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REP.MC - Q2 2015 Repsol SA Earnings Call

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CORPORATE PARTICIPANTS**Angel Bautista** *Repsol SA - Head of IR***Miguel Martinez** *Repsol SA - CFO***CONFERENCE CALL PARTICIPANTS****Flora Trinidad** *BPI - Analyst***Brendan Warn** *Bank of Montreal - Analyst***Haythem Rashed** *Morgan Stanley - Analyst***Anish Kapadia** *Tudor Pickering Holt - Analyst***Filipe Rosa** *Banco Espirito Santo - Analyst***Thomas Adolff** *Credit Suisse - Analyst***Jon Rigby** *UBS - Analyst***Matt Lofting** *Nomura - Analyst***Hamish Clegg** *BofA Merrill Lynch - Analyst***Irene Himona** *Societe Generale - Analyst***Marc Kofler** *Jefferies - Analyst***Luis de Toledo** *BBVA - Analyst***Nitin Sharma** *JPMorgan - Analyst***PRESENTATION****Operator**

Hello and welcome to the Repsol second quarter 2015 results conference call. This conference is being recorded. Today's conference will be conducted by Miguel Martinez, CFO. A brief introduction will be given by Mr. Angel Bautista, Head of Investor Relations. I will now hand the call over to Mr. Bautista. Please go ahead.

Angel Bautista - Repsol SA - Head of IR

Thank you. Good day ladies and gentlemen. This is Angel Bautista, Director of Investor Relations at Repsol. On behalf of our Company I would like to thank you for taking the time to attend this conference call on Repsol's second quarter 2015 results.

This presentation will be conducted by Miguel Martinez, our Chief Financial Officer. Over members of the Executive Committee will be joining us as well. I invite you to read our disclaimer notes. We may make forward looking statements which are identified by the use of words such as will, expect and similar phrases. Present results may differ materially depending on a number of factors, as indicated on the slide.

Before we start, I would like to make an invitation. In order to help analysts to understand and model the new Repsol, the Investor Relations team will be organizing workshops to be held in London and in Madrid during the month of September. Please send us your requests in order to organize them.

I now hand the conference over to Mr. Miguel Martinez.



Miguel Martinez - Repsol SA - CFO

Thank you Angel and thank you all for attending this conference on the second quarter 2015 results. This quarter we are integrating the results of Talisman assets from May 8 2015. CCS adjusted net income was EUR312m and EUR1.2b for the quarter and the first half of the year respectively.

Today we will address four topics. First, some words about the integration of Talisman, second, the market environment for the quarter and the main operational highlights, third, an outlook of 2015 and the efficiency measures we are undertaking, and finally, the quarterly results.

Starting with the integration of Talisman, as you may know May 8 we closed the transaction. Following the closing a new organizational structure has been implemented to include the integrated assets in our upstream division. This new organization comprises four regional areas, Europe, Africa and Brazil; North America; South America and Asia and Russia. Reporting of results and operating figures in the upstream business will be shown from now onwards according to this new structure.

We have already completed the purchase price allocation and the goodwill value has been established in \$2.6b out of which \$2.1b are deferred tax liabilities. This value is firmly supported by the identified synergies we will speak about in a few minutes. We'll have one year to adjust and refine the allocation, as accepted by IFRS.

Turning now to the market environment and main operational highlights, during the second quarter of the year the weakness in the oil price has continued, counterweighted by a strong US dollar. Brent crude prices recorded a maximum of \$66.7 in May and averaged \$61.9 per barrel in the quarter, an \$8 per barrel increase compared to the previous quarter.

Nevertheless, during the beginning of this third quarter we have observed that the weakness of the oil price continues. In relation with gas prices, they were also weak during the quarter. Henry Hub averaged \$2.6 per million btu, a figure that compares with the \$3 per million btu of the previous quarter and with the \$4.7 of second quarter 2014.

In relation with the operational activity of the quarter, let me start with the upstream business. In exploration during the second quarter 14 wells, 9 exploratory and 5 appraisals, were concluded, 6 with a positive result, 2 exploration wells in Algeria, the US, Alaska, 4 appraisal wells in Bolivia, Russia and the US. 4 wells had a negative outcome and 4 of them are under evaluation. As of today, 7 exploratory and appraisal wells are ongoing, out of which 3 are exploratory in Romania and in Brazil and 4 are appraisals in Brazil, Bolivia and Algeria.

In the second half of the year the drilling schedule is composed of a less risky exploration program and will entail lower investment than in the first half.

Talking about our development projects, this quarter it's worth highlighting the progress in Brazil, Venezuela, Colombia, Canada, Vietnam and Malaysia. In Brazil we continue with the ramp-up of Sapinhoa North; the third well was connected to our second FPSO in place, Cidade de Ilhabela, in May. Gas injection commenced in June, allowing gross production to increase to 90,000 barrels per day in the second platform. At the end of 2015 peak production is expected to be reached in the second FPSO which has a gross capacity of 150,000 barrels per day. Together with the first FPSO the field will reach the planned plateau of 270,000 barrels per day.

In Venezuela (inaudible) at the end of the quarter Repsol has started up the first producing well at the Perla field, the largest offshore gas field in Latin America, holding 17 Tcf of gas in place. This first phase of the development will produce 150m of standard cubic feet per day, rising to 450m cubic feet per day by the end of 2015. With the start-up of this field the eighth key growth project of our 2012/2016 strategic plan has been delivered.

In Colombia the average gross production for CPO-9 block reached 10,000 barrels of oil equivalent per day. The block is operated by Ecopetrol, 55%, and Repsol owns 45%. We continue working on the definition of the field development plan for the Akacias project in this block with a final investment decision expected before year-end. Exploration activities in other areas of the block are moving forward also.

In Canada, in the Duvernay play appraisal drilling of the Company's land in the South Duvernay continue. Drilling operation at a two-well pad in Ferrier has now finished with completion scheduled in the following weeks.



In Vietnam, once the outline development plan of Red Emperor in Block 73 was approved by partners and PetroVietnam back in January the commercial declaration was completed in early July. A formal approval of the development plan and associated final investment decision is expected to be taken by the year-end. The net investment that will be devoted to this project in the period 2015-2019 is \$630m.

In Malaysia, a final investment decision has been taken by the end of June for the redevelopment of the Kinabalu field with a \$200m net investment in the 2015-2018 period. Negotiations for a 10-year extension of the license of PM3 field expiring in 2017 and intended to consolidate our presence in the country are well advanced.

To finalize with the development projects, let me say that the remaining key growth projects of our 2012/2016 strategic plan for Lapa in Brazil and Reganne in Algeria progress as planned, to deliver production in fourth quarter 2016 for Lapa and in first quarter 2017 in Reganne. In Lapa development will commence in the north east area but the test performed in Lapa 9 well with an initial productivity of 2,000 barrels per day encouraged a faster development of Lapa South, also as a second project stage.

Turning to production, the average production for the quarter stood at 525,000 barrels of oil equivalent per day. This figure is 55% higher year on year. Production from Talisman assets has been included since May 8. Out of the overall figure 182,000 barrels of oil equivalent per day come from the recently acquired assets.

Excluding Talisman assets, production increased 1% year on year, thanks to the ramp-up of Sapinhoa in Brazil, partially offset by the maintenance work carried out in Trinidad and Tobago. For the full year we expect a 6% production increase on average on a homogenous basis, that is to say, stripping out Libya from both periods. This increase is in line with the goal established in our strategic plan.

Average production in June stood at 660,000 barrels of oil equivalent per day. The contribution of former Talisman assets in June has been on average 307,000 barrels of oil equivalent per day. Our 660,000 barrels of current production is split as follows. 190,000 barrels of oil equivalent per day produced in North America region. Marcellus has averaged 73,000 and Eagle Ford 25,000 barrels, with Canada delivering 54,000 barrels. 108,000 barrels of oil equivalent produced in Asia and Russia, most of it in the new South East Asia core region. 93,000 of oil equivalent per day produced in Europe, Africa and Brazil, out of which 40,000 comes from former Talisman positions in Norway and in the UK. Unfortunately we still cannot produce in Libya. 269,000 barrels of oil equivalent per day produced in South America region, out of which 21,000 come from former Talisman production in Colombia.

Out of these productive areas let me go into more detail in Marcellus and Eagle Ford where in June, as mentioned, we produced 73,000 and 25,000 barrels of oil equivalent per day. Regarding the Marcellus, our acreage is held by production, allowing us great flexibility in our CapEx position. This year began with two drilling rigs but has been reduced to only one for the remainder of the year, which will allow us to maintain a production plateau of about 400m cubic feet per day net of royalties with self-sustained cash flow at the given current price scenario.

Gas price will direct the pace of growth of this asset. During the first half of the year 17 development wells were drilled in our play and production from the Friendsville area continues to ramp up following completion of gas compression facilities.

In Eagle Ford our acreage in the play is mainly held by production, which will allow us to drill in the most prolific areas of the assets. We are lowering costs and improving efficiencies in the play. Our drilling is focused on liquids-rich acreage where economics are superior. This year activity is based on a three gross rig program, one operated by Repsol and two by Statoil. In addition, Repsol participates in a third party non-operated program focused on the liquids-rich part of the play. During the first half of the year 63 new development wells were drilled in our acreage, equivalent to 19 net wells for Repsol.

Let me also give you a brief update about our UK operations. In the UK the production of Tartan, which had been shut down since the third quarter 2012, has been restarted following intensive upgrades and maintenance activities. Monarb and Claymore have performed well also in the quarter and works on platform Abroath have been finalized, which has allowed production to restart.



Overall we have been able to significantly increase production in the UK quarter on quarter. In relation with the UK-wide turnaround plan we can confirm that today it's being implemented in a satisfactory manner with a new organization in place with staff optimization and production efficiency measures deployed and more to come.

Moving now to the operational highlights in the downstream divisions. With regard to the refining environment, we achieved an average margin of \$9.1 per barrel, slightly above that of the previous quarter. In comparison with the second quarter of last year the margin improves in \$6 per barrel, thanks to the generalized strengthening of the spreads of products together with lower energy costs. The high complexity of our refining system and the self-consumption efficiency program helped to capture the benefits of the existing scenario. The distillation utilization rate was 89% during the quarter while conversion ran at full capacity.

In petrochemicals we continue seeing an improving environment with higher sales and better margins. This, together with the competitiveness plan we put in place a year ago, allowed us to achieve very positive results during the quarter, continuing the previous trend. In the commercial business, marketing and LPG, operating income was lower year on year, mainly due to a [regulation] of prices that took place during the second quarter of 2014 in the LPG business. Notably sales of gasoline and diesel in service stations in the second quarter grew by 1% year on year and wholesale sales by 17% year on year.

In gas and power sales volume decreased and the price environment in North America was tougher. The Algonquin gas price reference averaged \$2.2 per million btu in the second quarter, well below the value registered in the second quarter of 2014 which was \$4.2.

Regarding the outlook for the rest of the year, with a Brent oil price assumption of \$59 per barrel in 2015 and Henry Hub of \$3, we expect to achieve an EBITDA between EUR5b and EUR5.5b for the full year. Talisman assets will contribute with an EBITDA of EUR800m. Therefore, the outlook for 2015 EBITDA, excluding the contribution from Talisman assets, is a figure in the same range as that obtained in 2014, even in an oil price scenario almost \$40 lower than that of the previous year and having no contribution from Libya.

I'd like to stop now to explain what we are doing in order to reduce and optimize costs and CapEx. Repsol, as always but especially in the current situation, applied strict cost efficiency culture and is fully committed with the optimization of the OpEx and CapEx program. In downstream efforts in the last years have been focused on an ongoing energy efficiency saving program, on optimizing all purchases and on the maintenance and reliability programs, all of which have led to a refining margin increase of \$1.2 per barrel as compared with 2011. Efforts continue in this area.

In relation with the upstream CapEx, a review of every single project is underway, stopping or delaying investments in those which value is at risk in the current scenario. Repsol invested slightly below \$4.5b in upstream CapEx, including G&G and G&A in 2014. We would like to underline that in 2015, with Talisman assets onboard since May, Repsol will maintain an upstream CapEx at the same level as 2014. And more importantly, Repsol has the objective of maintaining this investment flat in 2016 in a Company with an upstream twice as big.

Going into detail with the upstream CapEx, in exploration CapEx in 2015 for Repsol ex Talisman will be reduced by 27% from \$1.8b in 2014 to \$1.3b in 2015. Adding the exploration CapEx budget for the former Talisman assets we can conclude that even managing a much bigger Company our exploration investment is being materially reduced.

In relation with the development CapEx, it's also being reduced for Talisman -- for Repsol ex Talisman. It goes down 15% from \$2.5b to \$2.1b. All in all, upstream CapEx of Repsol ex Talisman will be reduced by 21% in 2015. Furthermore, [former] Talisman assets exploration and development CapEx for the period May-December 2015 will be \$1.2b, expecting to end with a figure below the guidance before the acquisition.

Together with the efforts to optimize CapEx we launched the Go program this year in order to identify improvement measures to increase our income through efficiency and innovation. These measures comprise among others the renegotiation of contracts. Within the Go program in our negotiations with contractors and existing contracts in the upstream business we expect to finalize 2015 with reductions of up to 6% on average. As these contracts are expiring and we are opening a new bidding process and our expectation is to obtain additional cuts of between 10% and 20% we will endure in our efforts.



Last, in relation with our recurrent synergies coming from Talisman acquisition, we have increased our target from \$220m previously established to an annual amount of \$350m now that we have been able to analyze the joint Company hands-on and in depth. Of this amount \$70m are already executed. We have identified more than [80] initiatives from various scopes and areas such as organization, IT, purchases, financial, G&A, together with business opportunities in trading and commercialization. On top of that, we are working on further identifying possible one-off effects of the integration that could add additional amounts to these synergies.

So adding up the application of the Go program and the recurrent synergies, we plan on improving our operating income by EUR500m in 2016. Repsol will present a new strategic plan in November after our third quarter results release with a very special focus on value creation.

Now let's move to the second quarter 2015 earnings performance. CCS adjusted net income was EUR312m, 20% lower compared with the same period of last year. CCS adjusted net income of the first half of the year was EUR1.2b, 35% higher compared with the same period of last year.

Starting with the upstream business, adjusted net income for the second quarter was minus EUR48m. This result has been mainly affected by the drop in crude oil and gas realization prices, partially compensated by the growth in production and the decrease in exploration costs. Excluding the impact of exploration costs, operating income of the upstream division would have been positive in both the second quarter and the first half of 2015.

The year on year performance, excluding the effect of the consolidation of Talisman, is explained as follows. Lower crude and gas realization prices had a negative impact at the operating level of EUR359m. Higher production, thanks mainly to the ramp-up of Sapinhoa, partially offset by the maintenance works carried out in Trinidad and Tobago resulted in a positive impact of EUR37m. Lower exploration costs led to an increase in the operating income of EUR128m and the decreased costs were mainly due to lower amortization of dry wells. Higher depreciation charges due to higher production had a negative impact of EUR37m. Taxes had a positive impact of EUR89m. At current price Talisman assets have been at breakeven on a net adjusted basis. Positive results in South East Asia, Canada, Algeria and Colombia were partially offset by exploration cost and the negative results in Norway and in the non-conventional business in North America.

Turning to our downstream division, CCS adjusted net income in the quarter was EUR439m, which compares with EUR162m of the second quarter 2014. Drilling down into the quarterly results, in refining we saw a year on year increase in margins from \$3.1 to \$9.1 per barrel due to a generalized strengthening of the product spreads and lower energy costs derived from the efforts in efficiency undertaken in the last years.

These higher margins and also higher utilization rate had a positive impact at the operating level of EUR275m. The improvement in operating income of the refining activity in Spain comes together with better results in Peru.

In the petrochemical business wider margins and higher volumes allowed us to improve the operating income by EUR133m. This improvement is due to the competitiveness programs implemented, together with a better market environment.

In the commercial businesses the weaker result in the LPG business was the main driver of the EUR55m decrease in the operating income.

Moving to gas, power and trading, this business increased their joint operating income in EUR24m. The exchange rate effect was positive by EUR116m when compared year on year. And in Gas Natural Fenosa the EUR105m adjusted net income in the second quarter of 2015 was lower year on year, mainly due to the fact that in the second quarter of 2014 a capital gain on the sale of the telecom business was registered.

The financial result in the second quarter of 2015 has been EUR199m of net expense as compared to a financial expense of EUR46m in the same period last year. Two effects there. The first one is the exchange rate positions which increased the net expense year on year by EUR192m because of the positive results achieved in the second quarter of 2014. The second one is the EUR36m increase in interest on debt as a consequence of the payment of Talisman and the consolidation of its debt.

This figures have been partially compensated by the amortization of the bond offered in the cancellation of the preferred shares in the second quarter last year which had a positive effect of EUR71m.



JULY 30, 2015 / 11:00AM, REP.MC - Q2 2015 Repsol SA Earnings Call

Turning now to our financial situation, the Group's net financial debt at the end of the second quarter of 2015 amounted to EUR13.3b, an increase of EUR31.1m compared to the end of the first quarter 2015 due to the payment of the acquisition of Talisman and the consolidation of its debt. Beside these effects the business cash generation in the second quarter of 2015 was positive but negatively impacted by the increase in working capital. The increase in working capital has been generated largely because the business has stockpiled inventories in order to take a benefit from the (inaudible) structure in the (inaudible). We expect this effect to be reverted in the following quarters. Our liquidity position is EUR8.7b including cash and outstanding credit lines.

As conclusions, after achieving the integration of Talisman this is the first quarter in which we consolidate its results. We have delivered a solid set of results under a challenging macroeconomic scenario in which the performance of our downstream business offsets the lower results of the upstream division.

Regarding the outlook for the full year 2015, our estimated EBITDA is a figure in the same range than that obtained in 2014 even in a \$40 per barrel low oil price scenario and having no contribution from Libya. The macroeconomic scenario is weaker in the short term than we expected in our projections when we went ahead with the acquisition of Talisman. We have purchased these assets with a long-term view and we are aware that we must weather the current situation for some time.

Nevertheless, we now have a much deeper knowledge of the acquired assets and we are fully not only committed but convinced that we will extract value from them, even under challenging circumstances like the current ones.

From the combination of both companies, a series of value addition initiatives are arising and the broader project portfolio is allowing us to prioritize capital allocation to the highest cash flow and net income contributors as planned.

The combined entity has a high degree of flexibility regarding the timing and allocation of capital expenditure. As we have underlined, we have the objective of maintaining our upstream CapEx at equivalent levels, not only in 2015 but also in 2016, in a much larger Company. Therefore, the optimization of our joint CapEx with our cost reduction program and the identification and fulfilment of synergies is underway. Working to systematically bring down the breakeven price of every asset, coupled with the strong vertical integration, Repsol moves forward on full thrust on the generation of value for our shareholders.

We also remain engaged to financial discipline, maintaining a strong balance sheet and competitive shareholder remuneration.

Thank you so much and we'll be pleased to answer any questions you may wish to ask.

QUESTIONS AND ANSWERS

Angel Bautista - Repsol SA - Head of IR

Thank you very much. Let's move into the Q&A session. We have enabled a chat in the webcast in order to post questions only in the event there are connection problems in the call. You may identify it by a tab called Ask a Question. We will address these questions, if any, at the end, but please only use it in case we have any connection problems. Now let's move to the first questions.

We have first Flora Trinidad from BPI. Ola Flora, please go ahead with your questions.

Flora Trinidad - BPI - Analyst

Ola, Buenos dias. First question is regarding EBITDA guidance that you mentioned. I assume this includes the guidance you have given for downstream of EUR2.8b to EUR3b but just to confirm it? I'd also ask you if it's possible to give us a guidance for the operating income as well for 2015?

A detail also on the 2016 CapEx guidance. Can you just give us an indication of how much are you considering for Talisman in this year?



And then just a broad question. There was some news around divestments and they specifically mentioned Venezuela as one of the options up for sale. Are you able at this point to comment anything on divestments and can you just give us a sense of when can we expect news flow on this front?

And just finally, just a detail. I think you mentioned strategic plan in the third quarter results, but just to confirm. Thank you.

Miguel Martinez - *Repsol SA - CFO*

Thanks Flora for your questions. In relation with the EBITDA, I think that in the last quarter results presentation I gave a figure between EUR2.8b and EUR3b as EBITDA. My perception is that we will be a little higher than my prior estimates. We will be around between EUR3.2b and EUR3.4b. So take it EUR3.3b in a flat situation with the one we have seen in this quarter.

In relation with the EBIT for the whole Group, with the estimate we have expect to be around EUR2b and Talisman will contribute with approximately \$200 -- minus \$200m in that figure.

And finally in relation with divestments, not only about a single country but we refer to the commitment we had with the agencies which is to divest EUR1b in the next 14 months. The agreement with the agencies was that we have to divest EUR1b and we had 18 months since the closing date of Talisman. So we have approximately now 15, 16 months to deliver in that sense. We will deliver. But I'm not going to disclose which are going to be the assets. Sorry about that Flora.

Angel Bautista - *Repsol SA - Head of IR*

Gracias Flora, thank you, obrigado, thank you very much. Now let's move to Brendan Warn from Bank of Montreal. Hi Brendan, go ahead with your questions.

Brendan Warn - *Bank of Montreal - Analyst*

Hi guys and thanks for the opportunity to ask a couple of questions. Just two questions if I may. Just first question I guess more broadly on the acquisition and referring back to your presentation at the time of the acquisition, slide 24, where you talked about creating value and this deal being -- the IRR being above WACC. Can you give us a sense now, now having seen the assets and the assets being in your control, just what oil price you expect IRR would need to be for IRR to be above WACC and considering your higher synergy ability, the \$350m?

And then just second question, could you just zero in on the UK North Sea assets, just in terms of how much of a drag they are obviously on the performance of the assets that you've bought and what sort of plans you expect to take forward to create value from those assets please?

Miguel Martinez - *Repsol SA - CFO*

In relation with the first one, I don't have a clue. One thing is clear; we have bought (inaudible) reserves at \$10.5 per barrel and we know that right now the price situation, the price scenario is not in our favor, but we are going to be seated in those assets for 20 years. So all in, I can tell you that at the moment we did the transaction with the price that we commented last December we were above our WACC.

You can have the data if you look at the point that at this level Talisman EBIT is basically [sure]. So I would say I don't have the data here. We can make a calculation but we are quite optimistic that acquisition of Talisman is going to prove a very good move.

And the second question refers to the UK. On there, basically we are following the turnaround plan which implies the split of the assets, taking out those that really cannot deliver much, and on the other hand looking to increase activity in those that still have some life. But there's not any news other than the ones we have commented before. Things are moving in the right direction with the turnaround plan and in the other hand our



JULY 30, 2015 / 11:00AM, REP.MC - Q2 2015 Repsol SA Earnings Call

evaluation includes a negative value for the assets. So we knew that it was not an asset in which we pretend to really create value other than in front of the value we assigned to this asset. Sorry I cannot be more specific.

Brendan Warn - *Bank of Montreal - Analyst*

Well just in terms of the UK assets, do you expect the (inaudible) of development CapEx going forward into 2016? Is that a demand that we expect in terms of the CapEx commitment to the assets?

Miguel Martinez - *Repsol SA - CFO*

Do you mean in the UK?

Brendan Warn - *Bank of Montreal - Analyst*

UK, yes.

Miguel Martinez - *Repsol SA - CFO*

I don't have that specific. We're still in the way to work with this strategic plan and with the budget so I don't have any data for 2016 of any individual assets. What we have is an objective and the objective is to keep the CapEx flat for the upstream division, even including all the Talisman assets. But I don't have data for specific assets.

Brendan Warn - *Bank of Montreal - Analyst*

Okay, thanks Miguel.

Miguel Martinez - *Repsol SA - CFO*

Sorry Brendan, I cannot be more specific. I don't have those data.

Brendan Warn - *Bank of Montreal - Analyst*

Okay, thank you.

Angel Bautista - *Repsol SA - Head of IR*

Thank you Brendan. Thank you very much for your questions. Now let's move to Morgan Stanley, Haythem Rashed. Good to speak with you again today. Go ahead Haythem.

Haythem Rashed - *Morgan Stanley - Analyst*

Thank you Angel and thank you Miguel for the presentation. A few questions from my side please if possible. Firstly, just on -- coming back to the CapEx but actually looking ex-upstream because you've given obviously detail around your thoughts around upstream. But could you say anything about how you see CapEx for the Group evolving as we move into 2016? Do you think that that can also remain flat or is the downstream investment likely to move higher with Peru?



Secondly, just a question on the Go program. Could you perhaps talk a little bit more about the renegotiation of the contracts, just in terms of what sort of -- what is included in the numbers that you're talking about there? When we think about some of the drilling day rates that we've seen, the movements in some of the various different parts, the numbers that have been talked about in the industry in the last couple of months are higher than these numbers and higher than the 10% to 20% that you're targeting towards. Would you say this is somewhat conservative or if you could just give a little bit of color around that, that would be helpful?

Then the final question I have is in relation to the upstream OpEx efficiency that you highlighted in the previous call. I think you talked about a \$5 per barrel reduction in upstream costs that you were targeting. I wondered if you could just give us a sense of whether that's still the case, whether you could maybe do more or any update there would be very helpful. Thank you.

Miguel Martinez - Repsol SA - CFO

Thanks Haythem. In relation with CapEx in the downstream division, you know that in the past, I mean 2014 and prior, we have been around EUR700m, EUR750m, and this year it's going to be a little higher, as you point out, due to the investments we are doing in Peru which will end up this year the whole downstream division in EUR1b. This would be flat by 2016. Okay? So that's in relation with the CapEx for the downstream division.

Turning to the Go program and the savings, I'll have to say that basically our estimate as of today is that including the Go program and the synergies we'll be able to deliver the following impact in our P&L, EUR280m in this year, EUR550m in 2016, EUR700m in 2017 and EUR750m by 2018. How is this being to -- how is this working? Well first the Go program has 270 different initiatives as of today and they will increase -- they are increasing permanently. We have initiatives there of all types and I can mention some.

In Russia we're going to optimize the operational structure of our development assets. In Bolivia we're going to optimize the whole marketing of our production. In Brazil we're going to adapt the operating structure to current and projected level of activity and restructuring trade agreements. In the US we have cost reduction to improve rates of drilling and well services. In Trinidad and Tobago we are going to really improve the complex logistics we have there of transportation and storage.

In downstream our refineries have launched a new CO2 reduction program which implies better results thanks to the energy consumption, energy cost reduction, but goes along with it. In chemicals we have between many other projects to reduce the cracker capacity in Puertoallano which will give us extra margins.

So the GO program, it's a long one.

Then in the renegotiation process I would say, and I think I mentioned, that what we have obtained in existing contracts was a 5% in Repsol suppliers and a 7% in Talisman ones. but this is on existing contracts.

In the new contracts what we have seen, depending on the region more than in any other area, a reduction between 10% and 20%. Perhaps we may sound conservative but it's what we're seeing.

Finally and as it may be -- a question may arise at a given moment because it's totally linked to the GO program, in the synergies we are also -- and I would like to mention some of the initiatives of the synergies, some of them, as mentioned, are already implanted.

We can start with the removal of the Talisman Board and listing costs, Talisman top management restructuring. Integrate and optimize the space in Calgary and Houston offices including operating costs. Optimization of discretionary G&A. IT system optimization and scale effects. Action plans for the smaller offices already ongoing, Singapore, Amsterdam, (inaudible), Algeria, Jakarta, Luxembourg, Lima and Oslo. Optimization of the intergroup financing mechanism for Talisman entities. Integration of Talisman services and activity within Repsol current agreements for reinsurance programs.



JULY 30, 2015 / 11:00AM, REP.MC - Q2 2015 Repsol SA Earnings Call

We have more than 90 different activities going on and the whole company is moving in the same direction. Remember that our origin has always been downstream and in downstream we are quite efficient and costs, it's a must to be assessed. In the past years our goal in the upstream division was growth and this is a turning point, in the existing scenario I think that the culture is going to, the downstream culture is going to help us also to reduce CapEx and OpEx in the upstream division.

And finally in relation with the \$5 I mentioned, if you remember \$1 was cost reduction, \$2 were due to exploration reduction and the other \$2 were due to the mix of our production because we have several projects that are ramping up so the extra cost of the new barrel is much lower than the ones we had in the past, so the combination of those is \$5 per barrel which is what I mentioned in the last quarter results presentation, and we expect to improve that.

I cannot tell you how much it will be but our goal, our objective it will be to reach the \$9 per barrel of reduction in which I include the \$5 I mentioned before, so \$4 extra dollars is the objective. Whether we reach it on or it will be in our hands.

Haythem Rashed - Morgan Stanley - Analyst

Thank you Miguel, that's very helpful. Just a quick follow-up. On the 10% to 20% that you expect to reduce new contracts by, over what time frame are we talking here? Is it over a 12 month period or something less?

Miguel Martinez - Repsol SA - CFO

Once we renew it, I mean it's not a term that affects us but the maturity of the contracts. Once a contract is mature we have been capable of really reduce up to this 20% that I mentioned, so it's not a matter of when it will happen it's a matter of each contract is being renegotiated when it's finished. Okay?

Haythem Rashed - Morgan Stanley - Analyst

Okay, very clear. Thank you very much.

Miguel Martinez - Repsol SA - CFO

You're welcome.

Angel Bautista - Repsol SA - Head of IR

Thank you very much Hashem, as always. Now let's move to Anish Kapadia from Tudor Pickering Holt, TPH. I Anish, go ahead with your question.

Anish Kapadia - Tudor Pickering Holt - Analyst

Hi, good afternoon, I have three questions please. The first one was, could you just give us some idea of, you're going to have a CapEx reduction in 2016, what's the impact on production of the CapEx reduction in 2016? And would it lead to a reduction in proved reserves in North America in a low oil price environment?

The second one is related to the hybrid bond, I think you've still got EUR4b remaining. It seems like the hybrid bond market has got a little bit worse relative to your expectations of it getting better. I'm just wondering if you're still confident of getting the EUR4b of hybrids away and if you can't what's the alternative to improve the balance sheet position?



And then the final one was on Talisman's abandonment liabilities. If I've got it right, I think Talisman had about \$7b of abandonment liabilities on its balance sheet. I'm just wondering, are you carrying that same amount, has it change? And should we expect some of the spending on that to be brought forward in places like the UK where I think I've got a \$100 per barrel operating cost. Thank you.

Miguel Martinez - *Repsol SA - CFO*

Well thanks Anish for the questions. In relation with the first one, you have to think that we don't expect any impact in production due to this CapEx shortage. First, because the projects we have in front of us are ramping up, Cardon will be ramping up, Sapinhoa will be ramping up next year and by the end Lapa would be there as well.

On top of that think that in this year we have been a whole day without Libya -- the whole year without Libya. So if you combine only these four areas, short-term for sure there would be no impact at all.

Talking about the hybrids. First comment is that it's not EUR4b that we have left. We issued EUR2b this quarter, one of them was a non-call 6, the other was a non-call 10 and so we still have EUR3b to be issued.

And I'm positive, I think that the suffering that the fixed rate has been in the last month and a half, if you wanted, is totally related to, I would say Greece on one hand, the doubts about the Fed position in the other, and finally some news about China. But the market is so volatile that we will see what happens, but I think, and I am positive and I'm still confident in Mr. Draghi and his EUR60b per month which I hope that at the end will move the deals in the direction I expect.

And in the final one, in relation with the Talisman abandonment liabilities, as of today we don't have any material increase, so after our purchase price allocation analysis we have somehow confirmed what they have been in the Group. So basically, as of today, no changes there.

Anish Kapadia - *Tudor Pickering Holt - Analyst*

Just going back to the first question, I was just going to get a sense of, more in terms of North America, given your reduction CapEx over there would you expect production to fall in North America next year? And given the reduction in CapEx and low oil prices would you expect reserves to have to be de-booked?

Miguel Martinez - *Repsol SA - CFO*

First, I would say that a possible reduction in production in North America, which is possible because as we mentioned in the speech we are going to drill for cash and free cash could be a reduction, but it's not our main concern. Globally production will grow and in North America we will drive for those as much as the scenario allows us to. In the existing scenario probably would be CapEx reduction and reduction of the main production but I don't see it as a major concern. Okay Anish? Anish?

Anish Kapadia - *Tudor Pickering Holt - Analyst*

Yes, thanks. And on reserves?

Miguel Martinez - *Repsol SA - CFO*

On reserves, I mean you have to think that the whole company mind-set has changed. With the acquisition of Talisman we are by far larger in reserves that we never expected and we'll have to wait for the budget to really provide you better answers to that question. But on average in the last four years we have been above 200% on reserve replacement ratio as Repsol and with the addition of Talisman really the reserves figure is something that will appear once we end our budget work.



JULY 30, 2015 / 11:00AM, REP.MC - Q2 2015 Repsol SA Earnings Call

But our concern today it's totally focused on free cash generation and not in size. As mentioned, with the organic capabilities of Talisman asset and Repsol assets we'll be reaching more than 900,000 barrels of oil equivalent production per day and this is not the objective. This is also one advantage we have right now because we don't have any need, as others may have, to maintain our production, it's not our goal any more, we are looking for value not for size. Okay?

Anish Kapadia - *Tudor Pickering Holt - Analyst*

Okay. Thanks Miguel.

Miguel Martinez - *Repsol SA - CFO*

You're welcome.

Angel Bautista - *Repsol SA - Head of IR*

Thanks Anish. Okay, let's move on. Hello Filipe, Banco Espirito Santo Investment. Hello and go ahead with your question.

Filipe Rosa - *Banco Espirito Santo - Analyst*

Hi, good afternoon everyone. So two questions from me. The first one just a follow-up on the synergies that you are now targeting. Two questions associated to that. The first one is basically if you have included in those \$350m any OpEx savings associated with exploration expenses, that would be my first question related to exploration, to the synergies.

And also associated with that, you have raised your target to \$350m, has that implied higher restructuring charges, could you update us how you will return on that front, currently what is your best estimate for restructuring charges and what will be the split between 2015 and 2016.

My second question relates to downstream and the strengths in refining and in the chemicals business. You have done a significant restructuring in the chemicals division, refining margins are, I don't know, I think that everyone is surprised by their resilience. Going into 2016 are you assuming a reduction of your profitability in the downstream in a scenario of a stabilization of the oil price? Or do you think that in a scenario of a stable oil price at the current level your industrial businesses in downstream could maintain their profitability? Thank you.

Miguel Martinez - *Repsol SA - CFO*

Thanks Filipe. In relation with the first one, the synergies did not include an exploration cost reduction, okay, are pure synergies.

And in relation with the best estimates of restructuring charges, as of today Talisman did some before the closing, something like 250 people were laid off there and we expect in Repsol, and we have included a cost EUR50m, in Repsol I repeat. And finally you have to think that we are under the agreements with Investment Canada which are a confidential agreement. So basically we will fulfil the agreement but I cannot disclose more than what I told you. So already 250 people were laid off and we have a EUR50m accrual for restructuring.

And in relation with the second one, whether or not I'm expecting a reduction of profitability in the downstream business, I would say that probably in the chemical business, once the crackers that are now under maintenance will come back to work probably there would be a slight reduction there in the chemical business. But other than that I do not see, or I do not have any reason to expect a reduction of the profitability of the downstream business.



JULY 30, 2015 / 11:00AM, REP.MC - Q2 2015 Repsol SA Earnings Call

Filipe Rosa - *Banco Espirito Santo - Analyst*

Okay, thank you very much.

Angel Bautista - *Repsol SA - Head of IR*

(Spoken in Spanish). Now let's move on to Thomas Adolff from Credit Suisse. Hi Thomas, how are you? Go ahead with your question.

Thomas Adolff - *Credit Suisse - Analyst*

Hi Angel. Hi Miguel. Quick questions please, just firstly on Perla, or Cardon, whatever you want to call it. Do you still expect PDVSA to exercise the back-in rights or should we just assume 50/50 going forward between Repsol and Eni?

And just a quick one on your production growth ex-Libya of 6% this year. I believe you used to say 6% to 7%, correct me if I'm wrong and if that is the case where's the shortfall?

And then just finally going back quickly to what Anish was discussing on the upstream CapEx in 2016, perhaps can you split it out between where's the reduction coming from? Is it deferral and rephasing of certain projects, and I'm more interested outside of the US? And how much is related to cost deflation, reengineering etc.? Thank you.

Miguel Martinez - *Repsol SA - CFO*

Thanks Thomas. In relation with the first one, it's on PDVSA, I mean it's their decision and I cannot, I don't have any hint or any idea of which would be their final decision.

In the production, if you remember we gave a 7% growth for the seven years -- sorry for the five years of this strategic plan, so the 6% ex-Libya, I wouldn't say it's a shortfall, we are totally aligned with the figures we provided in 2011 when we launched the strategic plan. So we are totally aligned.

And in relationship with the upstream CapEx for 2016, we still have not finished the budget nor the strategic plan. So the figure I mentioned, to keep that CapEx flat for the oil division, it's an objective. So still it's on the business to decide how to fulfil or to reach this objective and how to split their CapEx, so I don't have the split, it's the business that's the one that have to work out this \$4.6b of CapEx for the next year, but I don't have the data.

Thomas Adolff - *Credit Suisse - Analyst*

Thank you, as always. Thank you.

Miguel Martinez - *Repsol SA - CFO*

You're welcome Thomas.

Angel Bautista - *Repsol SA - Head of IR*

Thank you Thomas. Now we're moving to Jon Rigby from UBS. How are you Jon? Go ahead.



JULY 30, 2015 / 11:00AM, REP.MC - Q2 2015 Repsol SA Earnings Call

Jon Rigby - UBS - Analyst

Hi guys. Hi Angel. Hi Miguel. Two questions please. Can you just, now we've got the numbers, just talk around the refining business? I think your refining margin was up, through-puts were up, but it looks like the contribution from refining was down. So maybe in the context on a sequential basis, so maybe in the context of 1Q to 2Q some of the moving parts. And I know you're optimizing crude supply and so on so maybe some color around that if you could.

The second question is, I think you referenced in the presentation that you were planning on FIDing Red Emperor and Akacias before the end of the year and I'm interested in the context of you talking about the budgets not yet being fixed for 2016 and the plan not being ready until the end of November. I just wondered whether you feel comfortable in sanctioning a project, both projects, when you've really only got them onto your roster in the last few months and in the context of the industry slowing down on FIDs to make sure that they're doing optimally whether careering straight into sanctioning them within a few months of completing Talisman is an appropriate time frame. Thanks.

Miguel Martinez - Repsol SA - CFO

Thanks Jon. I don't know if I have the answer for the first one. Sometimes the refining business beats the index, sometimes it doesn't and I don't have the slightest idea on why last quarter they improved by, I think it was something like \$0.60 or something like that, the index, while in this quarter they have been almost at the same level, I think they're something like \$0.10 below.

But I don't have the slightest -- I don't have an answer other than in Bilbao in Petronor there was a maintenance for something like 15 days that may have affected the CCS margin that we have reached this quarter. But it's the only reason that I can think of right now.

In relation with the second one, the answer is yes, we are quite comfortable because both projects are quite strong and they even -- we stress under the asset scenario we are using, which is 55, 65, 75, and they work out perfectly well. So they are two good projects so the answer is, yes, we were comfortable while sanctioning both, Emperor and Akacias. Okay Jon?

Jon Rigby - UBS - Analyst

Thank you Miguel.

Angel Bautista - Repsol SA - Head of IR

Thanks Jon. Now let's move to Matt Lofting from Nomura. Hi Matt, go ahead with your question.

Matt Lofting - Nomura - Analyst

Perfect, thanks Angel. Thanks for your comments Miguel, just two things if I could. Firstly, just on cash flow and the cash cycle if you could just add any comments in terms of how you see the cash cycle on an underlying basis this year? And then perhaps next year at current forward curve oil prices given the additional comments you've made around CapEx plans, assuming I guess in the background that you continue to look to utilize the scrip on the dividend side.

And then just secondly, if you had any guidance on depreciation going forward on either a quarter or an annualized basis including Talisman? Thanks.



JULY 30, 2015 / 11:00AM, REP.MC - Q2 2015 Repsol SA Earnings Call

Miguel Martinez - *Repsol SA - CFO*

Thanks Matt. In relation with cash flow I can provide you my estimate for 2015. I don't have that for 2016 as you may imagine. For 2015 the total cash generation would be minus EUR8.35b. From those you have to take out the EUR8b we paid for Talisman so it would be negative by EUR350m. This is my estimate for the end of the year, so basically without the acquisition of Talisman and not considering any divestment would be around EUR350m negative. Okay?

In relation with the scrip, the idea is to keep it, at least for -- but for sure it's a decision that is on the Board and in the General Assembly. If we take out the three largest shareholders that all of them have gone for the cash we have made a 63% -- we have obtained a 63% acceptance ratio over a 75 or 74 number of shares, so it's almost an 90% or a high-80% of acceptance and the idea is to keep it.

In the projections I gave you about the cash flow, about the free cash flow or total cash generation for 2015 I include dividends for EUR448m. So it's basically a percentage similar in the scrip as the one we have had in July, in the last dividend we paid.

And in relation with the guidance for depreciation for the combined entity, I would say that the figure may be around EUR3.1b, EUR3.2b. Okay Matt?

Matt Lofting - *Nomura - Analyst*

That's great. Many thanks Miguel.

Miguel Martinez - *Repsol SA - CFO*

You're welcome Matt.

Angel Bautista - *Repsol SA - Head of IR*

Thank you very much Matt. Now let's move to Hamish Clegg from Bank of America Merrill Lynch. Hi Hamish, go ahead with your question.

Hamish Clegg - *BofA Merrill Lynch - Analyst*

Morning guys, thanks for taking my questions. I wondered if you could give us just a little bit of an update on Mississippi Lime, you mentioned some of the other assets in North America but it's one of the regions, basins, that's been coming under a bit of pressure recently. I just wanted to check everything was going well there.

Also, I wonder if you could maybe clear up just a question I had on the CapEx side, I just wanted to be very clear about this. You said that 2016 CapEx would be the same as 2014, could you just confirm that that 2014 will be with or without the legacy Talisman CapEx in it? Is that a Repsol standalone CapEx number that's being compared to a Repsol Talisman CapEx number in 2016?

And then I was going to say, the final question is, can we expect you to also review the dividend in the Q3 strategic update or will it just be an operations update? Those are my questions. Thanks.

Miguel Martinez - *Repsol SA - CFO*

Thank you Hamish. The update that I can provide you in relation with the Mississippi Lime is that we have included an impairment during the quarter of \$110m and the book value we have at the present time in the whole asset is \$900m. The activity has slowed down and we are aiming



JULY 30, 2015 / 11:00AM, REP.MC - Q2 2015 Repsol SA Earnings Call

there also for cash and I think that there's a total agreement with our partner in that sense. So I don't expect much activity or increase of activity there as long as the price scenario remains the same.

In relation with the CapEx guidance, the figures I mentioned, 4.5 last year, 4.5 this year and 4.5 next year, includes Talisman legacy assets. One thing, 2015 it's a projection of what we expect to end up, 2016 it's an objective, okay? So still pending but, yes, it does include all the Talisman assets.

And the last one with the dividend in relation with the strategic plan, we have to end the strategic plan but the idea is to keep the EUR1 per share with scrip initially at least, as far as I know, we will continue with this policy, EUR1 and the scrip. Okay Hamish?

Hamish Clegg - *BofA Merrill Lynch - Analyst*

Very good, I really appreciate it.

Miguel Martinez - *Repsol SA - CFO*

Thank you for your questions.

Angel Bautista - *Repsol SA - Head of IR*

Thank you Hamish. Now let's move to Irene Himona from Societe Generale. Hi Irene, how are you? Go ahead please.

Irene Himona - *Societe Generale - Analyst*

Thank you, thank you. Good afternoon. I have two questions please. Firstly, Miguel you closed the deal on May 8, I think you mentioned, between then and now as you went through finally taking hold of all the details and the numbers and consolidating, was there something that particularly surprised the Repsol management, either positive or negative in the deal?

And then my second question, I was looking at page 25 of your statement that new Group capital employed nearly EUR45b and current return on capital is about 4% which is clearly below your WACC, and you outlined today cost-cutting plans to I reckon add another 1% to that return. When you say you look to turn Talisman into a value-creating deal, what do you think that ROACE should be and in a world of \$60 to \$70 dollar oil for a while, is it achievable unless you shrink very materially the denominator of that ratio. Thank you.

Miguel Martinez - *Repsol SA - CFO*

Thanks Irene. In relation with surprises I'll say that with the existing price scenario there has not been any surprise, I mean positives and negatives have been balanced and none of them have been big to surprise us, not in the positive nor in the negative side, so that's clear.

In relation with the ROACE, I think that the 4.3%, which I think is the figure that appears in the notes, you have to think that we have right now \$25b more-or-less of capital employed in the upstream division which is not delivering any EBIT at the present time. So should I be concerned? Well I'm concerned about the price situation but not about the acquisition.

The \$80/\$50 world scenario is something that is going to be here forever, our perception is that it's not, it could be one year, two years. But also we were a company that had the chance to play that game, first because we have the cash, second because of the resilience of the company. Look at the EBITDA, we have been able to generate the same EBITDA as we did last year in this first half of the year simply because our downstream, our Gas Nat, the dollar/euro which always helps us when the barrel goes down.



JULY 30, 2015 / 11:00AM, REP.MC - Q2 2015 Repsol SA Earnings Call

So I'm concerned about the price tag but not about the acquisition and at the given moment the price will fluctuate and we're going to be in these assets for, as I mentioned before, 20 years and those are reserves that were bought at \$10. So thinking in the longer term I think that we have done a good move. If we look at it in a \$50 scenario and \$2.4 per million btu as Henry Hub, for sure ROACE will not be there and returns will not be there, but it's not our estimate. Okay Irene?

Irene Himona - *Societe Generale - Analyst*

Thank you Miguel. Thank you.

Miguel Martinez - *Repsol SA - CFO*

You're always welcome Irene.

Angel Bautista - *Repsol SA - Head of IR*

Thank you very much Irene. Now let's move to Marc Kofler from Jefferies. Hi Marc, how are you? Go ahead with your questions.

Marc Kofler - *Jefferies - Analyst*

Hi, afternoon all. Miguel thanks very much for the presentation. Just two questions from me please and I suppose the first one is building up on the previous question. Acknowledging your comments around the current scenario and weathering the storm so-to-speak, are you able to put a time out there as to when you think the Talisman asset can be free cash flow generative?

And then secondly, this one's probably more mechanical, given the strategic update planned for early November, should we expect some potential divestment before that update? Thank you.

Miguel Martinez - *Repsol SA - CFO*

I would say that if you tell me when the price will go up I will tell you when the company will generate free cash. I mean we have the data there, you have the knowledge that the company at EBIT level it's neutral with the existing prices, with the \$60 we have had this quarter. You also have the depreciation figure for Talisman for the year so it's a matter of calculation.

So I think that everyone knows the price today and everyone expects the price at a given moment to reach the \$80, \$90, the question, and I think that your question in that sense is totally right, is when will this happen? And there we have forces that are playing against each other within the business and other factors that are external to the business but are also affecting the price. Difficult to say, but one thing is sure, it will not last forever at these level of prices.

So I cannot answer the first one saying well will it be free cash flow positive but we have Talisman depreciation, it's around EUR1.1b per annum and you have all the data so it's on your to put the price you may think and then you will realize. But one thing is clear, at \$60 we are EBIT breakeven.

And sorry your -- ah, divestments before the strategic presentation. Well I can tell you that we are working already in the divestments but it takes time so it could happen and probably some of them will happen but we will see. This process is you know the day you start it but not so easy the day you close. I would say that for sure, with a probability, we will announce some transaction before the presentation, the closing it's more difficult to assess. Okay Marc?



JULY 30, 2015 / 11:00AM, REP.MC - Q2 2015 Repsol SA Earnings Call

Marc Kofler - *Jefferies - Analyst*

Yes, that's great. Thanks very much. Just on the first question, could you maybe, if we took the macro environment flat from today, is there sufficient flexibility on the capital spending program for 2016 to achieve a cash flow neutral level do you think?

Miguel Martinez - *Repsol SA - CFO*

This year we have been almost cash neutral including dividends and including interest, so this year EUR350m negative if -- it's going to depend much on the price for next year but if the figures remain and the price tag remains exactly the same as this year we basically will have the same figure with the difference of four extra months of Talisman. So it's a matter of EUR700m and in this, from EUR300m which is our deficit 2015 up to EUR700m 2016, if everything remains the same and in this figure we don't have any divestment. So for sure, I think that, yes, the answer is, yes I expect, considering divestments, to be cash neutral next year.

Marc Kofler - *Jefferies - Analyst*

Great. Thanks very much.

Angel Bautista - *Repsol SA - Head of IR*

Okay, thank you very much for your question. Luis (Spoken in Spanish). Go ahead with your question. Luis de Toledo from BBVA.

Luis de Toledo - *BBVA - Analyst*

Thanks Angel. I have only one question, it's relating to geographical reporting, the breakdown you have provided, the new breakdown including Brazil in the EMEA region. I was wondering if there is a specific rationale for that move, if it could change the way you manage the Brazilian operation in any sense. Or whether you have chosen that for some (inaudible) in your upstream portfolio or if there's a specific division? Thanks.

Miguel Martinez - *Repsol SA - CFO*

Thanks Luis. There's one clear reason, we want to align the manager who is Tomas Garcia-Blanco who has been leading the Brazilian operation in the past, to have all the relation with Sinopec. So to have the UK business and the Brazilian business, we thought it was a good idea to have the same manager who will have the relation with Sinopec in both areas, and that's the main reason for it Luis.

Luis de Toledo - *BBVA - Analyst*

Thank you very much, very clear.

Angel Bautista - *Repsol SA - Head of IR*

(Spoken in Spanish) Luis. Now let's move to Nitin Sharma from JPMorgan. Hi Nitin, how are you? Go ahead with your question.

Nitin Sharma - *JPMorgan - Analyst*

Hi, afternoon gentlemen. Two questions from my side. A first one on divestments again, or kind of divestments. The pressure increasing on your balance sheet, how comfortable are you with your holding in Gas Natural? I ask this question because in the past you've flagged this stake as an option.



JULY 30, 2015 / 11:00AM, REP.MC - Q2 2015 Repsol SA Earnings Call

And the second one is regarding your comments on the commitment made with agencies to divest assets of EUR1b in the next 18 months. Maybe just clarify, have you also committed to a net debt-to-EBITDA multiple? Thank you.

Miguel Martinez - *Repsol SA - CFO*

Well I was starting to get concerned because nobody was asking anything about Gas Nat, so thank you, thank you Nitin for your call, I was starting to become nervous.

Our idea is to keep Gas Natural, Gas Natural is a great asset, it gives us a very good carry and only, only, and put that in -- I mean only, if it's totally necessary to maintain the investment grade we'll think of divesting Gas Natural okay? So it would be somehow the silver bullet if you want to call it that way.

Nitin Sharma - *JPMorgan - Analyst*

Understood.

Miguel Martinez - *Repsol SA - CFO*

And the second one, you mentioned that if I am committed to EBITDA-to-net debt multiples, and the truth is that we are not. To me my concern is to have multiples that feed with agencies in order to keep our investment grade and those are the ones that are really our goal, our objective and our commitment, which is to keep the investment grade, and that's it.

And if it's needed to have a net debt-to-EBITDA we'll look for it, right now I think that, I used to put this ratio this other way around, so the net debt-to-EBITDA and we are right now, our estimate is to end up the year at 2.4, but that's not a ratio that normally the rating agencies work with they are more in the flow from operations into net debt and this if for adjusted net debt and this is where we will do our efforts to really cover all the multiples they ask us.

So as an answer I will say EBITDA-to-net debt is not committed, flow from operations to adjusted net debt, the way the agencies analyze both is what we are committed with.

Nitin Sharma - *JPMorgan - Analyst*

Thanks Miguel.

Angel Bautista - *Repsol SA - Head of IR*

Well with this last question from Nitin we've finished with our Q&A session and our second quarter 2015 conference call. You know that any further queries or clarifications you may need or want to put on Repsol the IR area is at your entire service. And obviously we are also waiting for your requests for the workshops in order to help you to model the new Repsol on September, whether in London, Madrid or in any other place if you may need it. Thank you very much and have a nice day. Cheers.



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