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### Angel Bautista - Repsol SA - Director, IR

Good day ladies and gentlemen. This is Angel Bautista, Director of Investor Relations in Repsol. On behalf of our company I would like to thank you for the -- for taking the time to attend this conference on Repsol's first-quarter results. This presentation will be conducted by Mr. Miguel Martinez, CFO. Other members of the executive committee are joining us as well. Before we start I invite you to read our disclaimer note.

We may make forward-looking statements which are identified by the use of words such as will, expect and similar phrases. Actual results may differ materially depending on a number of factors, as indicated on the slide.

I now hand the conference over to Mr. Martinez.

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### Miguel Martinez - Repsol SA - CFO

Thanks, Angel, and good day to all of you. Before we focus on our earnings performance I would like to give you an update on the YPF compensation process that we expect to finalize this afternoon.



Since March 28, when Repsol's annual general meeting ratified this agreement with a 99.75% acceptance, all the milestones and the present conditions will have been satisfied. And the agreement will be fully effective with the signature and the delivery of the Argentine bonds with a face value of \$5.317b.

We believe this is the best possible outcome for all the parties involved in the controversy we face because of the expropriation of YPF. Our intention is to monetize in no more than two years, the bonds, trying to maximize the value for our shareholders.

Other than that, as you are aware, on Tuesday we sold almost a 12% of YPF shares for \$1.3b. This transaction will generate an estimated capital gain before taxes of nearly \$620m.

I'll now describe our operational activity during the quarter together with the main events since our full-year results conference call.

In the upstream business, as a summary, we can underline that we continue delivering our commitments and accomplishing the targets included in our strategic plan with the startup of Kinteroni and the connection of the second well in Sapinhoa, in April we connected the third one.

With Kinteroni on stream 7 out of the 10 key growth projects included in our strategic plan are already on stream. And we are expecting to have first gas from our Cardon project by year end.

Starting with exploration, we maintain our expectations of reaching 31 wells spudded during the year. We are successfully finalizing our winter campaigns in Alaska and Russia. In Alaska, with two appraisals and one exploratory well finished with positive results we are working toward defining the most economical way to develop the area.

In Russia, with two already encouraging exploratory wells under evaluation, one finalized during the quarter, we continue adding volumes in place. And in parallel we are drilling two horizontal wells from which we expect test results before year's end. Exploration continues in Brazil, US, Libya, Kurdistan, Mauritania and Namibia.

Production during the quarter was 342,000 barrels of oil equivalent per day, which means 5% less than in the first quarter of last year. On the one hand, we increase our production year on year in Brazil, United States, Russia, Bolivia and Peru.

On the other hand, there were disruptions in Libya which caused a reduction of 24,000 of oil equivalent of average production per day, and stoppages in Trinidad and Tobago due to drilling work in the Savonette field during January.

As we mentioned before, Kinteroni started producing at the end of the quarter initially with an average of 20,000 of oil equivalent per day in gross terms, of which almost 25% are liquids.

We will almost double our production from 2016 onwards. Taking into account Libya's situation, if we compare 2013 and 2014, stripping out the production from Libya, we are expecting a growth in production in 2014 of around 7% this year.

Other operational highlights of the quarter were the following. In Sapinhoa we have already connected the second and third wells and both are producing above the expectations, with a gross total production of the field above 100,000 barrels of oil equivalent per day, confirming its excellent productivity.

We expect to connect the fourth well by June, reaching full capacity of our first FPSO. The second is already in Brazil and will be producing and ramping up before year's end. The average net contribution of Sapinhoa to Repsol's production during 2014 will be around 15,000 high-margin barrels of oil per day.

In the US we continue with the development of the fields and associated production ramp up in the Mississippian lime. In Venezuela, Cardon continues its development on schedule and we are expecting to be on stream by the end of this year. We expect that this project will add 22,000 of oil equivalent per day to our production from April 2015.



Moving to the downstream division, first we would like to explain that from this quarter on we include the gas and power business within this division. Starting with refining, although margins in Europe continue to decline our margin indicator was \$3.9 per barrel, the same as in the first-quarter 2013.

The utilization rate was 74%, as we still had some maintenance in January. The conversion capacity reached 97% of utilization. In chemicals we reach the breakeven point once we restart our Tarragona plant, which had stopped for maintenance during the fourth-quarter 2013.

Turning to our commercial business, in marketing we are seeing a market with stable volumes. We also increased margins in the LPG division, offsetting the decreasing sales due to the mild winter we had in Europe. Therefore, our commercial businesses continue to deliver profitable results and healthy, positive free cash flow.

Moving to gas and power, and due to low temperatures in North America and taking advantage of the flexibility of our Canaport facility, we managed to obtain very good results, reaffirming our expectation of reaching at least breakeven in the year. Moreover, we are increasing our trading activity in the region and capturing additional value.

I will now explain our first-quarter earnings performance. This quarter we have decided to modify our reporting criteria, providing more information for each business segment. The main aspects are as the following.

We will report operating and net operating income per business segment. As a result, we will report corporate taxes and results from associate companies and minority interests in every business segment.

Our gas and power business will be reported included in the downstream business segment. Gas Natural Fenosa will be reported as an equity investment. The financial result will be reported within corporation.

In the quarter the adjusted net income was EUR532m, slightly above that on the first quarter last year. The net income was EUR807m, 27% higher than in the first-quarter 2013.

Starting with the macro environment, we saw weaker Brent prices year on year, together with a weak dollar. We also saw declining refining margins throughout Europe. In our case we were not impacted by this decline thanks to the configuration of our refining system.

On a business-by-business basis, starting from the upstream, the adjusted net income was EUR255m, 27% lower than in the first-quarter 2013. In Libya we suffered disruptions equivalent to around 50 days of stoppages, which resulted in a reduction at the operating and at the net income level of EUR145m and EUR47m respectively.

We increased production in Brazil, the US, Russia, Bolivia and Peru, that offset the lower volumes in Trinidad and Tobago due to the drilling work during January. Both effects have a positive impact of EUR2m.

Lower crude and gas prices had a negative impact of EUR19m. Increased depreciation charges had a negative impact of EUR22m, mainly because of the additional investment in the Shenzi water injection project.

Higher exploration cost had a negative impact of EUR34m. The effect of taxes had a positive impact of EUR35m, mainly due to the better tax rate mix. Other items, such as exchange rate, minority interests and equity affiliates and other costs explain the remaining differences.

Turning to our downstream division, the adjusted net income was EUR290m, 28% higher than in the first quarter of 2013. By business line, in refining our margin indicator was \$3.9 per barrel, in line with the margin achieved in the first quarter of 2013, despite the fact that we had a lower utilization as we were finishing the maintenance works undertaken during the fourth quarter of 2013.



We remain profitable at the EBIT level even in a European environment where margins have reached historical lows. The premium margin due to the upgrades reached \$2.6 per barrel, which compares to the \$1.8 per barrel obtained during the same period last year. Lower volumes as a result of lower utilization had a negative impact of EUR24m.

In the chemicals divisions higher volumes allowed us to reach breakeven in the quarter. This effect, plus stability in margins, had a total positive impact of EUR15m.

In the commercial business the LPG business partially offset the lower volumes with higher margins, while in marketing we were able to increase margins in service stations and in the wholesale segment. All in all we had a positive impact in the commercial businesses of EUR8m.

Moving to gas and power, the increase in results of the quarter were EUR90m due to different aspects. The winter has been very cold in the northeast coast of North America, the same as last year, therefore, the algonquin benchmark reached extraordinary high price levels during short periods of time during the quarter.

We were able to take advantage of this situation thanks to the [enhanced] flexibility of our Canaport plant. We are also increasing our trading and marketing activity in the region in order to capture additional value by filling our available capacity in the pipelines.

Finally, we had lower depreciation charges after the provisions booked in the fourth quarter of 2013. The effective tax rate in the downstream division was in line when compared to the first quarter of 2013. Minority interests and equity affiliates and other effects cause a positive impact of EUR9m.

In Gas Natural Fenosa the EUR123m adjusted net income in the first quarter of 2014 was 2% lower than the EUR125m reported in the same period last year, mainly because of the lower income from power generation and distribution activities in Spain and in Latin America, partially offset by better electricity commercialization results underpinned by lower pool prices.

In corporate and other businesses segment we had a net expense of EUR136m, which is lower than the EUR177m posted in the same quarter a year ago. This reduction derives mainly from the lower cost of debt, the variations in the exchange rate and the higher valuation of the CO2 rights.

Turning now to our financial situation, we continue maintaining the robust financial position we had at the end of 2013, enhanced by the collection of the last proceeds from the LNG disposal in January.

The Group's net financial debt at the end of first-quarter 2014 amounted EUR4.7b, approximately EUR630m lower than at the end of 2013. Our liquidity position [cuts] and outstanding credit line shows -- showed at the end of the quarter a coverage ratio of 3.7 times in relation to short-term debt.

Coming up with the signature of the agreement between the Republic of Argentina and Repsol this afternoon, together with the sale of the YPF shares nearly completed, we are certainly starting a new chapter.

Our P&L performance improved compared to the same quarter of last year. And we were able to offset the impact of Libya with the results of our gas and power assets and the increasing contribution from our growth projects.

And now we will be pleased to answer any questions you may have. Thank you.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions).



**Angel Bautista** - *Repsol SA - Director, IR*

Thank you very much. We have enabled the chat in the webcast in order to post questions. Please use it only in the event there are connection problems on the call. You can identify it by a tab called 'ask a questions' -- 'ask a question', sorry. We will address these questions at the end.

And now we will start with the Q&A session. First we have Haythem Rashed from Morgan Stanley. Please, Haythem, go ahead with your question. Hello, Haythem.

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

Hi, Angel, thank you very much. Good afternoon gentlemen. Thank you for the presentation and congratulations on the agreement with Argentina.

Just first question on that actually. If you could just talk a little bit about how we should think about your prioritization in the portfolio management process now going forward. Is your plan still to use proceeds from the sales to invest in upstream assets?

And also is your investment dependent on how much you eventually sell from the bonds that you receive? Or do you have a size in mind of your -- of any upstream acquisition which would then be funded by either sales of the bonds or potentially a gas -- a sale of the Gas Nat stake? A little bit about that would be helpful.

My second question relates to the downstream, in just a quick question on the numbers. You talk about in the release a 4% increase in sales year on year in Spain. But when I look at total product sales for the Group and they're down 3% year on year. Could you perhaps clarify just where the delta is there between the two?

And then final question, again on the downstream within the gas and power segment. You mentioned, Miguel, that guidance has reaffirmed the breakeven in -- overall for the business for the next year.

Should we therefore expect the losses in the business later on in the year, obviously, given the strength in the results in this quarter, or has the strength you've seen recently changed your view on profitability from that business? Thank you.

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

Thanks, Haythem. Let's start with the second one, which I think is the easiest. Well, the figures you look at when you see all the sales volume refers to the sales from the whole system, okay?

In that sense, as we have reduced the distillation capacity we are reducing the sales as a whole thing, okay? Then you have the 4% increase which is the sales that our commercial part has delivered in the Spanish market.

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

Right.

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

This 4% also can be split. And the split it's 1.9% sale in the retail network and approximately a 6% growth in the wholesale system, okay, --

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

Thank you.

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

-- in both cases with higher margins in the wholesaling and in the network, okay?

Going to the first one, I'll have to say that we keep attached to what we have mentioned several times. It's true that after the expropriation of YPF and the sale of the LNG division we need some how to rebuild the P&L of the Company. And this will imply acquisitions or -- one or several acquisitions. And we are looking for companies or assets.

Do I have to refer that to the magnitudes of the proceeds from the bonds? Well, I would say, first we'll have to grab the bonds, probably this afternoon, first step. Second step would be how to monetize those. And we are not in a hurry.

Over there we want to maximize value and look for a reasonable way to monetize those bonds. For sure, we are not a pension fund, so we are not going to keep those bonds forever and probably within the next year we should get rid of these assets.

But I would not imply directly the acquisition with the sale, because the acquisitions will require several things. First, we are looking for something in OECD. Second, we are looking for areas in which we have extra growth capacity not only with the acquisition, but [develop in] the area. So we are looking for a growth platform.

And also we are looking to increase our capabilities, so -- and all that not in a hurry and knowing that at least we should recover the -- our work. So if we found it we will go for it. If not, we will keep attached to our organic growth, which is what we have right now.

And in relation with the third one, normally we expect some losses in the second and third quarter. The fourth quarter would depend on how the weather -- how tough the weather becomes in the east coast and how tense is the market in the US.

But normally for us the goal was -- initial goal was zero as a result for this -- for the gas and power division. This quarter has been good, so perhaps we can make some profit, but originally our objective was zero results.

Did I answer you, Haythem?

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

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

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

You're welcome.

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**Angel Bautista** - *Repsol SA - Director, IR*

Okay. Thank you, Haythem. Now let's move to Alejandro Demichelis from Exane. (Spoken in Spanish) Alejandro, go ahead with your questions.

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**Alejandro Demichelis** - *Exane BNP Paribas - Analyst*

Yes, good afternoon, Angel and Miguel. Thank you for taking my question. It's just following up to the answer about the use of profits from the bonds and the divestment of the YPF stake.

Given that there seems to -- that Pemex may be looking to dispose some of their stake, would the profits that you have taken so far be potentially used to buy back some of those shares at some point?

And maybe you can update us on how do you see the Gas Natural stake at this moment.

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

Thank you, Alejandro. Well, first, in relation with Pemex I have to repeat what Antonio Brufau has mentioned to Pemex several times. We are totally open and -- to collaborate with them and we are totally open to any suggestions, agreement they may put on the table.

So our position is totally friendly and, for sure, this is something that also our CEO, Josu Jon Imaz, has in his -- between his duties to really re-establish the situation that for many years has been quite stable and fruitful for both companies.

In relation with the buyback, well, first I don't know if they want to sell, so it doesn't make much sense to make hypothesis over hypothesis. And this is what I can tell you in relation with Pemex.

In relation with Gas Nat that I didn't comment in Haythem's question, Gas Nat for us it's, first, a very good asset, it gives us optionality and this is it. If at the end the proceeds from -- or the -- we need the Gas Natural stake to make an acquisition that really generates value.

In the upstream division we'll go for it, but right now the situation is quite stable. We are happy with the asset. It's -- I think that Gas Natural is a company that is very well managed and it's in the right direction. So we are happy with the asset and only if we see something that really deserves a try in our side in the upstream level we'll go for it.

Okay, Alejandro?

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**Alejandro Demichelis** - *Exane BNP Paribas - Analyst*

Okay, that's fantastic. Thank you.

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**Angel Bautista** - *Repsol SA - Director, IR*

Thank you very much, Alejandro. (Spoken in Spanish). Now let's move to Jon Rigby from UBS. Hello, Jon, how are you? Please go ahead with your questions.

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**Jon Rigby** - *UBS - Analyst*

Thanks, Angel. Hello, Miguel. Two questions please. Can you just go a little bit more detail about the mechanics of your gas and power business now with the Canaport operation?

And obviously you've alluded to some increased trading opportunities, so I guess now we can just focus on that business. Whether you can just talk a little bit more about what it is that will drive earnings in a bit more detail.





And also, just referring back to the very good result that you got this quarter, how much of that is a legacy of some preferred LNG pricing that you had from your old position that you can't repeat going forward?

And the second question is can you just talk a little bit more about any tangible changes or aims that you have from the -- or the Board has from the appointment of the CEO, or the insertion of a CEO into the management structure, and what that will likely do as an outsider, as we look at it, in terms of the way you work and maybe the benefits you would see occurring from it? Thanks.

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

Starting with the first one, I think that the basic difference with what we had before is that before the selling we had our own gas. Right now we do not. So basically what we have done in Canaport is really to obtain the maximum flexibility there to use it in order to trade with gas and electricity in the US, basically.

So I would say it's exactly the main situation we had before, but only with the minimum send out we are able to use it as a trading facility, if you want. Okay?

As far as I know there is not any legacy impact on P&L from the prior-existing assets. The only thing is that we signed a -- within the agreement with Shell we had some -- a contract for some gas with them and it's the only thing I can remember right now that is impacting the first-quarter results.

So basically no impact and only the 10-year contract with Shell is the one that it's -- that could be in line with what you have mentioned. Okay?

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**Jon Rigby** - *UBS - Analyst*

So there's no cost of sale benefit from it because you'd taken it under a previously cheaper LNG contract which you'd have to replace with a market contract or market supply going forward?

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

That's totally correct. What we can do right now is to look at the market, see when it's the moment to buy a cargo spot, send it to Canaport and then commercialize it after a month or two, or when our traders consider it appropriate.

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**Jon Rigby** - *UBS - Analyst*

Right.

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

But basically we have lost that difference. We have made some gains with the sale but, for sure, the counterpart is the one you correctly pointed out. Okay?

And in relation with the appointment of the CEO benefit, I think that -- first that the governance is quite clear in these days that the split between the chairman position and the CEO position it's totally in line with the best corporate practice. And I would say that's it, somehow to have a [counter-power] in a company, and this is what we have done.

Why right now? Well, I think that the Company had in the last two years a real stress situation due to the YPF expropriation and the Board analyzed it and thought that it was about time. So I think that basically it's -- that's the reason behind it.



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**Jon Rigby** - UBS - Analyst

Right.

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**Miguel Martinez** - Repsol SA - CFO

Did I answer you, Jon?

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**Jon Rigby** - UBS - Analyst

Yes, I think so. Thank you.

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**Miguel Martinez** - Repsol SA - CFO

You're welcome.

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**Angel Bautista** - Repsol SA - Director, IR

Thank you, Jon, for your questions. Now let's move to Irene Himona from Soc Gen. Hi, Irene, how are you? Please go ahead with your questions.

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**Irene Himona** - Societe Generale - Analyst

Good afternoon and congratulations on a strong set of Q1 numbers. I had three quick questions. So, firstly, Group capital expenditure year on year increased about 12%. I wonder if you can reiterate your guidance for the full year.

Secondly, Venezuela, again your upstream spending is up about 12% and you mention that Cardon is due to start up by year end. I just wonder if you can say a quick word, Miguel, on the upstream economics of those barrels in Venezuela and what sort of dollar margin should we be looking for?

And my final question, just to clarify something on the cash flow statement, you show cash from operations just under EUR1.1b, cash on investment EUR1.34b, but that includes the EUR912m cash outflow which is not classified as CapEx. So I just wonder what that item is. And were you actually cash negative in Q1? Thank you.

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**Miguel Martinez** - Repsol SA - CFO

Thanks, Irene. CapEx for the year would be around EUR3.5b, from which EUR2.7b would be in the upstream division, okay?

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**Irene Himona** - Societe Generale - Analyst

Okay, thank you.

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**Miguel Martinez** - Repsol SA - CFO

In relation with Venezuela I would say that first the price we're going to obtain from the gas is \$3.69 per million BTU and then there's some inflation regarding some industrial American index or something like that. So basically it's \$3.69.



And if we talk about the return of the project we're in the mid teens --

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

Okay.

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

-- as of today, okay?

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

Okay.

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

And probably what you are somehow missing in -- is that within investments we have \$900m which are financial investments, part of the liquidity we have put it at three -- at a term of three and six months, so it had to appear as investment and that's probably the reason why we are there.

Other than that, it's true that we are tight and we knew that in 2014 and 2015 the cash generation is going to be tight. But that was clear since we sell the LNG division.

So the liquidity position of the Company allowed us in that case that we do not have any inorganic transaction will help us to cross these two years. Other than that, by 2016 really the cash generation in the upstream division will fly, so (multiple speakers)?

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

Yes, thank you, but just a very quick supplementary. So by 2016 I presume you assume Libya is back up to normal levels?

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

I would say that by -- yes. By 2016 you will have all the -- the two projects in Santos 9 at full speed, so basically this is one important factor. US will help as well.

So the whole thing would be flying clearly, at least in our projection, by 2016. But your comment is totally right. In 2014 and 2015 without the LNG division we are going to be tight in cash terms.

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

Okay, thank you very much.

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

You ask also for Libya, or --?



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

No, no that's fine.

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

Okay, sorry. Someone passed me a paper. Sorry about that.

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

Thank you.

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**Angel Bautista** - *Repsol SA - Director, IR*

Thank you, Irene. Now let's move to Bruno Silva from BPI. Hi, Bruno, please go ahead with your questions.

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

Good morning everyone. Thank you for taking my questions. The first one just a clarification regarding the potential acquisitions of companies or assets in upstream, as you have mentioned today.

Can you please add more color on your approach considering the relevant opportunity costs you may have looking at the return on capital employed from organic -- from the organic strategy you have been pursuing in upstream until now?

And I guess this can be particularly important if you consider the alternative to use it to remunerate shareholders through extraordinary dividend, or a more aggressive buyback in the coming months, or even boost CapEx, as I think you have mentioned, to acquire new exploration acreage and basically continue the strategy you have been deploying over the last years.

The second question regarding the bonds from Argentina and in terms of its monetization. Has the context and/or your mindset evolved since the last conference call in terms of the timing and the possibility to sell it down in a tighter timeframe than you were thinking before?

And finally clarification on results and the guidance you have given regarding production growth for this year of 7%. I believe that in the full-year conference call you have mentioned that you will be growing more or less in line with the annual targets you have, so the 7%, already considering Libya.

So if we are excluding Libya and you already knew at the time that Libya was facing these stoppages, it looks like -- correct me if I'm wrong. It looks like that there is a lower estimate for ex-Libya production growth. Can you please clarify that? Thank you very much.

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

Thank you. Thank you, Bruno. In relation with the potential acquisition really I cannot give you more color, other than any acquisition should return above 8%, which is our work.

The alternative of the dividend is in the hands of the Board, so it's a Board decision whether or not it would be an extraordinary dividend. So I don't have any comment there.

In relation with the bonds, if you remember, Antonio, in the last call it indicated that two years was the limit somehow, so my indication of a lower time is simply that.

We have to clear these bonds before two years and my estimate is that if we found a window of opportunity we'll go for it. Right now no more to say, but there is not any change in the idea. The shorter the better. Well, I would say the best price the better. And if we found a good window but for sure we will take it.

And in relation with the production growth let me give you data, because I don't want to make any assessments of Libya, because at the end it's really difficult to know which the output will be.

But for you to know Libya implies approximately a 12% of our last year's production on a normal basis, so it's 40,000 barrels a day and on that you can make any assumption as good as I can do it. So it's 40,000 barrels.

But also if you want each of these day -- each day of stoppage implies EUR3m of -- at the EBIT level and EUR1m after tax. And I think that with that data you can make as good a guidance for production as I can do it, with the 7% growth in the ex-Libya situation. Okay, Bruno?

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

Okay, thank you. But just very quickly, so excluding Libya and looking at your expectations at the beginning of the year, there is no deviation so far? So ex-Libya production is growing in line with your expectations? Is that correct?

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

That's correct and even the fall in the first quarter of Trinidad and Tobago was in our budget.

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

Okay, thank you very much.

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**Angel Bautista** - *Repsol SA - Director, IR*

Okay, thank you, Bruno. Let's move now to Matt Lofting from Nomura. Hi, Matt, how are you? Please go ahead with your questions.

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**Matt Lofting** - *Nomura - Analyst*

Hi, thanks for the presentation. Miguel, a couple of quick questions just on exploration firstly, coming back to some of the comments you made at the start. It sounded like the comments around Alaska were reasonably encouraging. I wondered if you could give us a sense of the resource additions there.

And then, secondly, some of the higher-impact wells that are currently drilling in the likes of Angola and Kurdistan, if you'd give a sense of when you expect to get towards completion of those prospects as we move through the year.

And the secondly, on a separate topic, I wondered if you could just update us on the credit side in terms of where you are, whether you've engaged with the credit agencies recently and how they're thinking, and whether there's any input from their side that affects how you guys think about the extent to which you can reinvest from a capital perspective going forward. Thanks.



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

Thank you, Matt. Well, in Alaska we need to evaluate the results of the three positive wells, the two appraisals and the exploratory one. It's way too early for us to make any comment, though we are positive.

Talking about interesting exploratory wells this year, I think that we have a good collection. We have several Gulf of Mexicos which are important. We also have the Angola campaign which also could be of interest. In Kurdistan we are already drilling the second well and we will see.

And then we have some other -- the bread and butter with more Libyas, more Russia, more Namibia, Mauritania, so -- but to me at least Angola and the US are the critical one, other than the appraisals in Brazil.

And the -- yes, the other question refers the agencies. Well, the agencies were positive, first, because we have delivered in the last two years every step and all the actions we put on the table after the expropriation of YPF; that as a first comment.

I think that right now they're waiting for us to monetize the Argentine bonds as a first step and then to see if we will acquire any asset, or combination or group of assets. But I would say the comments of the three agencies were really positive on us. Having said so, do we expect a -- to increase a notch our rating? I would say not short term.

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**Matt Lofting** - *Nomura - Analyst*

Okay, very clear. Thanks for the comments.

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

You're welcome, Matt.

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**Angel Bautista** - *Repsol SA - Director, IR*

Okay, thank you, Matt. Now let's move to Lydia Rainforth from Barclays. Hi, Lydia, how are you? Please go ahead with your questions.

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

Hi, Angel, thank you very much. Two quick questions if I could. Now, Miguel, you talked about the premium for the downstream margin being \$2.6 a barrel this year versus \$1.8 a year ago. Can you just talk about how you expect that to evolve during the rest of the year and whether there was anything specific for the first quarter?

And then secondly, just on the share repurchase program, can you just talk through -- I know you were talking about buying back up to EUR500m [of] share. Is that now -- that's still the intention, or is there anything that could change that amount of share repurchase that you'd be looking to do? Thanks.

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

Thanks, Lydia. Well, basically in the first quarter what we had, and I think in comparison with other European refiners, is that the spread between heavy and light oils had increased approximately \$4, \$4.5, and this is what has helped us, because in the other side the product -- the spread of the product really has really shrunk versus last year.

Expectation for the rest of the year difficult to say and to me the refining system in Europe is really dependent on closing of facilities more than any other thing, so positive because of our system, negative because of the refining situation in Europe.

In relation with the buyback I cannot change it. It was an AGM decision and we haven't bought yet a single share. Okay?

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**Lydia Rainforth** - Barclays - Analyst

Perfect, thank you very much.

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**Angel Bautista** - Repsol SA - Director, IR

Thank you, Lydia. Now let's move to Thomas Adolff from Credit Suisse. Hi, Thomas, how are you? Please go ahead with your question.

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**Thomas Adolff** - Credit Suisse - Analyst

Hi, thanks for taking my question. You've got a new CEO. Your strategy update is now some two years ago. Obviously, the outlook was provided to 2016. When we can expect a new update from the CEO and if there's any change obviously to the strategy?

And then the other question is just some numbers if possible. On Libya where do we stand right now in terms of production?

And on your comments on Sapinhoa, where you said 15 KBD on average in 2014, is that just oil or oil and gas? Thank you.

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**Miguel Martinez** - Repsol SA - CFO

Well, we have talked about it and probably by the year end/first quarter next year we'll be updating our strategic plan. This is part of the new task of the CEO and it probably would be in the market at the same time that the 2014 final results as a first approach.

In relation with Libya our current production is zero. [Thintam] has blocked all the production and for us it's quite difficult to assess any output in Libya today. My guess would be as bad as anyone.

And in relation with the Sapinhoa production I would say that approximately 3% of it is gas, 97% is oil, so basically I would say it's all oil. Okay, Thomas?

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**Thomas Adolff** - Credit Suisse - Analyst

Okay, thank you.

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**Miguel Martinez** - Repsol SA - CFO

You're welcome.

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**Angel Bautista** - Repsol SA - Director, IR

Thank you very much, Thomas. Please, Anish Kapadia, go ahead, from TPH.

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

Hi, good afternoon. I just had a question, because looking through your portfolio you're talking about acquisitions, but are there any disposals that you're still looking at in terms of any non-core assets in the upstream or the downstream? Or have you finished that process?

Second question, back onto the acquisitions, we've seen a number of take-outs or potential deals when you're looking at the E&P space, especially the companies outside of the US looking quite attractive. Would you potentially consider buying a company, or are you more focused on looking at assets?

And the final question, just going back to a question that was asked earlier, if you don't find suitable acquisitions would you return the excess cash to shareholders? And what would be the timeframe for thinking about doing that? When would you need to make a decision on either making an acquisition or returning cash to shareholders? Thank you.

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

Thanks, Anish. Well, in relation with disposals we don't have any plan to dispose any asset that has a significant materiality, okay, so nothing on that side.

In relation with companies or assets we are screening whatever it moves, and we're looking for value, so to me it's not an issue whether it's a company, whether it's an asset, or a combination of assets of companies, or a combination of assets. So it's more value.

Until now we have not found this -- the asset or the company that really suits in what we want, which I mentioned before was extra growth capacity, OECD, future growth within the acquisition and the taking new capabilities, but we keep looking.

For how long and which is the timeframe? Well, difficult to say, but we think that size, despite what they say, it's important, and not only important for the sake for size.

You have to think that in front of other companies in all the joint ventures to really have a sizeable company allows you to get into better projects, but it's also affecting the trading capabilities. It affects many other factors. It's not just a single one.

So, as mentioned before, we don't have a defined date in which we will do anything. And on top of that, for sure, the return to the shareholders is part of a Board decision. It's not on us. And this is all I can tell you, Anish. I don't have any other input to provide you. Sorry about that.

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

Okay, no problem. Thank you.

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**Angel Bautista** - *Repsol SA - Director, IR*

Thank you very much, Anish. Please Peter, Peter Hutton from RBC, how are you Peter? Please go ahead.

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**Peter Hutton** - *RBC Europe - Analyst*

I've very well thanks. It's actually following up again on the M&A discussions and the criteria that you use, including that the acquisition candidates should return at least WACC of 8%, which we would, frankly, expect.



Given the criteria that you've just laid out and the fact that you've not found any assets that meet all of those criteria in what a lot of people see as a buyer's market at the moment, is there any particular one of those criteria which the assets or companies that you're screening are failing to reach the hurdle?

Or are they -- is it fairly spread over different things? Because I would have thought normally it's the returns where candidates come under the most pressure, but if your criterion is returning WACC I would have thought you have maybe some advantage in the market over some of the other competitors. So what -- where are they falling down so far?

A could of other quick questions again on Libya. Sorry to follow the consensus on this one. But I know Marathon have decided to take out guidance on Libya and any inclusion of their volumes in their guidance. Is that something where you're close to confirming, given you inability to predict what the volumes are likely to be on Libya?

And, finally, you ran through some of the high-impact wells for 2014. I wonder if you could give an update on Orca, which I think was -- when you spoke in the exploration day in January was due to spud in the second quarter of this year and was described as one of the most important or largest prospects in the Repsol portfolio 2014. Is there any delays on that?

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**Miguel Martinez** - Repsol SA - CFO

Peter, thanks for your question. Everyone is telling me this is a buyer's market, but I don't know why I don't find the clue or the key to really find something that fits. Probably we are too conservative in the approach. Probably there are some other reasons there. But really we don't -- we haven't found anything yet.

We will keep working and we will see. But right now there is no -- probably to me the interest rates are so low. If you look at the listed company -- listed companies the Dow Jones moved from 6,000 to 15,000 and this -- everything at the end correlates. So to me right now everything is quite expensive. But I agree with you that everyone told that this is a buyer's world, but I don't get it, okay?

In relation with Orca, Orca would be spudded in the second part of the year. And it's true that I didn't mention it, because normally there is some differentiation because -- between the opinion of the geologist and the opinion of the financial -- the CFOs.

I look more for the money, they look for the geological concept, and this is the reason why I didn't mention it. But it will be spudded in the second part of the year.

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**Peter Hutton** - RBC Europe - Analyst

Understood.

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**Miguel Martinez** - Repsol SA - CFO

Okay, thank you.

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**Peter Hutton** - RBC Europe - Analyst

And Libya, not strip that out of the formal guidance, or just leave us to do that with the 40,000 barrels a day guidance?

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

Honestly, I do prefer -- with the data you have you can make as good or as bad a guess as I can do it. So without Libya it would be 7%. Libya at full speed is 40,000 barrels a day. And I don't have anything hint there. I really don't know whether or not we would be producing tomorrow.

One thing is clear, the reservoirs are magnificent. They recover within two, three days. And Libya desperately needs the oil. It is the only income source. So let's cross the finger and let's hope they solve the internal situation which allows us to work in a normal way. But I don't have any guidance to give you. Sorry about that.

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**Peter Hutton** - *RBC Europe - Analyst*

Understood, many thanks.

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**Angel Bautista** - *Repsol SA - Director, IR*

Thank you very much, Peter. And now let's move to Jason Kenney from Santander. Hi, Jason, how are you?

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

Very well thanks and thanks for taking the question. A couple of tax rate questions if I can. Can you give me the tax rate on the capital gain from YPF and then maybe some advice on where the tax rates could be upstream and downstream for 2014 and also at Group level?

And then, secondly, can you confirm if there's been any conversations with OHL regarding a core shareholder stake in Repsol at any point, and maybe the relationship -- or your view of relationship with the current key stakeholders at this time? Many thanks.

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

Well, tax rate in this quarter has been a 42% and on average. And this is mainly due to Libya. Libya it's a 66%, 67% rate of corporate tax, so the lack of Libya reduced the effective.

Upstream should be around 52%, 55% -- 52%, 53%, while downstream would be around 28%.

Medium term, well, it's going to depend much on whether -- where the incomes come from, so I would say 44% could be a data that could help us, as a hint, as a guidance for the rest of the year, okay?

In relation with the tax rate of the gains in the YPF shares, first, the shares were allocated in different countries, so it's not such an easy question, though -- and still difficult to say, but the corporate tax on average between the different countries would be between 30% and 35%.

And in relation with OHL I don't have anything to comment on that, at least as far as I know they have not approached us, so no comment on that.

And in relationships between -- when you ask the question about relationships with main shareholders you refer to Repsol with -- or OHL?

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

With Repsol, so obviously with Caixa --

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

Okay.

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

-- and Temasek and these kind of guys.

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

I would say that relations I would say perfect with Sacyr, with Caixa and with Temasek. And with Pemex, as mentioned before, we are totally open to make any agreement, to hear any proposal they may put, but apparently it's not working that well. And one of the tasks, as mentioned before, for the new CEO is really to improve that relationship. Okay, Jason?

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

Perfect, many thanks.

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**Angel Bautista** - *Repsol SA - Director, IR*

Okay, we don't have any more questions to the best of our knowledge. Therefore, we finish this conference call. As you know, in the IR area from Repsol we are at your entire service to clarify and to answer as soon as possible any further queries you may have. And thank you very much for attending this conference call. And --

Sorry, we have one more question, Filipe Rosa. Filipe, you have connected yourself very late, how are you?

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**Filipe Rosa** - *BES - Analyst*

Hi. No, I'm fine and I hope you are all well. Three questions if I may, two of them are follow-ups, the first one on the strategy to monetize the bonds.

Just, Miguel, just for us to try to understand the strategy of Repsol, I know that you probably cannot tell much, but should we assume that every time that you manage to sell bonds in the market at a valuation around the \$5b headline compensation number you will come to the market? Or would you be willing to accept some discounts to accelerate the sale, as you did, for instance, in the case of the YPF's stake?

The second question relates to the exploration activity. Just because Angola -- I was seeing your map in the presentation and Angola the first well doesn't show up there. You already finished drilling? When could you announce the results? I know that you are not the operator, but when could you have the results from ENI on this first well, which is rather important?

And my third question relates to this new gas and power division with the North American assets. Should we assume that even your increased trading capabilities, even in normalized weather conditions, you should be able to get some returns out of these assets? Or should we model this as a zero EBIT operation over the long term? Thank you very much.

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

Well, in the strategy to -- well, thanks, Filipe. Angel Bautista didn't want you to make questions, but (multiple speakers), okay?



Well, in the strategy to monetize the bonds, accept discounts, well, you have to understand that one thing is the face value which is what we have received, which if \$5.3b face value, the second thing is the market value and the third one is the realization or the monetization price.

And for sure if there's some discount to be made there we will do it. For sure, right now over the face value all of them are quote, with discounts, and on top of that if you handle \$5b to be sold to the market, for sure, there would be some extra discount, okay?

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**Filipe Rosa** - *BES - Analyst*

Okay.

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

In the Angola story, well, that is ENI the one that should ask -- should answer your question. We cannot tell anything right now. They have the operatorships and they are trying to finish some of the evaluation. I cannot give you more color about that, sorry.

And, finally, remember that in relation with the gas and power we accrued last year almost \$1.8b, \$900m refers to the asset base and \$900m to the contracts in the pipelines. So basically these two accruals will provide us a -- zero results for the following years.

Other than that, if we are able to really trade better, as we did in the first quarter, we probably will make some gains, but it will not be material in relation with the rest of the results of the Company.

Did I answer you, Filipe?

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**Filipe Rosa** - *BES - Analyst*

Yes, thank you very much.

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

You're welcome.

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**Angel Bautista** - *Repsol SA - Director, IR*

Well, Filipe, I always like to speak with you. Well, I believe that now we are finally over and thank you very much again for attending this conference call. And any further queries at your service at the IR area from Repsol. Thank you very much and bye. Cheers.

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**Operator**

Thank you. Ladies and gentlemen that will conclude today's conference call. Thank you for your participation and you may now disconnect.

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