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PRESENTATION

Operator

Hello, and welcome to the Repsol fourth quarter and full-year 2016 preliminary results conference call. Today's conference will be conducted by Mr. Josu Jon Imaz, CEO.

A brief introduction will be given by Mr. Paul Ferneyhough, Head of Investor Relations. I would now like to hand the call over to Mr. Ferneyhough. Sir, you may begin.

Paul Ferneyhough ***Repsol - Head of IR***

Thank you, operator. Good afternoon. This is Paul Ferneyhough, Head of Investor Relations at Repsol.

On behalf of the Company, I'd like to thank you for taking time to attend this conference call, setting out the Company's fourth quarter and full-year results for 2016.

This conference call and associated webcast will be delivered by Josu Jon Imaz, Repsol's Chief Executive Officer, with members of the executive team joining us here in Madrid.

Before we start, I advise you to read our disclaimer. During this presentation, we may make forward-looking statements, which are identified by the use of words such as will, expect and similar phrases.

Please note that actual results may differ materially, depending on a number of factors, as indicated in the disclaimer.

I will now hand the conference call over to Mr. Josu Jon Imaz.

Josu Jon Imaz ***Repsol - CEO***

Thank you, Paul. Good morning, and thank you to those online for attending this conference call on our fourth quarter and full-year results for 2016.

In today's call, I'd like to cover four principal topics. First, a summary of key events in 2016 along with a review of our progress towards our principal strategic objectives; second, operational highlights and results from the quarter; third, a high level of summary of financial results; and, finally, an outlook for 2017. Let me first start with some comments on the key events from last year.

2016 was a year of delivery and transformation for Repsol. Despite lower average commodity prices compared to 2015 and a high level of productivity, we have demonstrated resilient earnings performance and dramatically improved cash flow generation.

The annual results were supported by our efficiency and synergy program; the strength of our integrated business model; and our continued focus on growing value in our asset base.

Through 2016 we have continued to work on the transformation of Repsol under the guidelines of our strategic plan.

The free cash flow from downstream, together with our flexible upstream portfolio, has allowed us to benefit from gradually improving commodity prices, while protecting and strengthening the balance sheet through expenditure optimization, cost efficiency and divestments.

One year ago, I presented our commitment for the first year of our strategic plan. I will now summarize our progress towards these objectives along with highlighting the key events underpinning our performance in the year.

Starting with our efficiency and synergy program, we have accelerated the delivery of our self-help measures, achieving run rate savings of more than EUR1.6 billion in the year. This figure is significantly above our initial EUR1.1 billion target for 2016, and more than 75% of our target for 2018.

The implementation of cost saving initiatives accelerated across all parts of our business. The upstream division delivered an impact of more than EUR800 million by the end of the year, contributing to a reduction in free cash flow breakeven, which, for the upstream alone, now stands at $61 per barrel.

Synergy projects have delivered more than EUR300 million in sustainable reductions in 2016. By yearend, 85% of the projects required to capture $400 million of synergies by 2020 had already been implemented.

All in all, compared to our pro forma full-year in 2015, we have reduced our total upstream operating expenditures by 20% in 2016 and by 24% on a per barrel basis.

Turning now to CapEx discipline. Total Group investment was EUR3.2 billion, an 18% reduction compared to our initial budget, and EUR300 million below our third-quarter guidance, mainly due to increased cost efficiencies across the whole Company and reduced activity in the upstream.

In exploration, our more focused drilling program, together with our portfolio, targeting lower risk, contributed towards lower overall CapEx spend. The organic reserve replacement ratio in 2016 was 124%, reinforcing confidence in the long-term sustainability of our resource base.

In the downstream division, we complete upgrades and restarted the low sulfur diesel unit at our La Pampilla refinery in Peru. And, let me say that this investment not only allows us to meet tightening sulfur regulations, but it also delivers an increase in our utilization rate.

The project is expected to deliver a return on capital of over 15% during its lifetime.

Moving now to portfolio management. By yearend the announced proceeds and benefits generated by our divestment program amounted to EUR5.1 billion. This compares to our original EUR3.1 billion target by end 2017, and represents more than 80% of our EUR6.2 billion target by 2020.

In the fourth quarter, as you know, we announced the disposals of TSP in Trinidad and Tobago, and Tangguh in Indonesia.

Overall, during 2016 we achieved cash neutrality at $42 Brent, excluding divestments. This left the EUR3.6 billion of cash received from divestments to directly reduce our net debt.

Our focus on maximizing cash flows and strengthening our balance sheet, resulted in closing net debt figure of EUR8.1 billion, as you can see in the figure, or 1.6 times our EBITDA. This reflects the organic cash generation from our business, maturing synergies, and efficiencies, and, of course, the success of our divestment program.

Now, for the main operational highlights for the quarter. Starting with the upstream division fourth quarter production averaged 679,000 barrels of oil equivalent per day, a slight decrease year on year.

Quarterly production was impacted by planned maintenance in several assets, and the sale of Tangguh and TSP, partially offset by higher volumes in Brazil, thanks to the startup of Lapa, and the ramp up of Sapinhoa.

Average production for the year was within our guidance range at 690,000 barrels of oil equivalent per day.

Production in Libya, as you know, restarted on December 20, after more than two years of interruption. As of today, the wells production in the El Sharara field has reached around 180,000 barrels of oil per day, which translates roughly to 20,000/21,000 barrels per day, net share for Repsol.

Turning now to exploration, a total of four exploratory wells and one appraisal well were completed in the fourth quarter. Three exploratory wells and the appraisal well were deemed unsuccessful; and the remaining well is still under revaluation.

In total, our exploration program for 2016 included the completion of 13 exploratory wells, and six appraisals. By the end of the year, three wells were declared positive and five wells remain under evaluation.

Looking now to the downstream division. In refining, the margin indicator averaged $7.20 per barrel in the quarter. Margins recovered materially versus third quarter, mostly due to a strengthening of middle distillates spreads, together with a widening of the heavy group differentials, due to an active maintenance season in Latin and North America.

Processed crude oil volumes increased by 8% compared to the previous quarter, thanks to higher utilization in both distillation and compression. Actual CCS margin generated a premium to the indicator of around $0.60 per barrel.

Going to the figures for the full year, the refining margin indicator was in line with our long-term assumptions at $6.30, with actual CCS margin averaging also $0.60 over the market.

The chemicals business maintained its strong performance in the fourth quarter thanks to steady volumes, good margins; helped by global demand growth and lower feedstock costs.

Full-year results from the commercial businesses improved compared to 2015, although the fourth quarter was impacted logically by seasonally lower sales in service stations, partially offset by higher volumes in LPG, due to the winter season.

Motor fuel demand, and that is an important point in Spain, continues its ongoing recovery with 3% estimated growth in 2016. However, we are also, of course, observing increased domestic competition together with a complex regulatory framework. But, let me say that we like competition.

Moving on now to financial results. I will briefly summarize the principal outcomes form the quarter and the year. Fourth quarter 2016, CCS adjusted net income was EUR698 million, EUR245 million higher than in the fourth quarter of 2015. Full-year 2016, CCS adjusted net income was EUR1.9 billion, EUR70 million higher compared with full-year 2015 results.

EBITDA CCS stood at EUR5 billion for the year, in line with 2015.

At the net income level, we closed 2016 with a positive result of EUR1.7 billion, a EUR3 billion (sic - see press release, "EUR3.1 billion") increase compared to 2015, mostly due to impairments applied in that year.

In the upstream, adjusted net income in the quarter was EUR300 million -- sorry, EUR309 million, higher than the same period in 2015, at EUR17 million. Adjusted net income for the full year amounted to EUR52 million, almost EUR1 billion higher than in 2015.

In the downstream division, CCS adjusted net income in the quarter was EUR554 million, EUR59 million higher than in the fourth quarter of 2015. Adjusted net income for the full-year 2016 was EUR1.9 billion, EUR267 million lower than in 2015.

For further detail, of course, on the Company's quarterly and annual results, along with detailed variance analysis, I encourage you to refer to the financial statements and accompanying comments that were released today.

Let me now go through the outlook for 2017 and the progress we expect towards our strategic objectives.

Firstly, given the results achieved last year, we expect to continue to accelerate our efficiency and synergy programs, and bring forward our 2018 EUR2.1 billion target to this year. Most of this effort will come from the upstream where the impact of OpEx and CapEx efficiencies is expected to reach around EUR1.2 billion this year.

Our upstream CapEx budget is EUR2.7 billion. With downstream and corporate CapEx at similar levels as in 2016, this puts our total budget of Group CapEx at around EUR3.6 billion for 2017.

In terms of cost evolution, we are observing different trends depending on activity and region. We estimate, let me say, that in 2017 Repsol has a relatively low exposure to rising prices, as the majority of our cost for this year are already contracted.

Production volume is expected to be in the lower part of our long-term strategic range. We will offset the impact of recent disposals with the upcoming start-up of MonArb and (inaudible) [corridor] in the UK, North Sea; our full-year contribution for Lapa; and our conservative level of production from Libya.

Despite the improvement in the security situation in Libya, we are being cautious around average production volumes for the year.

On the development side, this year, we expect to receive local approval of Ca Rong Do, or Red Emperor, in Vietnam sometime during the first semester. And later in the year we expect to finalize the development plan for Akacias, the CPO-9 in Colombia.

Recent commodity price trends have led us to revise our price forecast with Brent, now assumed to average $55 in 2017 in our budget.

We expect our upstream business to be free cash flow positive at around $60, after CapEx of course.

Moving to the downstream, we are forecasting a $6.40 average refining margin under our planned price assumptions. So far, in 2017, the indicator has averaged an oil level of $7 per barrel and the average of February is, for our system, above $7.50 per barrel.

Besides the major maintenance turnaround currently being finished in our Bilbao refinery, I think that today we are starting the ramp up of the coker in Bilbao, that it will be I suppose fully operative this weekend, fulfilling the five years' maintenance program.

We are planning a short (inaudible) in Portugal, in March, and Cartagena during the second quarter, as part of our multi-year planned maintenance. In the case of Cartagena, we are talking about the hydrocracker.

We are focused on improving our cost and energy efficiency, gaining flexibility in our product mix and, through our five interconnected refineries in Spain, optimizing product delivery.

In the chemicals business, in 2016, we finished the installation of new splitter in Tarragona. That will allow us to process 35% LPG content in our tracker, delivery and flexibility and resilience over a wider range of feedstock prices.

Additionally, we are developing projects with two main goals in the chemicals business. First, targeting higher margin, non-commodity products; and second, developing petrochemical products that fit within a low carbon future, such as CO2 polyols, CO2 as raw materials, substituting propylene oxide, or bio polyolefins.

Our chemical business is global in scope and where we have generated competitive advantage, for example, in the Dynasol JV, we are competing with the top industry players.

We are now bringing this global approach to our lubricant business, where we plan to double the size of the business in the next five years.

In the retail business, we are following our strategy that is called Repsol, transforming while performing. This means, while maintaining our current performance, we are also developing initiatives to respond to current and future challenges.

With a strong focus on customers, we are adding services and products based on new consumer behaviors, for example, personalized offers or shared economy services.

Additionally, we are addressing changing energy demands through the provision of charging points for electric cars and the supply of LPG or auto gas.

We have a strong retail network that is a starting point for the creation of further competitive advantages, such as partnering with Amazon to provide flexible delivery and collection points.

This idea of -- that we call transforming while performing, will allow us to create our retail business to supply energy products and related services, not only for 2017, but for the next decade and beyond.

In summary, in 2017, thanks to our top quartile refining business, together with the strong global demand for chemicals and the stability of our commercial businesses, we'll generate around EUR2 billion of free cash flow in our downstream businesses, and 55% of Repsol's EBITDA.

For Repsol, as a whole, and I'd like to underline this fact, in terms of free cash flow breakeven, we are maintaining our strategic objective of being cash neutral at around $40 Brent, after paying our dividends of course. In 2017, we will continue working towards that target.

In conclusion, I want to reflect on what kind of Company Repsol is today. We are a Company where financial flexibility has become a reality and where we expect to achieve, this year, a net debt to EBITDA ratio around 1.1 times; committed to stabilizing our investment grade rating.

A Company immersed in a process of performing while transforming. We think in every process to be leaner, lowering our corporate costs, and streamlining our decision-making processes.

A Company that will organically break-even approaching $40 per barrel, after paying dividends and financial commitments.

A Company committed to the scenario defined under COP21 in Paris, developing our own roadmap to be part of the solution on the way to the 2 degrees' Celsius objective.

A Company fully focused on energy efficiency as the first driver to reduce emissions. Let me say that over the last 10 years Repsol has already reduced, by 4 million tonnes, its annual CO2 emission from our industrial activity. We will decrease by a further 1 million tonnes by 2020, while improving our competitiveness.

Repsol is a Company already prepared to contribute to a low emissions future, with a significant presence in natural gas, representing 65% of our production today, and 75% of our current reserves.

We are a Company also committed to the reduction of methane leakage and we have the committed, promoted by the World Bank, of having a zero routine flaring by 2030.

A Company with a portfolio of upstream assets that will allow us to consolidate our growth and maintain our referenced production level of 700,000 barrels per day until 2020 from current reserves under development, while increasing value through higher margins per barrel.

A Company that can sustain this production level to 2025 from contingent resources whose development projects will mature in 2018 and 2019, all while maintaining a 100% replacement ratio to 2020. And, a long-term sustainable average reserve life of between eight to nine years; a bit higher in gas and in oil, giving us the flexibility to adapt, to have a wide variety of macroeconomic scenarios, improving margins and generating value in the Company.

Under current oil prices, we have a clear commitment to take investment decisions only where projects generate value, [evoke] capital costs, a covering price of $55 per barrel, even in the scenario of rising commodity prices; therefore, giving us the necessary resilience to thrive in a time of energy transition and continued volatility.

We have a portfolio of downstream assets that sit at the top of the first quartile, in terms of margin in Europe, delivering resilience and competitiveness across a wide variety of economic scenarios over the next two decades, and consistent with our support of the commitments made in Paris during COP21.

We have a set of commercial businesses focused on the customer and providing services, allowing us to position our business for growth in newer scenarios from mobility and energy.

Repsol has a multi-energy approach, with experience and knowledge that comes from an Iberian position in Iberia, in the manufacture of biofuels, for instance; and more recently, in the services of recharging electric vehicles, borne out of our experiences providing energy through natural gas and LPG.

As I look into the future, let me say I see a sustainable Repsol with flexibility and choice. This commitment and this capacity to be resilient and competitive in a changing energy landscape gives me confidence about the future.

Let me conclude by saying that we set our strategy and we have demonstrated or full commitment and ability to deliver the goals identified within it.

This is the path we took in 2016 and will be the path we will continue in 2017, delivering and performing. That is our clear and net roadmap. But, at the same time, transforming the Company to be prepared to take our part in future mobility and energy scenarios less intensive in (inaudible).

I will now hand the call back to Paul Ferneyhough, who will take us through our Q&A session. Thank you.

Paul Ferneyhough ***Repsol - Head of IR***

Thank you, Josu Jon. In case any of you run into technical problems during the webcast or conference call, please address any problems to our email address at investorrelations@repsol.com, and we will contact you immediately to try to solve it.

I'll now ask the operator to just go over the process for putting questions to Josu Jon. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions).

Paul Ferneyhough ***Repsol - Head of IR***

Thank you, operator. Let's now move to the Q&A. Brendan Warn, BMO.

Brendan Warn ***BMO - Analyst***

So just two questions, if I may. First question, I guess along the lines of capital allocation; I appreciate the update on your outlook for 2017 CapEx.

But could you also just talk through your dividend and dividend policy going forward? Obviously, following the cut, and you have one of the lowest cash dividend yields of your peer group, and just what you're going to be doing about obviously the dilutionary impacts from your scrip take-up?

And then I guess just, secondly, if I could talk about financial flexibility. Just what were your last conversations with the rating agencies? Obviously, you've done a lot of good work with reducing your net debt [EBITDA] ratio. But what next steps can we see in terms of your investment rating?

And then just my second question relates to your North American assets; if we can get an update on what your land rig positions are, at the moment?

And an asset you've got as part of Talisman, we haven't heard about recently, that's a bit of a sleeping beauty, is your Duvernay position. If you could just touch on what work have you been doing, even if it's just desktop work on the Duvernay, please?

Josu Jon Imaz ***Repsol - CEO***

So thank you, Brendan. First of all, going to your question about the CapEx allocation for 2017, let me say that the total figure that we are forecasting is EUR3.6 billion. And (inaudible) 75% of this figure is going to be allocated in the upstream business. And the downstream is going to consume EUR0.7 billion/EUR0.8 billion, and EUR100 million will be applied to the corporate side.

Going to the dividend policy, let me say that dividend will be proposed by the Board of Directors, so it's not my duty to approve the dividend.

But, I'm quite comfortable with the same level we had in 2016. I think that it was a good compromise between the financial commitments and balance sheet of the Company and the retribution to our shareholders.

So, I'm comfortable with the same level of dividends and with the strip (inaudible) we have in 2016. But as I said before, it's up to the Board; it's the responsibility of the Board to propose the dividend policy for 2017.

Talking about the rating, the financial flexibility compensation with rating agencies and so on, going, and seeing the delivery of the Company in 2016, over-performing in almost every metric, what we said in the strategic plan about 2016 one year ago.

Taking into account the tough objectives and targets we have for 2017, we take the metrics, we take the ratios and we are there. But, of course, it's not up to me to define what is going to be the decision of the rating agencies. We expect to have the rating agencies acknowledgement of the delivery done along the year 2016, in line with our full commitment to maintain our rating within investment grade category.

Going to your last question about the North American asset, the North American assets, this year, in 2017, we have a clear objective about Marcellus; I mean maximizing the cash flow generation in Marcellus.

I want to remind you that the Marcellus, [and our gases there], are in the top quartile of the area. Marcellus is free cash flow positive after

CapEx, at a range of $2.5/$2.6 in Henry Hub terms.

In the Greater Edson where, as you perfectly know, the sound about gas prices is not exactly the same for the Canadian discount and so on, we have a full objective of improving the situation we have in 2015, where we were free cash flow neutral, even taking into account the current prices and this discount.

We are going to try to optimize this cash position in the Greater Edson taking into account that, I mean we are in this area one of the most performing operators in Canada.

In the Eagle Ford and in Duvernay, the picture is different because there we are talking about growing assets. This year we are going to, in our agreements with Statoil, we are going to put more -- a rig more in the effort. So, we are going to develop the play with two rigs.

Duvernay is going to be a part of the growth of Repsol in coming years, no doubt about that.

The work in 2017 is going to be focused on the de-risking the area, ensuring, of course, the land retention, and being prudent, trying to optimize our operation there to have the full conviction that we are going to be able to create value developing the area in coming years.

Thank you, Brendan.

Brendan Warn *BMO - Analyst*

Thanks for the update.

Paul Ferneyhough *Repsol - Head of IR*

Flora Trindade, BPI.

Flora Trindade *BPI - Analyst*

The first question is regarding your retail division in downstream; you mentioned several activities and several initiatives you are taking there, so I was just wondering if you would open, in the future, to open up the shareholder structure coming in a minority, selling a minority stake, would that be a possibility for you?

The second question is on the production, it's more a clarification. You mentioned the [680] target; it does not include further divestments on top of the ones you made in 2016? Also, if you could give us what is the contribution from Libya?

And finally, just a question on free cash flow; you give the detail for the downstream, is it possible to give us an idea of what could be the free cash flow at the Group level for 2017? Thank you.

Paul Ferneyhough *Repsol - Head of IR*

Thank you, Flora. Going to your first question, I mean the answer is going to be very [nice] and clear, no.

Our retailing business in Iberia is fully strategic for Repsol. And let me say, it's not only our -- to maintain our current base of business and results; but it's also a potential growth platform for the future, mainly acting on two bases.

The first one, valuing the products and services. We go to our large customer base, and I'm talking about a multi-energy approach, as I said, of course, gasoline, diesel, as we are not entering in some other energies, like LPG, natural gas, electric (inaudible) services and so on; and also, having some other kind of services to this client base.

Secondly, it's also quite a strategic selling point for being involved in the future in some other kind of services, as we are now showing with the agreement we achieve with Amazon, to use our, in the framework of the business of Amazon, our retailing business as a collection point area.

So, it's strategic; it's fully core. We have a full integration across the value chain in Iberia among our refining retailing business and our trading; and we are going to maintain the full perimeter of our business.

Secondly, going to Libya, let me underline in some way my main messages about Libya. Firstly, our current production, as I said in my speech, is at around 178/180, I can't remember the exact figure, barrels per day. That means 20,000 barrels/21,000 barrels a day net for Repsol.

We expect achieving our plateau at 340,000 barrels per day in 2018. In the exploration side, we are working on the outstanding exploratory commitments in some areas in Libya.

In our budget, that I also said in my speech, we have taken the decision of being very present, and we are forecasting an impact in 2017 of only 12,000 or 13,000 barrels per day net to Repsol. So, a figure significantly lower than the current production we have today. We prefer to be cautious and present.

Taking our budget basis, I mean this figure of 12,000/13,000 barrels per day could have an impact of $200 million/$210 million of EBIT in our accounting; and $55 million/$60 million of free cash flow after CapEx.

Political situation in Libya, I mean for that reason we are at prudent, remains unsolved as you know. The decision about the nation building process that is supported by the international community and the United Nations Security Council belongs to Libya.

We hope they will take the decision focus on overcoming the current division and the split in the country. From a technical point of view, the good news is that after two years' shutdown, the pipeline valves in [Sintang] area was reopened without any problem, and production resumed on December 20. Since then, the fields are having quite an interesting ramping-up in operational terms.

Let me also stress the fact that, taking into account, and not -- the quite complex political and social situation in the country, things on the ground are better than were seven months ago. The presence of international terrorism along Libyan coast is more reduced now than it was one year ago.

Oil production is ramping up in the country. This ramping up of oil production is generating the financial resources the country needs. That is positive in terms of the reconstruction of the country and for the nation building process.

We expect -- of course, and take my disclaimer about the security situation of the country, that is not in our hands, we expect to reach a rate of 730,000 barrels per day by the end of this year; and a 340,000 barrels per day plateau into 2018, recovering these 40,000/42,000 barrels per day of net position in Repsol.

But we prefer to be prudent and to be cautious and forecast only a production of 12,000 or 13,000 barrels per day this year.

Sorry, I forget your third question about the free cash flow for the whole Group of 2017. Let me say that we expect to have a net debt, of course, in the current commodities environment and so on, that is not, of course, in our hand.

But my best guidance today for the net debt at the end of 2017 will be to have our net debt at around EUR6.8 billion. I said before, this figure will fit to an EBITDA -- net debt/EBITDA ratio of 1.1 times.

Flora Trindade ***BPI - Analyst***

Very clear. Thank you.

Paul Ferneyhough ***Repsol - Head of IR***

Thanks a lot, Flora. Hamish Clegg, BofA.

Hamish Clegg ***BofA Merrill Lynch - Analyst***

Some great delivery we've seen. I had a few questions on CapEx and your refining really.

But just to start on CapEx, the longer-term strategic CapEx guidance you've given suggests kind of a slightly higher CapEx run rate than what we've saw in 2016 and this year. Can you maybe elaborate if you expect CapEx to ramp up in the years beyond 2017? Or will we get an update on your four/five-year strategy -- four-year strategy, sorry, later in the year that could change that number?

And with that, I just wondered if you could give us the percentage of exploration that might contribute to your CapEx, so -- to get a feel for how much money you're spending with the drill bit.

And then the second area for me is just in the refining side of the business. It sounds like you're still very confident in the $6.4 per barrel guidance you've given.

Could you tell us maybe if you have a target utilization that you're looking for in the refinery? It's been pretty high. You mentioned Cartagena having maintenance this year. It would be useful just to get a number on that. Many thanks.

Josu Jon Imaz ***Repsol - CEO***

Thank you, Hamish. Related to the CapEx, in my guidance in my speech I talked about EUR3.6 billion of the whole CapEx of the Company.

I remember that I was talking about EUR2.7 billion/EUR2.8 billion for the upstream; EUR0.7 billion for the downstream. That fits the figure with the CapEx of the downstream businesses over the last three/four years; and EUR100 million for the corporate side.

So, we are talking about quite a [reasonable] figure that is lower than the update of the strategic plan for 2017, I presented one year ago in this presentation delivering the results of 2015.

For 2018 to 2020, I only said that our first guidance today is maintaining the figures we deliver in the update of strategic plan that were at around EUR4 billion per year. Of course, it's our first guidance; it's our best guidance now. So, the figures we deliver in our strategic plan and, perhaps, we could have a closer approach at the end of 2017.

Talking about the percentage of exploration, the business -- the exploration business this year and exploration activity is going to have a budget of EUR660 million. The guidance is at around $3.5 per barrel produced; so, $3 per barrel produced approximately.

Talking about the refining, the utilization rate for this year -- the best guidance, because you know that we optimize the programming of the refineries every day, and every hour, every day, depending on the margins we have for each one of our production units.

But our first approach, taking into account, perhaps, we are forecasting that fits with this figure for the margin index of $6.40 per barrel we have as guidance for 2017, is 86% of distillation, utilization rate. But you know that our main target is always to optimize the conversion units that are the units that are really producing margins.

So, for our conversion units, the forecast we have for the year is an utilization rate of 97%, taking into account that we are now exiting from the maintenance stoppage, in Bilbao, in Petronor. And, in the second quarter, we are going to maintain the hydrocracker of Cartagena.

On top of this main stoppages, we have two small -- one of them in Portugal and the other main in Coruna. But the most significant are these maintenance planning we have in Cartagena in the second quarter, and that we are finishing now in Petronor.

So, taking into account, all in all, the conversion utilization rate for the year could be at around 97%.

Thank you, Hamish.

Hamish Clegg ***BofA Merrill Lynch - Analyst***

That's fantastic, thanks very much.

Paul Ferneyhough ***Repsol - Head of IR***

Thanks, Hamish. Michele della Vigna, Goldman Sachs.

Michele della Vigna ***Goldman Sachs & Co. - Analyst***

Two questions if I may. The first one is almost two years on from the Talisman acquisition, I was wondering if you could tell us which assets have surprised you to the upside? And where perhaps you've seen some disappointments?

And then secondly, you're clearly running on very conservative assumptions, in terms of the macro environment. I was wondering if you had potentially more money to spend where, incrementally, would you like to invest that in your business. Thank you.

Josu Jon Imaz ***Repsol - CEO***

Thank you Michele. Talking about Talisman, let me say first of all, that now we are one company. Talisman legacy and Repsol legacy are over, we are a single company.

But, let me say that the new company is stronger. It's stronger, first, in strategic terms, first of all, because we have had more stabilized geopolitical risk. Having a significant part of our capital employed in countries, like United States, Canada, Norway, UK, Indonesia, Malaysia, Vietnam and so on, we are better managing of geopolitical risks now, first advantage.

Second advantage, we are better prepared to the new energy transition scenario, because thanks to this acquisition now we are producing 65%/66% of our production is gas; and, 75% of our reserves are gas.

Thirdly, we are stronger in the upstream operational terms, because now we are operating or cooperating at 65% of our assets. So, if you really want to manage in technical terms, your assets, you want to enforce your efficiency programs and so on, you have to manage your own assets. So, we are stronger.

Going to the assets. The best, the first in class, Marcellus, Marcellus is a very productive asset. Free cash flow positive over the last 1.5 years with these tough Henry Hub prices we have had in the past.

Southeast Asia is a very interesting and growing position of Repsol for the future. This year, probably we'll take in the first half of the year, as I said, after having the permissions from the Vietnamese Government, the FID in Ca Rong Do, in the Red Emperor project in Vietnam.

We are going to focus, also, as a relatively important part of our exploration effort in 2017 in this area. Free cash flow positive, political stability, interesting.

Norway: a good growing platform; plenty of room for tax optimization in the country.

The UK, that of course, perhaps let me say the worst part of the coin. Two years ago -- I'm happy seeing growth we are seeing in the UK. In production terms in 2016 we reverse the decline of the production, increasing the production in the area.

If we go to the unitary cost in the UK, in 2014, the unitary cost we had in OpEx lifting cost in our assets was $83 per barrel. This year, in 2016, the OpEx level has been $37 per barrel. It's a combination of OPEC reduction plus incorporating more barrels. The best approach we have for unitary cost for 2017 is at around $34 per barrel.

The picture is better than we expected than it was in 2015, when we acquire the assets of Talisman.

Let me say, clearly speaking, because as I said, the worst part of the coin was the UK, as you know, because I was very clear and transparent in the past, talking about these assets. Saying that, I don't see now no regret asset coming from the former Talisman.

Going to your second question. Perhaps my answer is not the most charming, it's not the most -- but anyway to be very clear, if I had more money to spend, my full target will be to fulfil and to deliver my target for 2017.

We are going to follow what we did in 2016, delivery, and delivery is our full commitment. We have to prepare the Company to be leaner. To have less corporate costs.

I have read this morning, and it's logical your analysis, not yours, I mean from the analyst community, saying that we are reducing the corporate cost and so on, and the financial cost and that is not perhaps an operational improvement.

That is very important. We said after merging Repsol and Talisman that our main target was to try to obtain synergies in the corporate level. In two years, we have reduced the corporate cost base of the new Company in more than EUR300 million per year; and we have reduced our financial costs.

All that is very important, but we are revisiting every process we have. We are streamlining our decision-making processes. We are trying to do the same with less cost. We are trying to get rid of all corporate burden that is not putting -- or adding value to the Company.

That is my full priority this year. I'm not going to change all that, even having, let me say, an infinite amount of money in my hands. That is my road map; I'm going to follow this road map. My full target is to achieve this figure of 1.1 times ratio of net debt/EBITDA at the end of the year. And be sure that perhaps in the next presentation, next year, we'll have the opportunity to talk perhaps about some other things or not. It depends on what is going to happen here.

But my commitment to fulfil the roadmap we designed and we announced in our strategic plan, is a full commitment and we are going to deliver it. Thank you.

Michele della Vigna ***Goldman Sachs & Co. - Analyst***

Thank you.

Paul Ferneyhough ***Repsol - Head of IR***

Thank you, Michele. Rodolphe Ranouil, [NatWest].

Rodolphe Ranouil ***RBS - Analyst***

To your point on investment rating, you were talking in previous results about potential hybrid issuance. Looking at where you are now and how fast you've de-levered in the fourth quarter particularly, I was wondering if you still this as a possibility going forward, as in, would you, are you still contemplating the issuance of such instruments or does that no longer seem necessary?

Josu Jon Imaz ***Repsol - CEO***

Thank you, Rodolphe. My first reflection, I said first glance -- I think that this issuing of hybrid bonds in the current situation, I think that is not going to be necessary for Repsol.

Anyway, I'm going to do, as I said, all our best to maintain the financial balance sheet of the Company. But perhaps today is not the most logical way, because we don't have financial needs.

I have Miguel here with me and we have EUR9.3 billion today. Taking liquidity and credit lines we have in our hands, I think that we could cover our financial needs to 2020/2021, Miguel?

Yes, until 2021. We could cover 2.3 times our short-term financial commitments, including a maturity of bonds and so on with the liquidity we have now in our hands.

Going to this kind of financial instruments is not the most logical thing. I'm not going to discard never anything, but it's not our first priority today.

Thank you, Rodolphe.

Rodolphe Ranouil ***RBS - Analyst***

Thank you.

Paul Ferneyhough ***Repsol - Head of IR***

Thank you. Biraj Borkhataria, Royal Bank of Canada.

Biraj Borkhataria ***RBC Capital Markets - Analyst***

I have a couple. The first one on Venezuela. It looks like there was some moving parts this quarter. Could you just update us on the current receivables balance there and your capital employed exposure to that country?

And my second question is just on the Red Emperor project, which is up for FID. Is there any way you can disclose the CapEx budget for that project or any other details? Thanks.

Josu Jon Imaz ***Repsol - CEO***

Thank you, Biraj. First of all, talking about Venezuela, that -- I suppose that is one of the complex issues I have to answer in these Q&As, and it's logical, your concern and your questions.

Venezuela is probably -- probably, no. It's, in proven reserve terms is the country in the world with more oil reserves. And I like to underline this fact, and at the same time, Repsol has a solid position built in the country.

We have a solid, fluid relationship with PDVSA. Within the framework of difficulties that you perfectly know, we will continue to be involved in the country, trying to maintain and increase our operations in Venezuela. Let me say, we are going to do all that under the principle of financial prudence.

Today, answering your question, we have a total financial exposure in the country of $2.3 billion, taking into account equity and financing. It's a figure at around the 5% -- or less than 5% of our capital employed. I believe that is a reasonable risk for Repsol and, of course, we are trying to mitigate this risk.

In addition of all that this year, we are mitigating this risk in the two main assets we have in the country. The first one is Petroquiriquire and through the financial agreement we achieved in this quarter, I mean in the last quarter of 2016, this agreement allow us to contribute to the growth of production; the operational improvement; and a greater efficiency in cost; but, under a framework of financial neutrality in the asset.

In addition to that, we have the deals in Cardon IV, over the last months, where, after the agreements the cargos of condensate are contributing to pay the 50% of their bills in dollars, a percentage that will increase progressively, because we have some other additional upsides that we are negotiating now with PDVSA. As I said before, we have built quite a strong relationship with them.

In addition to all that, the part in dollars in Cardon, the full part in bolivar that covers local cost, has been paid.

The situation is, of course, complex, but we are comfortable with this [prudency] framework with this financial exposure, taking all the [consensus] in the country of $2.3 billion.

Of course, we will continue to collaborate with PDVSA to solve the problems we may have along the way.

Thank you, Biraj.

Sorry, I forgot your question about Red Emperor. Of course, we need the final permission of the Vietnamese Government and so on, that we expect to have in this first half of the year.

Repsol is the operator; is going to be the operator in this area. The Repsol stake in the project is 46%. Our main partners are PetroVietnam and Mubadala.

The net CapEx for Repsol for coming three years, 2017, 2018, 2019, because probably we'll have the first oil in the last part of 2020, 2019 is $560 million net Repsol.

The break-even, and let me -- every company is talking, in this kind of presentation, about break-even. Sometimes we talk about break-even, break-even looking forward. Looking forward, the break-even could be very low. We have a lot of CapEx invest before in this -- in an asset, in a play sometimes.

I think that we have to talk about full-cycle break-even, to be serious. Taking into account the full-cycle break-even, in the case of Red Emperor in our figures, the break-even is $33 per barrel.

We have to take into account that -- I mean this good and low break-even also comes, because a part of the production is a [gas] production that has a fixed local price, that allow us to have a lower break-even for the whole project.

Thank you, Biraj.

Biraj Borkhataria ***RBC Capital Markets - Analyst***

Thank you. That's really helpful. Just a quick follow up on Venezuela. Of the $2.3 billion, the total financial exposure, what proportion is the accounts receivable?

Josu Jon Imaz ***Repsol - CEO***

In net terms -- you have to take into account that we have always, as in every business, a mixture of bills that we have to receive and bills that we have to pay.

If we take the net -- take into account both concepts, the figure could be at around $600 million more or less; $600 million/$650 million. This figure is included in the $2.3 billion I deliver before. This figure is a mixture of, let me say, commercial debt, financial debt, plus equity.

Biraj Borkhataria ***RBC Capital Markets - Analyst***

Great. Thank you very much.

Josu Jon Imaz ***Repsol - CEO***

Thank you, Biraj.

Paul Ferneyhough ***Repsol - Head of IR***

Thanks a lot, Biraj. Filipe Rosa, Haitong.

Filipe Rosa ***Haitong - Analyst***

Two questions from me, the first one on the free cash flow guidance that you provided for Repsol, so talking about substantial reduction, again, of net debt for 2017.

Could you just let us know whether you are including any remaining proceeds from divestments or -- and what will be your working capital assumption, in terms of evolution versus 2016 in your free cash flow guidance for 2017? That would be my first question.

My second question relates to Brazil. This year, we will have a few potential deals, in terms of the new bidding rounds. Part of the acreage that is going to be auctioned is next to your acreage. So, is it something that you think that it will make sense to participate, or at the current stage you don't want to allocate any more capital to Brazil? Thank you very much.

Josu Jon Imaz ***Repsol - CEO***

Thank you, Filipe. First one, in general terms the divestment target as a policy fully focused on that, we launched last year, is over. In the -- because now, we are in another page or another scenario.

Saying that, we are going to be very active managing our portfolio. I said that last year and we deliver-- we, sorry, announced in our strategic plan that there is plenty of room to put more rationale in an upstream portfolio.

We have to take into account that we have doubled our production in the upstream over the last three years. It's not very useful to have a company doubling its production in this tough time.

Now, it's time to put more rationale. We tried to do that, of course, in 2016. The Gudrun/Eagle Ford swap was an example of that. The Alaska operation was another example. What we did in the North Sea and in Norway also. So, we are going to be more active.

I'm trying to be neutral in production terms. The main target is going to be put more rationale, perhaps reduce a bit the scope of places where we are; be more focused on our main type of place, we define as objective in our strategic plan for the downstream, the operational terms. I'm talking about the unconventional, our onshore core regions, the shallow waters and so on.

Taking all the projections we have, and you have to understand that I can't deliver where we are thinking about the opportunity to sale -- or to sell, or to buy and so on.

In this figure, to achieve this EUR6.8 billion of net debt, and including a potential net divestment of EUR600 million, the working capital variation that we forecast for the year could be EUR300 million higher.

That is also included, of course, because a good project, taking into account the price of commodities and so on, perhaps more financial needs to sustain the current inventories we have. But EUR6.8 billion is the definite we have as guidance for the year, with EUR600 million divestment, and including, of course, an increase in working capital of EUR300 million.

Talking about Brazil, sorry, the exploration round of Brazil. My approach for Brazil, we are comfortable there. We are comfortable with the current position we have in the country.

This January, we are going to produce -- I don't have here the figure, but I think that the figure is at around 48,000 barrels per day. We are going to increase a bit perhaps this year, because I think that we already post 3,000 barrels per day from Lapa that is in the ramp-up process now, in January. I think that this year we are going to be at around 50,000 barrels per day. You could check the figure.

You could check the figure, of course, with Paul and his team after the presentation.

But, that is not only, and of course, it's a free cash flow generator with Sapinhoa, with Lapa. But, at the same time, we have a fantastic growth opportunity in Brazil in coming years, because I want to remind that the four main projects after taking the FID of Red Emperor in the first part of the year.

Over this year, we are going to work hard in preparing the development plans in four main areas for the Company, what we call, let me joke, the AC/DC project; I'm not taking about music. I'm talking about the growth of the upstream of Repsol. A is Alaska. C is the CP0-9 in Colombia. D is Duvernay. And the C is -- sorry, CP0-9 is also Akacias; it's Akacias. And the C comes from Campos 33.

Campos 33 is one of the main areas, in contingent resources terms, we have in Repsol now to grow. We have Sagitario also included as an opportunity for the future. And we are looking at opportunities near the C-33, the Campos 33, block.

But we have enough exposure to Brazil. We are very comfortable with the current exposure. And we don't forecast to have additional growth in the country.

Thank you, Filipe.

Filipe Rosa *Haitong - Analyst*

Thank you very much.

Paul Ferneyhough *Repsol - Head of IR*

Thanks, Filipe. Lydia Rainforth, Barclays.

Lydia Rainforth *Barclays - Analyst*

A couple of questions if I could. Just coming back to the cost savings and the progress you've made there, bringing the target from 2018 to 2017, are you effectively doing everything that you want to do earlier? Or is this additional savings over and above what you would have planned at this point?

And then secondly --

Josu Jon Imaz *Repsol - CEO*

Excuse me, Lydia, sorry I have a little problem with the micro. Could you repeat your first question, Lydia? I'm so sorry.

Lydia Rainforth *Barclays - Analyst*

No, not at all, it's probably my new phone. I just wanted to talk on the cost savings side and bringing the target forward, is this a case of you're doing more than you thought you would? Or is it you're doing the same things, just earlier? Just to get a sense of what we might be looking at further out.

And then the second one was just coming back to the refining business, and just looking at how you expect that premium margin that you've generated throughout 2016 to look into 2017.

And then just a final one, just for me to help with my math if I could. Just on the EBITDA number and the implication from having net debt at EUR6.6 billion/EUR6.6 billion. Is that that EBITDA would be about EUR6.2 billion for the year, roughly in the macro environment that you've outlined? Hopefully that makes sense.

Josu Jon Imaz *Repsol - CEO*

Going to your first question, let me say that our main target is to anticipate the target we have for 2018 to 2017, being tougher and increasing the operational efficiencies we launched in 2015 and 2016.

The first target, of course, is make sustainable everything we achieve in 2016. That is going to be my first concern and my first objective. We are inputting a mixture of new measures. Some of the measures were defined before. Some of them were launched in 2015, and they are going to have a ramp-up in 2017. A significant part is going to be also from the FTE reduction we experienced in 2016 that is going to be delivered in some way in 2017.

The improvement in operational terms that we are launching in every asset we have; the reduction of logistic and commercial cost. We are going to go on and to be tougher, as I said before, analyzing every corporate function that we have and trying to have a more optimized and linear governance function in our corporation; and at the same time, in the part of the corporation that is providing services to the businesses, trying to have more competitive businesses.

I want to say in some way that we are not involved in a tactical cost reduction program, but our way of thinking and acting for an entire organization that is Repsol. We are rethinking and revisiting our processes.

We are trying in the upstream and the downstream to standardize our operations. We are revisiting our engineering. We are resizing our corporate function, reciting and optimizing our own reporting to be efficient. We are more focused in the value creation, and it requires a complete transformation of how our Company conducts business.

Let me say, Lydia, that we are starting now to deliver the results of this program. But this program takes a long-term perspective, takes perseverance. You could be sure, Lydia, that the fruits of these actions are going to appear in 2017, but are going to appear, in an increasing way, in 2018 and beyond.

Going to the refining, we forecast to have -- that is our budget, of course, and it's our first approach and our best guidance, it could be at around $0.6 per barrel.

Let me say that you are going to see, probably, a higher figure than the $0.6 per barrel in the second half of the year, and perhaps a bit less in the first part of the year, because the two main maintenance stoppages we have, they are going to be one of them. As I said, we are exiting now in Bilbao and the second one in the second quarter in Cartagena.

So, probably the average of the year is going to be at around $0.6 per barrel as a premium. But you are going to see, perhaps, a bit lower figure in the first half and a significantly higher figure in the second part of the year.

The best guidance, of course, and I have to say that I'm taking the approach that this $55 per barrel and so on is going to be there. But taking into account this approach, Lydia, our guidance for EBITDA and CCS for 2017 is EUR6.2 billion, and half is going to come from the E&P, EUR3.1 billion; I expect that. A bit more, EUR3.3 billion from the downstream businesses or 55% more or less.

The corporate is going -- as is quite logical, is going to burn a part of this EBITDA. This cost will be in EBITDA terms EUR0.2 billion. And the whole figure, EUR6.2 billion, as you said.

Thank you, Lydia.

Lydia Rainforth *Barclays - Analyst*

That's hugely helpful. Thank you.

Paul Ferneyhough *Repsol - Head of IR*

Thank you, Lydia. Feel free to call myself or the team if you need any more details around the numbers.

Irene Himona, Societe Generale.

Irene Himona *Societe Generale - Analyst*

I had two questions, please. Firstly, you guided us today to sustainable production of 700,000 barrels a day out to 2025 from your contingent resources. You had said in the past that you have assets and resources that could potentially support 900,000 barrels a day of production at a higher price. So, at the current price, obviously, it stays in the ground.

I wonder if you can give us an idea, clarify perhaps, what price you would need to dispose of the resource corresponding to that potential 200,000 barrels a day.

And secondly, on Repsol Brazil, again you have said before that because it is deep offshore and it is not operated, it's actually a non-core asset. So, my question is, is there an active effort to market that asset, given that there is quite a lot of interest in Brazil, at the moment? Thank you.

Josu Jon Imaz *Repsol - CEO*

Okay, Irene, thank you. First of all, I like to clarify that this year, we have nine growing active projects: Ca Rong Do, PM-3. We are going to invest 40% of the CapEx of the year in growing projects: Carandot; PM-3 in Malaysia; Kinabalu; Reggane; MonArb; Lapa; Margarita 3;

Block 57 with the Sagari project in Peru; plus a possible development in the Gulf of Mexico.

So, all that is going to feed the growth of the production in coming even in 2017, 2018, 2019. And, we have the fourth growing periods as I said. Probably, we'll have a FID in 2018 or 2019.

Our main focus is going to be not an increase in production; it's going to be in extract more value from the barrels we are going to produce.

If I have to punish production to obtain more margin, more cash, more EBITDA and more result for the Company, I'm going to prioritize this policy. We are not involved -- we're not growing a barrels-growing strategy.

I only said that taking into account these projects we have now, I could, in some way, give you, as a guidance, that we are going to be above 700,000 barrels per day from now to 2025.

Will we be above this figure? Of course, but I am not going to prioritize all that.

We have a lot of option to -- in some way, to maintain this growing, but the first one, it will slow down the pace of investment. I'm sure that accelerating the pace of investment, we could achieve perhaps 800,000 barrels per day in two or three years, but we are not going to do that.

I'm going to say you clearly, I'm going to maintain the guidance of CapEx. So, I'm going to be a bit more prudent, so perhaps the consequence is that we are not going to be 900,000 barrels per day, because I'm going to prioritize extracting value from our barrels.

Of course, we could be more active managing our portfolio. We could sell in some cases production, in order to have perhaps less barrels, but with more margin. We are going to prioritize, Irene, the extracting the values from the barrels we are going to produce.

Production, we are going to be above this figure I said. That is not proving to be, our priority to grow above this figure. Thank you, Irene.

Brazil, no active effort to market asset; not at all. As I said before, we are comfortable in Brazil with our current position. Thank you.

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

Thank you very much.

Paul Ferneyhough ***Repsol - Head of IR***

Thanks, Irene. Giacomo Romeo, Macquarie.

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

I think two left. One is on Libya I was just wondering what are the key constraints that are preventing you from ramping up production to pre-war levels? If you can just give us some ideas of what is required in order to reach pre-war levels?

Also, if you're seeing -- what sort of change in terms you're seeing, or potentially discussing, with the local NOCs and government?

Second question is on your net debt EBITDA of 1.1 times guidance for 2017. Was just wondering if -- should you get to this level, do you think that you could sustain a higher level of cash payments to shareholders? Thank you.

Josu Jon Imaz ***Repsol - CEO***

Thank you, Giacomo. As I said before, I prefer to be prudent about Libya and the constraints today to have this ramp up and to need some more time to achieve this figures.

I said before, to be at 230,000 barrels per day in gross terms at the end of this year is that some wells are a bit more far from the central area where we have our operation in Sharara and so on. We have some constraints too to have this ramp-up, because -- I mean security of the area of our people is going to be our first priority, of course.

I prefer to be cautious and prudent because there are facts that are not in our hands. Even producing today 20,000/21,000 barrels per day, I'm more comfortable giving you a guidance of 12,000/13,000 for the whole year, because, clearly speaking, there are facts that are not in my hands.

I have -- I am a bit more optimistic than I was some months ago, because the security situation in the country is improving.

I am convinced, and I am seeing, that the revenues from the oil and so on are going to help in this reconstruction process, so that is, in some way, some kind of virtuous circle that is -- feed itself. But I prefer to be prudent, because it's not in my hands.

Talking about your second question I answer before, Giacomo. We are going to maintain the scrip option in 2017. That is going to be, of course the position of our Board. I could anticipate that that is my position and I'm going to defend this position in my Board. Thank you.

Paul Ferneyhough *Repsol - Head of IR*

Thank you, Giacomo. Jon Rigby, UBS.

Jon Rigby *UBS - Analyst*

Just a quick one, actually. I was a bit thrown by your reference to 1980s heavy metal. Can you just go back through your AC/DC reference again, just so I've got those?

And can you confirm that is what you're referring to when you talked about the 2018/2019 FIDs that will support your production at around 700,000 kbd -- kboed out to 2025?

And I just noticed, actually, in the annual pieces that you put out today, you actually discuss Buckskin as a potential 2017 FID but I assume that's probably not correct? Is that right?

Josu Jon Imaz *Repsol - CEO*

Thank you, Jon. The AC/DC, and I have a mistake because I called it -- you know that in Colombia the project is either Akacias or CPO-9; so the AC, I was confused before. I'm talking about Alaska, Campos 33, Duvernay and CPO-9, that is also the Acacias in Colombia.

I'm not saying and I'm not confirming that we are going to take the FID in 2018, 2019. I'm saying that we are going to work in the directions of preparing the development programs in these areas, to take potentially the FID in coming two years.

But let me say, the full criteria to take this FID, is going to be the net present value break-even. If we are able at around $55 per barrel to sustain that the profit of this project is higher than the cost of capital in this area, so with a positive net present value, so we'll take this FID.

But now we have to work hard, this year and the months coming to prepare this development program. Thank you.

Buckskin, we are working now in a potential project. I can confirm that LLOG has been named operator of the Buckskin unit, and that Repsol currently owns 22.5% I think of the leases.

So, we are working in this potentiality and, as I said, before the [MPB] is going to be always the criteria before our approving the FID.

Thank you Jon.

Jon Rigby *UBS - Analyst*

Can I just ask a quick follow up on the question before?

Josu Jon Imaz *Repsol - CEO*

Yes, of course.

Jon Rigby ***UBS - Analyst***

I take your point that you don't want to pre-empt or discuss what the Board might decide. But from your allocation of capital point of view, is the implications are on your cash cycle that you start going quite low, in terms of net debt by the time we exit 2017 and 2018.

What would you see as a priority in terms of allocation of capital there, in terms of let's say returns for shareholders, additional CapEx, or continuing to reduce the net debt on the balance sheet. Is that a way of looking at it?

Josu Jon Imaz ***Repsol - CEO***

Thank you, Jon. Your duty is to ask me this question and I have to say that I'm not going to be very charming about all that, and I am going to be very tough.

Now, my concern is to deliver what I said was our commitment for 2017, in the same way that, last year, my main objective and target was delivering what we announced for 2016. I'm fully focused on that.

Let me say after having the EBITDA -- the net debt/EBITDA ratio at around or below 1, after having -- extracting all the value from our efficiencies and so on, after having a very stable financial balance sheet, we'll talk about that from in 2018, in the next full-year presentation.

But, now, I'm only focused on what I said, and we are working to prepare the Company to have this debt net ratio at the end of the year.

Thank you, Jon.

Jon Rigby ***UBS - Analyst***

Okay, fair; thanks.

Paul Ferneyhough ***Repsol - Head of IR***

Thank you, Jon. Christyan Malek, JPMorgan.

Christyan Malek ***JPMorgan - Analyst***

Two questions. Just a follow on from Jon's question, first on your CapEx projection over the medium term, I'm just trying to be clear around I get what your fiscal mandate is, and it's very clear.

But trying to understand in the context of what you're trying to achieve industrially through managing your CapEx against long-term production growth, what would you argue is the right steady stable sustained CapEx number mid to longer term, that should help underpin production growth of, let's say, 1% to 2% beyond 2020? I'm just trying to understand what that number is, particularly against the framework, the fiscal framework that you've set out.

And the second question is around threshold returns to approve FIDs going forward. What do you mean by generating value at $55 a barrel? What -- can you give us some sort of numbers around the return threshold that you're thinking about to help move FIDs forward?

Josu Jon Imaz ***Repsol - CEO***

Thank you, Christyan. My best guidance -- of course, we have to decide the CapEx allocation every year, but my best guidance today with the facts I have in my hands to say that we could sustain our production above 700,000 barrels from now on to 2025 and beyond.

That we could have, as an average of the [plays] of the strategy plan to 2020, and 100,000 reserves replacement ratio, and so on, is at around EUR4 billion for the whole Company from 2018 on.

When I say generating value of $55 per barrel, I'm saying at exact terms that if we take at $55 a barrel price flat and discount it at bulk of the country, taking into account the risk and so on, every cash flow in net present value we are creating value for the Company.

That is the criteria that we are taking when I said that we have to have -- or to take an FID if we could show, internally, that we are able to create value for the Company, at $55 per barrel.

Thank you.

Christyan Malek ***JPMorgan - Analyst***

Just as a follow-up. Is it fair saying that you're assuming $55? Is that your starting point mid to longer term, as well in your oil price assumption?

Josu Jon Imaz ***Repsol - CEO***

No, Christyan. That means that we are going to be very prudent, and we want to maintain the flexibility of the Company.

I don't know what is going to happen in the world in 20 years, in 15 or in 10 years. My duty's not to have a crystal ball to see what is going to happen from -- in 10 or 15 years from now on. But my duty is to have the flexibility to adapt the Company, to adapt Repsol, to whatever scenario we can have in the future.

That is -- the main plan we have in our strategic plan was to create value and, at the same time, to be resilient. We are showing that we are able to create value. At the same time, we are showing that we can be resilient at the lower part of the cycle.

So, we have to be prepared to that, and I prefer to be prudent and to have the flexibility to take the decision we have to take in the future.

Let me say, Christyan, we have doubled the production in the E&P over the last three years. We can't forget this fact. So, we don't need now, in the short and midterm, to grow in barrels. We have to grow in value, we have to reduce our break-even, and we have to grow in EBITDA and in EBIT. That is the commitment I have.

Thank you.

Christyan Malek ***JPMorgan - Analyst***

That's very clear. Thank you very much.

Paul Ferneyhough ***Repsol - Head of IR***

Thank you, Christyan. Fernando Lafuente, Alantra.

Fernando Lafuente ***Alantra Equities - Analyst***

Just a very quick one on production again, and, sorry, everyone.

I'm looking to the targeting in 2017. My impression concerned that in Libya you're being conservative, is that probably the target, and, basically, considering what you said, could be very conservative.

My question would be, first, what is the -- and do your assumptions (inaudible). What is the declining rate that you are assuming, annual declining rate?

And, secondly, what explains this potential reduction in 2017 versus what could be -- what was the production in Q4, and the exit production you expect for the end of the year? Thank you so much.

Josu Jon Imaz ***Repsol - CEO***

Thank you, Fernando. I couldn't agree more with your point. [First], it's a very conservative assumption in production terms. But I prefer to be conservative giving you this guidance, Fernando, because I like to deliver everything I commit. And I prefer to be conservative, because I know that there are facts that are not in our hands.

Libya is mainly the -- my main concern. So, I prefer to be very clear. It's a conservative assumption, but it's the best assumption I could announce today.

Talking about what is -- what we are missing in 2016, let me remind that we divest in Tangguh; we divest in TSP. Combining both, perhaps you are talking about 13,000 barrels per day, something like that.

You know that we own an asset in Norway that is performing better than expected, that is Gudrun. But we said from the very beginning, that is a declining asset.

We could have, on average -- you asked me about the decline rate, that it could be at around 4% -- 3%/4% the average declining rate. But I want to remind you that the production is in line with the fourth quarter of 2016, where we have produced 679,000 barrels per day. We are announcing 680,000 barrels per day for 2017.

At the same time, as I said we have nine growth projects that are now in the pipe, and they are going to see the first [toll] -- on the first gas either this year, or in 2018 or 2019.

Thank you, Fernando.

Fernando Lafuente ***Alantra Equities - Analyst***

Great. Thank you so much.

Paul Ferneyhough ***Repsol - Head of IR***

Thank you, Fernando. Anish Kapadia, TPH.

Anish Kapadia ***Tudor Pickering & Co. Sec - Analyst***

A question on the downstream. First of all, wanted to get an idea of the impact that you see potentially coming from the OPEC cuts and higher crude prices. So, in terms of what -- I suppose, what percentage of medium heavy crude do you use, and impacts from OPEC cutting back on those.

Then, also, in terms of higher oil prices. I'm guessing you got some benefit over the last couple of years at lower oil prices reducing your energy costs in the refining and chemicals part of the businesses. So, what's the sensitivity of higher oil prices for your refining, but, I suppose, also, your pet chems, where you'll be competing with other companies that have gas as feedstock?

Second question on the upstream. With around two-thirds of your production, gas versus oil. I'm just wondering if, strategically, you're looking at trying to get more oily, because when I look at the pre-FID projects, they tend to be a bit a more oily.

Just wondering if you can give, in particular, a bit more detail on your Alaska project. You've got a 1.4 billion-barrel discovery. I think you're exploring for another 1 billion barrels with the current well this year. Just wondering where that sits within your plans.

Then just one quick final one, what's your expectation in terms of the cash tax you're going to pay this year? Thank you.

Josu Jon Imaz ***Repsol - CEO***

Thank you, Anish. The idea of the impact from OPEC cuts in the heavy and medium crude oil, I think that is not going to be material in terms of changing.

I think that the most important fact, in my opinion, from the spread among the Brent and heavy oils, it's mainly the Atlantic Basic market. I don't see a tight market for this kind of crude in the Atlantic in the short, mid-term.

I have to stress the fact that Venezuela, Colombia, the oil coming from Canada the heavy oil that is going to be accelerated, thanks to the vision of promoting the XL Keystone pipeline and so on, is going to put more of heavy oil in the Atlantic Basin. That is very interesting to maintain and to increase the competitive side of our refining system that, as you know, depends 35%/40% in each basket from this kind of crude oils.

The sensitivity for high oil prices in refining, perhaps I'm going to say something that is heterodox, but there is not a direct influence of oil price on the refining margin. There is an indirect influence, of course.

But the refining margin is defined by two main factors. The first one is demand, and of course, oil prices influences the demand. Let me say the demand is growing, in our main market that is Spain and is Iberia.

From the offer side, thanks to the low oil prices period, some companies, mainly national oil companies and so on, either defer or delay investment project for new refineries. That means that I'm quite comfortable about the evolution of refining margins in the short and in the mid-term.

I think that our assumption of $40 per barrel in our strategic plan, with the facts we are seeing today, it could be quite realistic, or better said, taking Fernando's expression, conservative.

Taking -- going to your second question about the upstream, strategically trying to get more oil, when you are exploring sometimes you don't know what is there. You know that there are hydrocarbons, but you do not have the full picture. But in strategic terms, we are comfortable having -- of being [gas-ier] company than an [oil-ier one].

In Alaska, I suppose that we are talking about oil there. These days, we are evaluating the [Horseshoe] exploratory well. A well that we drilled 20 miles in the south part of the discovery we have in our hands. We think that we are in the same -- in Nanushuk formation, in the same Nanushuk play we drilled before.

We are going to have more news about this drilling perhaps in coming days -- or in coming weeks, after finishing the drilling process.

Going to the tax cash figure in 2017, was EUR700 billion -- sorry, this year, 2017, the first guidance we have for the year in cash terms.

Thank you, Anish.

Anish Kapadia ***Tudor Pickering & Co. Sec - Analyst***

Thank you.

Josu Jon Imaz ***Repsol - CEO***

Yes, of course, sorry.

Paul Ferneyhough ***Repsol - Head of IR***

Marc Kofler, Jefferies.

Marc Kofler ***Jefferies - Analyst***

I just wanted to come back to the upstream and the volumes that you are producing on the gas side from Trinidad in 2016. It looks like it was down reasonably sharply on 2015, which I presume was maintenance. Is it fair to expect those volumes to recover in 2017?

Josu Jon Imaz ***Repsol - CEO***

More or less, Marc. We could be at a similar production, that is our first guidance for Trinidad, perhaps 10,000 barrels per day more than in 2016, not now, not in the first part of the year.

But you know that one of the reasons for this maintenance and work covers, and so on is that we are -- better said, BP, as operator, and we, as partner, we are investing in the Juniper project. That is going to be a project that is going to allow us to maintain the former production we had before in Trinidad.

Taking into account the entering of the Juniper project over the year, in average, my best approach now could be that we could produce 10,000 barrels per day more as average over the whole year.

Thank you, Marc.

Marc Kofler *Jefferies - Analyst*

Thank you.

Josu Jon Imaz *Repsol - CEO*

Thank you, everybody. Have a nice day

Operator

That will conclude today's call. Thank you for your participation, ladies and gentlemen. You may now disconnect.