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PRESENTATION

Operator

Good day ladies and gentlemen and welcome to Repsol Fourth Quarter and Full Year 2017 Results Conference Call. This 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 this call over to Mr. Ferneyhough. Sir, you may begin.

Paul Ferneyhough ***Repsol, S.A. - 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 2017. 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 San Miguel ***Repsol, S.A. - CEO and Executive Director***

Thank you, Paul, and thank you to those on line for attending this conference call covering our fourth quarter and full year 2017 results. In today's call, I like to cover the following principal topics. First, a review of our progress towards our current strategic objectives. Secondly, I'll take you through our main operating highlights for the quarter and the full year 2017. Third, a high level summary of our financial results and finally, I'll provide some comments on our recent disposal of Gas Natural and an outlook for 2018, together with some guidance for our upcoming strategic update.

Let me start by taking you through our progress towards the strategic objectives from our current plan. 2017 has been another year, focused on delivery and operational performance. We have continued to transform our company, meeting targets and operating our business in an efficient and sustainable manner. At the same time, we were experiencing volatile, but improving commodity prices. Repsol has delivered on its targets for financial and operational performance, capturing value from the increase in oil prices in our upstream, whilst maintaining cash flow generation from our downstream businesses.

Building on our achievements in 2016, we have met in just 2 years all the key commitments of our 2016 to 2020 5-year plan. We have delivered synergies and efficiencies of EUR 2.4 billion per annum by the end of 2017, exceeding our original target on delivering our savings 12 months earlier than promised. We have reduced CapEx from a pro forma high, close to EUR 7 billion in 2014 to EUR 3 billion in 2017 without compromising safety, production volumes, reserve replacement or critical maintenance programs. We have divested off non-core assets, securing over EUR 5 billion by the end of 2016. We have reduced our group's free cash flow breakeven to around $40 per barrel by the end of 2017. And finally, we dramatically reduced our net debt and stabilized our business at investment grade. By achieving all of these, we have become a leaner and more efficient company, fully committed to sustainability and focused on increasing the value of our asset base.

We've built a business that has the financial flexibility to improve shareholder remuneration, funded from sustainable organic cash flow. We are achieving our objectives and taking part in the leadership of our industry in this drive towards lower carbon emissions.

In upstream, our focus on lowering costs and expanding margins, leveraged by improving commodity prices and the return of production in Libya generated positive free cash flow in the year. We have moved closer to our strategic objective of an upstream portfolio that breaks even in the long term at $50 per barrel.

In the downstream, our assets generated EUR 1.8 billion of free cash flow, supported by strong fundamentals in refining and chemicals and the strength of our commercial businesses. In anticipation of completing our strategic objectives earlier than planned, we have been working on an update to our strategy that will set out revised targets through 2020. My current plan is to host a Capital Markets event where we would explain revised targets on the 7th of June this year.

Now let me move on to describing our operational highlights for the fourth quarter and full year 2017. Starting with the Upstream division, fourth quarter production averaged 715,000 barrels of oil equivalent per day, 3% higher than in the previous quarter, primarily due to volumes in Libya, which averaged 33,000 barrels a day and the ramp-up in Trinidad and Tobago. The full year average production stood at 695,000 barrels per day. Compared to the previous year, the resumption of production in Libya, together with the ramp-up of new projects, more than offset divested volumes, the impact of higher prices in production sharing contracts and of course a natural decline of our assets.

Three projects were started up in the fourth quarter. The development of Kinabalu in Malaysia and the Sagari project in Peru commenced production in October and November respectively, while Reggane in Algeria reached first gas in December. A total of 6 new projects have started up production in 2017 and annual volumes were also supported by the ramp-up to plateau of Lapa and SapinhoÃ¡ in Brazil. Development activity in 2017 included investment sanctions for Buckskin in the Gulf of Mexico, Ca Rong Do Red Emperor in Vietnam, YME in Norway, Angelin in Trinidad & Tobago, and (inaudible) in the MLN field in Algeria. These are all economically attractive projects that will contribute to further reductions in the breakeven of the overall Upstream portfolio. Let me highlight that the average reserve replacement rate here for 2016 to 2017 has been in line with our long term 100% target, supporting our commitment to sustain production and reserves at lower capital investment levels. Finally, exploration generated a number of discoveries in 2017, most notably at Horseshoe in Alaska, Savannah and Macadamia in Trinidad & Tobago. A total of 6 wells were declared positive in the year.

Now moving into Downstream and starting with refining. Their margin indicator remained above our long-term target at $6.90 in the fourth quarter. The high complexity of our refining system allow us to benefit from the wider heavy to light crude differentials. Overall for the full year, the average refining margin indicator stood at $6.80 with product spreads offsetting the impact of higher overall energy costs and narrower heavy to light differentials compared to 2016. Absolute processed crude oil volumes increased by 10% compared to the previous year, mostly due to high [top in] utilizations, taking advantage of unusually positive hydroskimming margins. Major plant maintenance was complete on schedule and on budget, allowing us to run our compression units at very high rates, especially during the second half of the year, despite focusing on higher [top-in] volumes, where we chase absolute cash generation for the business. This year's margin averaged a premium to the indicator of around $0.20 per barrel in the year.

The chemicals business experienced a favorable trading environment that was partially offset by the gradual increase in the price of nafta. Of course, the associated energy costs. Full year operating income reached EUR 600 million in this business. And finally, the results of our commercial businesses were in line with 2016, thanks to increasing revenues, being offset by higher prices, our strategy of transforming while performing, continue to focus on maintaining competitiveness in our retail business, while adopting to changes in demand patterns.

Overall sales in our services station registered an increase in volume compared to the prior year.

Moving on now to the financial results. I'll briefly summarize the main figures for the fourth quarter and the full year. Fourth quarter 2017 CCS adjusted net income was EUR 703 million, in line with the EUR 698 million achieved in the same quarter of 2016. Full year 2017 CCS adjusted net income stood at EUR 2.4 billion, a 25% increase and EUR 0.5 billion higher compared to 2016. EBITDA CCS stood at EUR 6.6 billion for the year, a 31% increase year-on-year.

Upstream adjusted net income in the fourth quarter was EUR 128 million higher than the same period in 2016. Full year adjusted net income amount to EUR 632 million, a EUR 580 million increase compared to 2016, reflecting cost reductions, the resumption of production in Libya and higher commodity prices.

In the Downstream businesses, CCS adjusted net income in the quarter was EUR 446 million, EUR 108 million lower than in the fourth quarter of 2016. Adjusted net income for the full year 2017 was EUR 1.9 billion, in line with the result achieved in 2016. As in previous quarters, for further details on Repsol's results, along with the detailed variance analysis, I of course encourage you to refer to the financial statements and accompanying documents that were released today.

At this point, before moving on to our plans for 2018, I like to comment on the agreement reached last week to sell our 20% stake in Gas Natural to CVC. This is a transaction that allows Repsol to crystallize the value of our stake in Gas Nat, at a price in line with our disposal to GIP in 2016, an opportunity that might not be available to us in the future perhaps. In Gas Nat, we had non-operated assets that has provided a stable income with a return on equity of around 5% during that period of low commodity prices. However, the potential for growth was limited and the disposal provides us with greater financial flexibility and the opportunity to redeploy investment into operated assets. We are looking to obtain higher returns and greater levels of control through investments in our existing core businesses, such as gas commercialization activities and growth in our exposure to diversified energies. We aim to build higher return portfolio and directly manage markets, execution, technology and geographical risk, as well as providing new growth engines for the company.

By holding our stake in Gas Nat, competition rules have prevented Repsol from investing and growing in some areas, such as gas commercialization that we believe will be fundamental to us in coming years. Additionally, we know that the supply of energy for mobility is going to evolve in the coming decades and Repsol will be prepared to maintain our leadership in this sector. Repsol already has material exposure in these areas, for example, our upstream production is over 65% gas and we are major consumers of gas and generators of electricity here today in Spain through our industrial facilities.

Our priorities will be to invest where we see clear synergies and where we are able to build on core competencies and competitive advantages of Repsol. Therefore, the majority of our investment is likely to be organic in nature. Nevertheless, we will be open, first, to new opportunities and acquisition, always guided by the principle of delivering accretive returns. As such, the proceeds are not linked to a specific follow-up transaction and the funds received will be invested prudently and for a positive net returns over the coming years, or within the guidelines that will be set out in detail during our strategic update in June.

Now, moving onto what we expect in 2018. We have built our budget for the year on the assumption of average Brent and Henry Hub prices of around $59, $60, and $3.50 respectively. The CapEx budget for 2018 is EUR 3.4 billion, of which around EUR 2.4 billion corresponds to the Upstream division. Downstream CapEx is expected to increase by 10% to around EUR 900 million, mostly due to plant turnarounds in our petrochemical plants, and the investment in retail facilities following our entry into the Mexican domestic market.

Upstream production is budgeted to stay above our 700,000 barrels reference level, per day, of course, subject to fluctuations in volumes from Libya. The full year impact of volumes coming from projects that reach first oil in 2017, together with a recently acquired stake in the recent field in Norway will more than compensate for recent divestments and the natural decline in the portfolio. We expect this year to reach first production at (inaudible) in Malaysia during the first half of the year. Additionally, the Akacias development in CPO9 in Colombia, we have already taken in the first quarter the final investment decision for the first stage of the development and we expect to take the investment decision for the full development of this area early next year.

In Downstream, we are budgeting for our refining margin indicator of $6.80 per barrel, today we are above this figure, supported by continuing strong economic fundamentals and the flexibility of our refining system. Major scheduled maintenance in our refineries includes the currently in progress turnaround of Puertollano, expected to be completed early in March and work in the hydrocracker and some changes of catalysts at the Tarragona refinery in the second quarter.

In Chemicals, we are budgeting for results marginally lower than 2017, due to some margin erosion from higher energy and feedstock costs. Activity and volumes will also be impacted by a scheduled maintenance in Sines and Tarragona. Under these assumptions, I explained before, we expect to deliver around EUR 7 billion of EBITDA CCS for the group, of which EUR 3.1 billion will come from the Downstream division.

With regard to shareholder remuneration, the Board of Directors with my strong encouragement is considering a submission to the Annual General Meeting of our proposal to buy back our redeemed shares issued through the scrip dividend program. Our current year plan and my proposal to the board of course assumes a full buyback of the shares issued in the recent January dividend payment with an intention to maintain this methodology in coming years. The board will make its final decision based on this proposal in coming weeks. Furthermore, considering the increased financial flexibility, not only following the disposal of our stake in Gas Nat, but mainly based in the organic recurrent cash generation of the company, I will propose to the board a dividend increase to EUR 0.90 per share, the dividend of 2017 of course.

At this point, I think [it's good] providing some guidance around our upcoming strategy update. As I mentioned before in June, I will set out the key aspects of our updated strategy, along with targets for our company through 2020. In an industry that is evolving at an ever faster pace, we need to fully take into account and apply the concepts of environment and sustainability, as we develop our direction for not only the next 3 years, but in fact, the next few decades.

We are monitoring our CO2 emissions per energy unit we produce. And we aim to reduce this footprint in coming years. Our strategy and plans for investment are fully aligned with this objective and demonstrate a clear move by Repsol to focus our future business plans on supporting the party's COP 21 agreement under the liberty of the 2 degree scenario. On this background, I offer these thoughts on where I see Repsol's business heading.

Firstly in the Upstream. We remain focused on growing margins rather than gas volumes. However the strength in our existing portfolio along with buffers from short investment cycle projects will allow us to grow overall production by around 50,000 barrels a day between now and 2020, while keeping our investment at broadly current levels. This growth doesn't require significant production volumes from any of the AC/DC projects. I mean I'll remind you that AC/DC is Alaska, Campos 33, Duvernay and CP09. Based on the level of participation, this project will be carefully managed and they will form the backbone of the Upstream portfolio post 2020. The AC/DC projects give us long-term flexibility around levels of capital spend and ultimately overall production volumes. This is all on the background of maintaining low overall breakevens and growing margin and value per barrel.

Secondly in our Downstream, we will continue to optimize our refining and petrochemical businesses to ensure we deliver industry leading margins, and we are able to take advantage of the strong trading conditions we are forecasting over the medium term. Our revised strategy, we will set out in detail our growth plans for chemicals. I'm talking about growth, growth for chemicals, marketing, trading and the rest of our commercial business. These are the businesses that we believe are ready for expansion and where we can grow our Downstream division profitably and with low overall capital investment. For Repsol as a whole, digitalization will become increasingly important over the coming years. And that is not blah-blah-blah. I have recently taken to the board a digitalization plan that is forecast to deliver up to EUR 300 million of cash flow benefit per annum by 2020. Upfront investment will be required and the long-term price is material. Digitalization is touching every part of Repsol; Upstream, including the development projects, exploration, downstream, the corporate center and it will change how we plan, we develop, we monitor and we are managing our businesses while we are at the same time improving margins and efficiency, lowering costs and delivering long-term value. And I mean, I could follow but that is just update, our growth is going to come in our strategy update and we have far more detail on time to develop and to share all that with you in June when we are ready to brief the market.

In conclusion, 2017 closed with Repsol delivering an outstanding set of financial results and completing the strategic objectives ahead of the schedule. Adjusted net income increased year-over-year by 25% to EUR 2.4 billion and growth at its highest level in the last 6 years. And let me say, Repsol is ready to tackle the future and the divestment of Gas Natural will accelerate our transition. Our company has completed not only on a strategic plan, we have completed transformation, a transformation that has seen us lower our free cash flow breakeven to $40 a barrel and more importantly, deliver a cash flow breakeven of $50 a barrel, while being able to cover in full our dividend payments, our scrip buybacks from organic cash flow from 2018 onwards. That transformation, that has seen us more than half capital investment, while maintaining Upstream volumes and reserves and without compromising Downstream maintenance program, a transformation that has seen us generate repeatable savings from efficiencies and synergies that are delivering EUR 2.4 billion in benefits compared to our 2015 baseline.

Repsol today is a company with a secure investment grade credit rating and financial flexibility to face the future, a future that continues to evolve and I'm convinced, will require us to fully integrate the concepts of sustainability and environment into how, what and where we invest our capital. Repsol is a company that is ready to set itself newer strategic targets and I look forward to sharing this with you in detail in June this year.

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

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

Thank you Josu Jon. In case anyone on the line runs into technical problems during the webcast or conference call, please address any problems to our email address at investorsrelations@repsol.com and we will contact you immediately to try and resolve it. Let's now move to the Q&A. Operator, can you please remind us of the process to place a question?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

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

Thank you, operator. Our first question comes from Flora Trindade at BPI.

Filipe Rosa ***Haitong Bank S.A., Research Division - Head of Research for Portugal***

My first question is on the use of proceeds from Gas Nat stake sale. Do you have a budget for new acquisitions within the total proceeds and also can you give us some insight on what could be the organic investments you mentioned just for us to know? And then secondly, a more broad question on the impact of the IMO regulation, if you could give us your expectations on the impact it could have in -- basically in your Downstream business, I would assume, but also if you see it in the Upstream as well? And also, which measures are you taking to address it? Thank you.

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO and Executive Director***

I mean, first of all, no, we don't any budget for new acquisitions. I want to put this point very clear. Of course, we have our rationale to apply, the financial flexibility we have now and the rationale is that we are going to find and we are going to look for investment with higher returns than the cost of our capital employed, And let me say, we are going to apply our financial flexibility more in CapEx than in acquisitions. In CapEx, with higher returns, looking for profitability and taking the growth opportunities in our current businesses and in our potential diversification of businesses. I mean, let me explain the rationale for that. I mean, due to the competition rules we had limits to enter into the gas commercialization activity in the past and in some other businesses related to the gas and power. And Repsol has today strong capabilities and competencies to enter in this kind of businesses. I mean, a significant part of our current production in gas. Gas accounts for 2/3 -- more than 2/3 of our current production. We are in relevant parts of the gas value chain. We commercialize natural gas in the U.S. We manage gas offtakes from the Gulf of Mexico. We have in our own plants 13% of the whole Spaniard market consumption in our sites. So we have a purchase and supply capacity taking into account our own consumption. And we are going to take advantage of this opportunity. We want to create and find opportunities in an integrated way and of course looking for higher returns. And we don't have only this commercial capability in Spain, we have some capability in Portugal, in Peru. We can't forget that one of our main development projects Campo 33 in Brazil is going to allow us to enter in the gas value chain in Brazil. So all that is going to be there in our new reflections and at the same time, we have our customer base today with million of clients, either in energy or in mobility and we are going to look for opportunities in our portfolio that always -- I mean, under some basis the first one is obvious, financial prudency, financial flexibility. We are going to keep going this principle. The second point, we are going to look for high returns. I mean that is our business. We are not in the regulated business. Don't forget that 2/3 -- I mean Gas Natural is a great company. But 2/3 of the business and the EBITDA of Gas Natural comes from regulated businesses, that is not our business. I mean we were there because you know over the last 2, 3 years in financial terms, I mean to have this return on equity at around 5% in a scenario of low commodity prices was okay. But today we have to try to find growth opportunities and we are going to try to develop that in high return businesses, of course, evolve the cost of capital of Repsol. And be sure, it is going to be more organic, based on our own capabilities, it's going to be integrated and trying to diversify our current businesses and of course, in the middle, perhaps, we could try to acquire some capabilities, or some skills, and I don't discard anything, but it is going to be mainly organic. And your second point, I mean we don't need to invest to be prepared for the IMO, the new rule for the [chartered shipping]. I mean if you analyze the fourth quarter results for the refining business and the margins of Repsol and you compare these margins with the third quarter, you could see that we sustain these margins in a better way than some other companies that they have reported their margins to the market over the last days. Why? I mean, because our refining system is different from the others. It's different because we are fully invested in conversion. We have the highest conversion rate in Europe, and that means that we are able to process heavy crude oil and having 40% could be the feedstock of heavy crude oils in our system and 55% of our productions are middle distillates; gas, oil and diesel. And what is going to happen probably with the impact of IMO that we are going to see larger spreads for the fuel oil and for the heavy oils and same things for light products like diesel. So we are going to take advantage of this new margin in a significant way, because our system is fully prepared to do that. Our fuel oil production is -- I'm not going to say negligible, but is at around 4%, 5% of our full production in Repsol and I mean we have and we are preparing some logistic analysis to take a part of the bottom of the barrel in Tarragona, that is the only place where we don't have a full combustion refinery and to use this bottom of the barrels to fit some other refineries where we could have -- because we are reducing the cycle of our coker, we could have [extra] capacity in the future. So we are fully ready and we think that -- I mean, today our margins are okay as I said before. But I think that we are going to experience, 2, 3, 4 good years for the refining system of Repsol due to the capacities we have in our refining system.

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

Our next question comes from Biraj Borkhataria at Royal Bank of Canada.

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

I had a few. Firstly on Venezuela. Could you just talk us through the triggers for the impairment today? Looks like it's quite significant. Maybe you could just run us through some of the latest conversations you're having or any changes there. The second question is on some of the hybrids you issued couple of years ago when you had obviously the credit rating concerns. Are you considering to repurchase these hybrids and issue straight bonds in order to save some interest costs? And then finally, could you highlight if you have any significant maintenance in the Downstream in 2018 now outside of the Sines and Tarragona you mentioned? Thanks.

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO and Executive Director***

So, Venezuela, I mean first of all, let me say that Venezuela is probably one of the 2 or 3 countries in the world with more oil reserves and Repsol has a solid position built in the country. We have a solid and fluid relationship with (inaudible) and within the difficulties known to all, we will continue to be involved in the country, because we are convinced that we are going to have opportunities in the future in Venezuela and we are going to try to maintain and increase our operations in our country in the current sites. So we think that that is the best option for investors in Repsol. But at the same time, we have to combine this approach of maintaining our operations in the country with a principle of financial prudence and we are guiding our Venezuela business under this principle. I mean today the total financial exposure we have to the country, including equity, including financial credits, including the commercial side is $1.3 billion. Why such a significant low figure, I mean because we have impaired some of our Venezuela assets in 2017 in the last quarter. The total amount of these [impairments] in the fourth quarter before taxes has been -- I mean I could elaborate a bit more on the figure later if you like, but at around $1 billion, $1 billion that after taxes is at around $750 million, more or less, and in euros it's EUR 640 million is the figure of this impairment in the fourth quarter. On top of that, that was the figure for December 31, where we maintain at that date a total exposure of $1.6 billion, $1.7 billion in January 1st or the 2nd, I do not know exactly the date, the adoption of the IFRS 9, the financial instruments ruling will reduce this exposure to $1.3 billion, due to the impaired -- of the potential risk of commercial bills in Venezuela. And you know that -- I mean in this ruling this reduction of the risk is supported by the equity. So $1.3 billion is today the whole exposure we have to Venezuela. Related to the hybrid, no. I mean, you know that we try to optimize every time and we will do every time that the financial portfolio of Repsol. But the answer today is no. In 2018, in the chemical business, as you said, we are going to -- we have the turnaround of Tarragona, the [OPSM] the propylene oxide plant that I think that is going to be finished at around 10 March, more or less. On top of that we have the maintenance of Sines. And in the refining today, we have the shutdown of -- because we are turning around the plant of Puertollano, is mainly affecting to the conversion, FCC and (inaudible) and coker. I think that refinery -- the refinery is going to be fully prepared after the maintenance period -- the 20 March -- more or less 20th March. And on top of that, we don't see any relevant in Bilbao, no in Coruna, no in Cartagena and in Tarragona, we are going to change catalyst and we are going to shut down the hydrocracker in the second quarter. That is the full maintenance program, is lower than the program we had last year. If you remember that last year we had the full conversion shutdown program for our 2 main refineries in volumes, and that are Cartagena and Bilbao, and this year is going to be a bit later. I mean taking into account that probably the maintenance period and season is going to be quite strong in Europe, in the spring. I think that we are well prepared to take advantage of the potential margins we could see in the [miller].

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

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

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

My question is kind of on track with some of the things we've been discussing. But just number one, been exploring your legacy competence in LNG trading, you cleverly sold your LNG business top of the market in 2013. Is this something you would consider as part of the gas and power driven strategy to deploy your cash? And what would be -- make more sense to do a sort of inorganic acquisition? We had in the press Gas Nat publicly talking about, or at least we've seen press talking about them selling, or how would you consider organically building that? My second question is just on the buybacks. Just to be very, very clear indeed, it's obvious, it's clear that you're buying back stock to offset any scrip going forward. But in the slide you talked about '17 and '18. Can you confirm whether or not you'd buy the entirety of 2017, kind of, scrip dilution back in the form of buybacks and would you consider going beyond that? Thanks guys.

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO and Executive Director***

Yes Hamish, I'm going to start from the final part of your question. Yes, solidly yes, we are going to buy back the integrity of the 100% of the new shares issued or redeemed, because the fact of the scrip of the dividend of 2017, that means the part that goes redeem in December and January and of course the second one that is going to come in June, July, the whole dividend of 2017. I mean that is my proposal as the CEO that I'm going to present and is fully reported by me to the next board before the AGM, and my idea will be to maintain, to keep going this methodology for coming years. And as I said before, I mean, the rationale for that is not the disposal of Gas Nat. The rationale for that is the good -- sound and a good flavor of the recurrent organic cash generation of the company. We are able to do that at $50 per barrel, including the increase from $80 to $90. So we are going to buy the integrity of the capital of January '18 and July '18. Going to your first question about LNG, I mean, no, we are not going to buy an LNG business in this rationale, because I mean we are fully convinced that we have to try to orientate the company to lean projects in terms of capital employed. And the LNG plants, they need an intensive, large capital application. You know that when we defined in the previous strategic plan, we say that in the Upstream going to shallow waters, going to the unconventional, going to the onshore and getting rid of the LNG plants, getting rid of the ultradeep water as operators, it had a rationale behind. All that is still there. I mean saying that we have capabilities in part of the chain value of the gas to find opportunities in the middle. We are in the gas trading, we have a strong purchase capacity in the Iberian Peninsula, that could allow us to have better contracts and orders. We have offtakes in the States, we have a strong commercialization experience in New England and some other parts of North America. We have a [5 million] energy base -- clients base in Spain related to LPG, gas, oil and some other businesses. And on top of that, we have 4.5 million clients in our mobility businesses in Spain. On top of that we have Portugal, Peru, I mean, we are going to find opportunities to have an integrated view on all that around the gas. And why not power, related to this gas, where we could have levers and where we could underpin the profitability of these businesses in our current competencies and that is going to be the rationale of this growth in the future. Of course not forgetting, as I said before the target of the reduction of the carbon footprint of the company. We are following our CO_2 emission level per energy joule unit we produce and we aim to reduce this footprint in coming years. We are convinced that Repsol is part of the problem in terms of CO_2 emissions. But we want to be part of the solution. And that means that we are going to fit our future evolution toward the Spanish agreement, commitments and vote the 2 degrees, but needs -- in order to reduce the footprint for every -- the footprint in emission terms, I mean for every energy units we produce.

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

Our next question comes from Lydia Rainforth at Barclays.

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

Two questions if I could. And the first one, could you just talk through on the U.K., how that actually progressed versus your plans this year and were you looking at [the intense] of that going forward? And then the second one, I'm not sure if you've answered this [question], but when you talk about the margin uplift on let's say (inaudible) as well as [OE] numbers, can you just give us what sort of number you're looking at on that? Thank you.

Josu Jon Imaz San Miguel *Repsol, S.A. - CEO and Executive Director*

Lydia could you just repeat your second one?

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

Yes, so just in terms of when in the presentation on the outlook for the strategy presentation that you talk about higher margins in the Upstream. Are you able to actually give us what that sort of uplift is at this stage?

Josu Jon Imaz San Miguel *Repsol, S.A. - CEO and Executive Director*

Okay, thank you Lydia. Related to the U.K. I mean first of all, let me stress a point that we have increased our production in 2017 in the area, thanks to the MonArb (inaudible) and higher efficiency of our assets in the area, in that 24% from [2016 versus 2017], we have reduced in a significant way. I mean, I'm not going to remind you the figures of 2014 that were very high, but in 2017, we have reduced the OpEx per barrel from $53 we had in $2016 to $42 per barrel in 2017, with that CapEx reduction of 52% in the year and an improvement in free cash flow of 65%. I mean main metrics for year, for 2018, I mean we are budgeting $32 per barrel in OpEx cost. So $70 in 2015, $53 in 2016, $42 in 2017 and $32 in 2018. Above the production, we are forecasting a 10.5 million barrels that that is at around 30,000 barrels per day net Repsol. I mean that is not the JV, the JV will be more or less twice this figure. So 30,000 barrels per day. The CapEx we have -- we are going to apply this year is at around $75 million, $80 million. OpEx, I can't remember the exact figure, but I think that was below $100 million, $90 million, something like that. And we are going to have a free cash flow in the U.K. this year. So I mean our best approach in terms of free cash flow breakeven on those assets is at around $48, $49 per barrel. That means that if we take the $59 per barrel that is the assumption we have in our budget, I mean, I don't know what is going to happen, but I'm taking the -- our budget assumption, we are going to have a free cash flow positive business in the U.K. this year after CapEx and after OpEx. Going to your question about the margins in the Upstream. First of all, I mean I'd like to underline the great effort we are developing in our Upstream to reduce our breakevens and at the same time to increase the efficiency of this business. I mean, I want to remind you that in 2014 in Repsol we had an OpEx cost per barrel as an average for the whole business of $21 per barrel. In 2015, we were at $18 per barrel, $14 per barrel was the figure for 2016, [12.3 so] has been the delivery in 2017 with a reduction of 12% OpEx per barrel from one year versus the other. And the budget we have in 2018 increased this efficiency reducing the OpEx per barrel in at 2%. I mean we are budgeting $12 per barrel for this year. And in this sense I'd like to address the fact that what we are developing and what we are doing in our Upstream business and in the whole company is not only related to commercial renegotiation, deflation of cost in the industry and so on. I mean it's something deeper, because you could see that we are of course not such a significant figure, but we are seeing something similar in the Downstream businesses and in the corporate side. I mean we are optimizing all our processes. We are reducing our G&A, we are putting and developing a great effort to modify our technical specification, trying to have leaner processes, leaner projects and making a great effort to reduce the dimension on the cost of our corporation. I mean, I want to stress the fact, because finally all that is also costs for our businesses. I want to stress the fact that we have reduced in 1/3 the corporate cost of Repsol from 2014, 2015 to the current figures. When we acquired Talisman, we said at that time that if we have a size of EUR 800 million, EUR 900 million of corporate cost for Repsol, and more or less the figure for Talisman could be [EUR 400 million]. 3 years later, or 4 years later, our target was to go back to the previous figure we had before the acquisition. So we are there and probably in 2018 we are going to be below this figure. In terms of breakevens, I also want to remind the fact that the average -- now I'm going to talk about cash, that I think that is also relevant. The average of the oil price in 2017 I think that was $54 per barrel for the whole year for the Brent. So at these prices, $54 per barrel, our Upstream after paying its CapEx has a positive free cash flow. I mean, our target is to have a business that at $50, I mean, I'm going to be a bit harder, it could have a breakeven in cash terms after CapEx, a $50 or even below $50 per barrel. Of course, the breakeven in terms of P&L is significantly lower.

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

Our next question comes from Oswald Clint from Bernstein.

Oswald C. Clint ***Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst***

Just on the North American business, it looks like it's just about breaking even there in the fourth quarter at $55 WTI or that sort of price. As WTI is obviously much higher than that, above the $60 today, should we expect that all to fall to your bottom line in the North American upstream business, or are you seeing or expecting some cost inflation which might take some of that away? That's the first question. And then maybe staying with North America, just wouldn't mind getting an update on Alaska. The activity that you're planning for 2018, also the quite large acreage position you've picked up recently in quite close proximity to your recent discoveries, do you see anything in those new blocks that's particularly exciting? Thank you.

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO and Executive Director***

Talking about the inflation of cost, I mean we don't see a general trend in the industry worldwide. But it is true you said that for 2018 we could see some price increments in unconventional North America, taking into account the sound in that business, in that area. I mean, I'd like to stress the fact that only 35%, 37% of our costs are related to the commercial part. The rest is leaner processes, technical specification, innovative ways of collaboration with our suppliers, G&A, and so on. So we like and we have the target to upset the increase that we could see in this commercial part over 2018, with the efficiencies we are going to be able to capture, thanks to the other parts of the costs and the value chain. In this sense, we have a quite powerful program that is called rise in the upstream business, mainly focused on lowering the breakevens on this business, increasing the efficiency and adding marginal barrels at lower cost. Talking about the North American businesses, I mean we have to take into account that -- I mean $55 is Brent, but the reality of the main part of our American businesses -- North American businesses is not Brent, but is gas, is Henry Hub. So we have to see what is happening with it and what will happen with the Henry Hub and the gas price in Canada. In this sense, we have Marcellus business, that is the main production in gas terms in North America with a quite significant low breakeven in Henry Hub terms, in free cash flow at around $2.6 per million of BTUs, more or less. The EBITDA of this business in 2017 has been EUR 670 million and in 2018 we are budgeting a significant increase in this EBITDA of more or less EUR 100 million for this year. Alaska, excuse me, this year we have budgeted the acquisition of new blocks in the area. The extension of the Nanushuk project towards the east and I mean the potential grossing of the reservoir that is still exploring. I mean I think that for 2018 the target has to be to explore on to our price, what we have in the area, to confirm all the volumes we have and to prepare the potential FID for the future. That could be -- that will be possibly our target for 2019, something like that. But this year the objective is to appraise, to explore and to know exactly the amount of resources we have in the area to develop the project.

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

Our next question comes from Irene Himona at Societe Generale.

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

I had three quick questions if I may. So firstly, Libya, can you remind us what the contribution of Libya was to your 2017 Upstream EBIT, net income, etc.? Secondly, on your 2017 cash flow. The cash tax rate was exceptionally low, it was less than 6% and exactly the same the case for the year before. I wonder if there's any guidance for us for 2018? I understand you utilize deferred tax assets. I just wonder if that will remain as low as that in 2018 or if not what would be a sort of longer-term normal cash tax rate? And finally on the balance sheet, I see that in 2017 you had a very material 20%-plus drop in your long-term provisions from over EUR 6 billion you are down EUR 4.8 billion. Was that mostly driven by tax or did other categories of provisions change as well? Thank you.

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO and Executive Director***

I mean, talking about Libya -- talking about Libya, the production average in 2017 has been 25,000 barrels per day. The free cash flow of Libya after CapEx over the whole year has been at around EUR 100 million, EUR 110 million more or less, net Repsol. So the figures for 2017 are those one. The tax rate, I mean in the tax we have to take into account that last year we anticipated a figure of EUR 680 million in Spain as a tax anticipation credit. But you remember that we said that we were going to recover this figure. So in net terms, this year in 2017, we have received [about] EUR 450 million, more or less as an evolution of this amount of money we anticipate in the last year. So you have a positive effect of EUR 450 million in cash terms, that of course is going to be neutral in next year, in 2018. So that is in some way over. The third issue related to the reversal of the of the U.K. I mean, the main reversal of provision that perhaps could impact the balance sheet focus on what you are asking, Irene, is the reversal of the U.K. provision we had in our balance sheet. I mean, taking into account that some of the business in the U.K. is significantly different from our provision we had in 2015 when we acquired Talisman, and that today U.K. businesses are free cash flow positive business of Repsol. Of course, we have changed the forecast of future flows coming from this activity, from this asset, from this business and the reversal of the provision is the main effect that is impacting in what you asked in your third question. Irene. Thank you.

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

Our next question comes from Alastair Syme at Citigroup.

Alastair R Syme ***Citigroup Inc, Research Division - MD and Global Head of Oil and Gas Research***

Just back on the sort of the use of proceeds question. Can you discuss whether an integrated gas and power business as you see it needs to have a large component of renewables in it and how would you sort of contextualize the size of that business?

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO and Executive Director***

I think that there is not a single answer for that. I think that an energy company, an oil and gas company, has to try to find the best return opportunities, seeking with its portfolio for increase the competitiveness of its business, that is our rationale. So you have in this gas and power, let me say, value chain, some parts that are closer to some others. The first one is clearly gas. Gas is going to be a play or player, relevant, a key player in coming years in the energy transitional scenario. A company like Repsol that is fully exposed to gas has to try to find opportunities to obtain higher returns in a more integrated vision about gas businesses. We have to protect our own businesses and I have to underline that we have an LPG business that we have 5 million clients of this business in Spain and Portugal and we have to offer energy to these clients, or same thing in some other countries where we have some kind of capillarity; Portugal, why not Peru or some others. And in this kind of capillarity, it is quite logical to think about the potential for the future of offering a multi-energy approach to our customers, taking into account that we could have a quite significant value pool there, we have a quite reduced capital intensity to obtain higher returns. Let me say that to sell power to some of your customers, for instance in the mobility side, I mean the electric vehicle is going to be slow, but it's going to be there. And it's going to be part of the mobility business in coming years. I mean, you know that we are in the electric vehicle, recharging services business since 2010 and I think that it is quite logical to think that we could offset or hedge this electricity supply with power production. But going to your question, I mean I don't see Repsol and I think that is not adequate for an oil and gas company, being in renewable assets where they are low risk, low return, fully dependent on regulation, fully dependent on governments and so on. I mean, oil and gas companies are huge machines; in our case, not so huge, we are medium sized machine, let me joke, that has a high capital cost and it has some competences managing risks and trying to -- thanks to the competences we have, and the diversification of our portfolio managing these rigs and obtaining high returns, able to be above our capital cost. So we could find opportunities in the power sector there, where we can see merchant risks, technological risks, geographical risk, execution risk. So I mean, we could see that in the future in an oil and gas company, why not? But let me say, today Repsol is looking for inorganic acquisitions related to this kind of businesses, but we think that mainly based in our commercial businesses. We could acquire capabilities and we could build an opportunity for the future, always looking higher returns of our capital cost. And I'm going to be very clear and I'm going to be very tough about this statement. I mean if I don't see in a clear way higher returns than our capital cost we are not going to go to this business.

Alastair R Syme ***Citigroup Inc, Research Division - MD and Global Head of Oil and Gas Research***

Can I just clarify that you're also looking -- using the same capital cost across any opportunity? It's a corporate capital cost.

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO and Executive Director***

I mean I have to always above our capital cost. And I mean, I'm going to ask to this any kind of business the same filters and the same parameters we are asking to all the business of Repsol. But I'm going to add more. We are going to try to build our future portfolio in the energy sector, always based in an integration with our current businesses and always focus on creating value in a logic of being efficient and being competitive and being attractive. I mean we are not going to go to businesses to say that we are clean. Not at all. I mean we are fully committed with the CO_2 footprint reduction, but we have a lot of tools to do that. I mean to have a gassier portfolio is a way to do that, to be more efficient in our refineries and chemical plants is another way, to fix the CO_2 to produce polymers as we are doing now in Puertollano is another tool, biofuels where we are present is another tool, and let me say, diversifying our energy production, including some power (inaudible) could be another tool. But our commitment is that we are going to be focused on reducing the CO_2 portfolio of the company. We have a lot of levers to do that and we are going to find the cheapest and the most efficient and the most profitable one.

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

Our next question comes from Giacomo Romeo at Macquarie.

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

First question is on your indication for 50,000 barrels growth through 2020. Just wondering what sort of -- if you would assume the same level of CapEx you're guiding for 2018 in order to achieve that? And the second question is back to the point you were again discussing on the potential for new investments, is do you see scopes for investments in the new areas where Repsol is not present at the moment, or it would just be investments in areas where Repsol can leverage the existing capabilities? And I think that -- and the last question is more on the divestment side, if you see any additional assets not being core and that you think do not fit the Repsol in your current vision?

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO and Executive Director***

I mean, going to your first question, my Upstream business is [same in a] repeated way that they are going to need perhaps EUR 200 million, EUR 300 million more per year in coming 2 years to achieve that figure. My duty is to try to maintain the CapEx, but I have to be realistic. I think that perhaps with our CapEx in the Upstream business at around -- I mean something -- in euro something in between EUR 2.6 billion, EUR 2.93 billion, I mean we could achieve in a right way this figure. Anyway, I'm going to do all my best to try to reduce this CapEx, being more efficient executing this kind of projects. Anyway, I think that we are going to need some light increase in 2019, 2020 perhaps. And with this figure, we are quite comfortable not only producing 750,000 barrels per day. These barrels or those barrels are going to be more profitable, because we are going to take advantage in the middle to manage our portfolio. And I'm going to link this question with the third one. I mean, we don't see any divestment in non-core assets, because the disposal time is over, but let me say we are going to be very active managing our portfolio. That means that today we could buy something and tomorrow we could sell something in our rolling strategy, mainly in the Upstream business, trying to put more rationale in our portfolio. We know that we are -- we have a largest scope of countries where we operate, trying to be mainly in places where we have capabilities to be there and we are going to be very active over the next 3 years on that. I mean if there is value in some other areas, and we could see higher returns, why don't we have to go there to find it. Anyway, normally it is easier to find these returns and to find these values in places where we are, where we have competencies, we have capabilities. But sometimes, I mean, we have to think that growth has to be a must for a company. And growth is going to be for now on for Repsol a must. And in the Downstream business, for instance, going to Mexico is growth. We think that we have the capabilities to be involved in the marketing business in Mexico. Being more international in our lubricant business is also an opportunity. Growing in the trading business where we have a larger base of barrels and products to grow in a profitable way could be an opportunity and we are going to lever our position either in our commercial client base and trying to find some other opportunities in the energy sector, always under 2 principles. The first one, profitability and the second one prudency.

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

Our next question comes from Thomas Adolff at CrÃ©dit Suisse.

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

Three questions as well. The first one, I want to get Miguel MartÃ-nez involved, if that's okay. I think back in December the -- Miguel -- look I think it was up to Miguel, the first step would have been to buy back 50% of the dilution before going to 100%. Now with today's update you go into 100% and there is a dividend hike as well. So what's driven that level of confidence in a span of just 2 months? Is it just a function of Miguel being a bit more conservative and the CEO being a bit more upbeat? The second question on digitalization. I'm just curious how you go about implementing digitization? Is it divisionally implemented or do you have a separate entity with their own KPIs? And just finally, just kind of going back to Alastair's question on gas and power and the use of proceeds. Not sure if I've listened carefully enough. So if my understanding is correct, so you're looking to also enter the electricity and power market, and if you do that I wonder whether it makes sense to really be exposed to the entire value chain, simply because that way you capture the margin where it arises and that would actually also include having some generation capacity, even if it is small in nature. So it would be great if you can elaborate on that. Thank you.

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO and Executive Director***

Thomas, first of all, I mean Miguel, he's a very clever guy and you know him, he's the best CFO of the oil and gas sector in Europe. And I think that's also worldwide, but I mean that's not proven -- that Miguel is also a prudent person. And our first approach, I have to say, that was -- I mean we have to try and we have to go to reverse the current dilution coming from the script, and we thought that 50% could be the first step towards our ramp-up to go on in next -- in coming 2 years to 100%. I have to say, I mean it wasn't Miguel. Miguel had, of course, my full support in his statement in December, as always. Seeing the organic cash generation of the company, seeing that -- I mean we are comfortable at $50 per barrel, being able to make cash in organic terms after paying the whole dividend in cash. I mean with this [scrip] full buyback option, seeing that at the same time we are able to reduce more and more the cost of the company and increase the efficiency, that we are in the middle of a transformation process that is not over, that is going to go on. I mean we are fully comfortable with 100% in organic terms. I stress and I underline the fact that, and I know that everything is mixed and even in -- I mean in our company sometimes and we could have mixed this remuneration policy with the disposal of Gas Nat, I mean nothing to do. We are going to pay the 100% of our dividend in cash, because Repsol is able to make, in organic terms, the cash we need to do that, maintaining at the same time the principle of financial prudency and financial flexibility. Going to the digital, I mean we have 2 different approaches. One of them is a bottom up. That means that every business. I mean the exploration team, the technical E&P team, refining chemical, commercial sales and so on is working hard and has worked over the last year, identifying quick wins and very relevant projects for that business. I am going to put you some examples. For instance, the application to the digital, to the maintenance of our refinery, trying to use the panoplia and the thousands of data we have in the refinery, anticipating and increasing the reliability of our refinery. Secondly, the energy efficiency in our furnaces in our refinery. Third, trying to optimize the programming. Fourth, trying to increase the geological probability of knowing what is behind the seismic data we have in our hands. Fifth, the flow stimulation of the production of an E&P well and how to optimize that flow in commercial businesses, trying to know what our clients want and where they are. I mean all that is bottom up. But at the same time, we have a coordination group that is led by the people in the digital side, we have achieved digital officer, that is providing these people of all the tools they need to catalyze and to boost these projects and I personally, every month, I'm following the whole business, because I have a commitment with my board that every quarter I'm going to go to the board to explain to the board the results and the gain [emerges] and efficiencies coming from these projects that are at the very heart of our businesses. And on top of that, we are also including in our safety and environmental issues, the use of digital technologies in some way at the core of the improvement we have to develop in the company in these issues. Going to the gas and power, I mean we are in the Gas Nat business, we are not in the whole chain. But we have to find the niches and the geographies where we could add value. I'm going to put you an example, I mean that is not an -- is only an example, it is not reality, I mean if we have gas in Brazil, if we are exporting gas to Brazil from Bolivia, we are going to develop gas in Campos 33. It is rational perhaps to analyze, I'm not going to say to go, but to analyze being involved in the wholesale gas business in Brazil. I mean I could have some other examples like that. And talking about the power, I mean I got to underline that today we have 600 megawatts in operations in Spain producing power in Repsol in our sites, and we are in the power trading business every morning, every single morning. So if we see some opportunities to have a higher return new opportunities, linking, let me say, this production to places where we can't obtain a higher value means we are going to analyze it. And if the returns are clearly higher than the cost of our capital, we will go there. If not -- I mean, I'm going to underline, I can't say that louder, but not in a tougher way. We -- I'm not going to go to places where the return is not clearly higher than the cost of our capital, and we're not going to go to regulated businesses, because low risk, low return is not our business and we are not going to be there, because we can't compete with pension funds, with Infrastructure funds and so on, that is not our business. Thank you.

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

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

Michele Della Vigna ***Goldman Sachs Group Inc., Research Division - Co-Head of European Equity Research & MD***

I had a quick question. When I think about where Repsol has gotten in the last couple of years, it's made tremendous advances on the balance sheet, the dividend is growing again, the dilution of the scrip has been stopped and yet you're still assuming a quite conservative oil pricing you're planning for 2018. If the oil price stayed higher, if your free cash flow generation was even more abundant than what you're forecasting, would you push your buyback to actually buy back the dilution of the previous years beyond 2017, or would you prefer to use the extra free cash flow for future investment or to further delever the balance sheet?

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO and Executive Director***

Michele -- first of all Michele, sorry, I mean, I don't know what is going to happen in the future, but I agree with your point that perhaps to -- coming 2, 3 years are going to be good years for Repsol. First of all, because we are getting more and more efficient and that is not going to -- I mean that is not a picture that [has stopped that] and is over in December 31. Secondly, because commodity prices is going to -- I mean to be sound, I don't know that it's going to be [$60, $65], I mean that this up to analysts. Secondly -- thirdly, because the IMO is going to be there and this year for the refining of Repsol in coming 3, 4 years that is going to be a huge opportunity and a significant cash. But first of all, we are going to maintain the financial flexibility and prudency we have developed over these years. We are going to try to find opportunities to grow and to grow and to have a return that is going to be higher than the cost of capital and be sure that we are going to be able to do that and to prepare the company, because now my main concern, of course, is not 2020. I know that I can say that when I'm going to present in 3 months the strategic update. But my concern is 2030, and I think that we have to prepare this company to be a winner and to be a player in

2030. A 14% of our investors base today are investors that they only invest with ESG criteria and that is because they rely on the management of Repsol and on Repsol to be able to prepare this company in terms of be compatible and to cope with the challenges and [device] we have related to the CO2 reduction and with the Paris Agreement and the 2 degrees pass. And we are going to develop this portfolio of businesses, main -- basing our core and diversifying where we could have capabilities and higher returns. And in this scenario today I don't see room for what you were saying about additional. But I mean in the future we'll decide. I mean that today we're not there. In 1 year, in 2 years, we will take our decisions, depending where we are at that moment. Thank you Michele.

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

Our next question comes from Rob Pulleyn at Morgan Stanley.

Robert John Pulleyn ***Morgan Stanley, Research Division - Analyst***

Just 3 quick questions if I may. Firstly, given the use of the Gas Nat proceeds, largely for inorganic routes, net debt will fall once you actually receive the cash from that disposal. I was just wondering whether that would deliver further credit rating upgrade given your net debt will be substantially lower? The second question, and I hate to come back to the use of these proceeds again and again, but I was just wondering how the pace of investment in these new businesses might play out, particularly for 2018. Do you have anything you want to invest in immediately or is this really sort of beyond 2018? And finally, you talked a lot about returns and how these new investments need to meet certain criteria, which is reassuring. But may I ask, if you cannot find opportunities to the quantum of how much you will receive from Gas Natural, then what would you do with that capital you've released, if you don't find the right opportunities to invest in? Thank you.

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO and Executive Director***

I mean you are right, we felt any proceeds coming from Gas Nat -- my best approach or guidance for the debt of the year at the end of 2018 will be at around EUR 6 billion. I mean with no proceeds coming from Gas Nat and it is easier to calculate what will happen after the disposal. But I mean a company like Repsol in oil and gas sector is quite comfortable with a debt at around [1x - 1.1x] the EBITDA of the company. But being at 0.5x, being at 0.6x for a while or for some months or for 1 year, I mean nothing happens. I mean, some of our competitors, they are there, other competitors are at 1.3x, or 1.4x. And if you take the average of the European majors, I think that the average could be at around 1x, 1.1x. So, I mean, the rating is not now our target. This debate for the management of Repsol, of course, respecting the key role of the rating agencies for the financial community and for companies, but this debate is over. So we are now in the next step. Are we going to invest materially in some businesses? I mean I am not in a hurry to invest anything. I'm going to find high returns on profitability. That is going to be the only driver I'm going to have. And nothing happens, if we are not able to find for 3, 6, 9 months any relevant CapEx opportunity to develop this proceed, we will see. And in the meantime be sure that we are analyzing all the portfolio potential opportunities. I want to underline the traditions in the chemical business of Repsol, in businesses like rubber, like polyols, like EVA, we are a (inaudible) worldwide one European leader, we could -- perhaps we could find opportunities to invest and to grow in some niches. We are expanding and enlarging the geographies of our marketing businesses. We are going to try to increase the value we are building around the current clients we have now in our current businesses. We are going to develop all the -- related to the multi-energy, mobility, to be prepared for 2030. We are in the electric recharging, we are in the LPG, we are going to develop the Gas Nat for mobility. I mean that is our business, we are going to find a opportunities, but I'm not in a hurry to do that. I mean I'm comfortable with the cash we have now. (inaudible) said, we are going to have in some weeks in our hand. Thank you.

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

Our next question comes from Jon Rigby at UBS.

Jonathon Rigby ***UBS Investment Bank, Research Division - MD, Head of Oil Research, and Lead Analyst***

Two questions, the first is on the dividend policy. The dividend has been a bit all over the place in the last few years. Can you just remind me, now you -- or clarify -- now you're moving it to EUR 0.90 for 2017. How does that work through in 2018? Do you as a interim dividend take half of that and therefore use at the interim half, half for final, half the year before, or do we work up -- the [50] is the final and work forward like that? (inaudible) just to clarify. And the second is on your CapEx budget for 2018, does that include the [Viscind] acquisition? I think it was announced in February, early February. Thanks.

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO and Executive Director***

Jon, I mean first of all, I'm going to propose to the board the dividend policy for 2017, that means that we are not going now to decide that. Anyway. I suppose that in November more or less the board will decide what is going to happen with the dividend of 2018. But let me say, companies -- we change our policies sometimes because we could see or we could experience a hard or difficult or complex environment issues, like all that related to the oil price drop from 2014 on. But I mean, we try to be in some way coherent and I suppose that the board is going to be coherent in November on what growth they are [proven] now. Anyway, it is up to the board to take that decision in November and my proposal is going to be for the whole dividend of 2017 to be remunerated at EUR 0.90 per share. But as I said, I mean Repsol excluding tough times where we could see, let me say, complex (inaudible) environmental situations tends to be a coherent company and I suppose that our board is going to be coherent in the future. Talking about [Viscind, Viscind] is included in the CapEx, but is not material or relevant. We are talking -- I don't have a hard figure here, but is included in this CapEx, yes, because the transaction was closed in January.

Jonathon Rigby ***UBS Investment Bank, Research Division - MD, Head of Oil Research, and Lead Analyst***

Right. So it's in the [2.4]?

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO and Executive Director***

Yes, Jon.

Operator

Our next question comes from Matt Lofting at JP Morgan.

Matt Lofting

Two questions, if I could, please. First, just coming back to the CapEx framework, EUR 3.4 billion CapEx for this year, and I think Josu, you've sort of referenced earlier directionally higher Upstream spend into 2019, '20 to deliver the volumes when you layer on top of that the upfront investment requirements in terms of the digitization drive that you laid out earlier, I think about extending the production plateau firmly into the 2020s. Can you just talk about where you see the medium-term organic CapEx range beyond 2018 and what medium-term oil price range you're sort of pivoting that view of around, or to put it a different way, to what extent you see flex in that CapEx plan in the context of the new strategic plan, if we do you see oil prices with us lower than or meaningfully lower than the current levels? And second, I mean just in the context of the new strategic plan and on an next Gas Nat basis, what do you think is the right level or range for balance sheet gearing on a medium-term basis? Thanks.

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO and Executive Director***

I mean, I have in mind that the Upstream CapEx, if we take the development CapEx for the year 2018, 51% of this CapEx is growth. I mean growth projects, I mean YME, Ca Rong Do, the (inaudible) in Malaysia, the Buckskin, the project in Trinidad and Tobago, the ramp-up of some projects like for Ghana, that they are still there. So 51% is growth. If we take the development, if we add the exploration and we take the whole figure of this CapEx, 63% of the total CapEx of the E&P this year is growth. I mean flexibility, you know that it was higher in January 1, that is in [March] and is going to be lower in June, but I could say today that if I had to reduce that is not the case, because as you are asking in your last question we are not in a bad financial situation. But if I had to reduce CapEx in the Upstream I think that I could reduce this year without perhaps harking too much to [risk cover] EUR 200 million in -- $200 million in exploration and perhaps a figure close to $400 million, something like that in the development side. Anyway that is not going to happen. The main [$400 million] let me say, flexibility, a half or a bit more than a half in the developmental projects and conventional in North America. And going to the future, of course, I'd like to stress the fact that this production of 2020 of 750,000 barrels is not taking into account any barrel coming from the AC/DC projects. I mean what is the right level. I mean that -- I think that the right level is the level that could guarantee to Repsol a BBB stable for the rating agencies. That's the right level. And we are going to have, let me say, ups and downs in the middle, because we manage a company and my duty is try to obtain higher returns and a high competitiveness for now and for the future in our company. But I think that having the BBB stable, I'm quite comfortable in balance sheet terms. Thank you, Matt.

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

Our next question comes from Fernando Lafuente at Alantra Equities.

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

Hi Paul, all my questions have been already answered. Thank you so much.

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

So that brings our questions to an end at this stage.

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO and Executive Director***

So let me thank you for -- all of you for attending this Q&A and have a nice day. Thank you all of you.

Operator

Ladies and gentlemen, that will conclude today's presentation. We thank you much for your participation. You may now disconnect. Thank you.