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REP.MC - Q1 2013 Repsol SA Earnings Conference Call

EVENT DATE/TIME: MAY 09, 2013 / 11:00AM GMT

OVERVIEW:

REP.MC reported 1Q13 CCS adjusted net income of EUR676m.

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by, and welcome to Repsol's first quarter 2013 preliminary results. This conference call will be led by Mr. Miguel Martinez, CFO of the Company. A brief introduction will be conducted by Mr. Angel Bautista, Director of Investor Relations.

Mr. Angel, please go ahead.

Angel Bautista *- Repsol SA - Director, IR*

Good day, ladies and gentlemen. On behalf of our Company, I would like to thank you for taking the time to attend this conference on Repsol's first quarter results. This presentation will be conducted by Mr. Miguel Martinez, CFO. Other members of the Executive Committee are joining us, as well.

Before we start, I invite you to read our disclaimer note. We may make forward-looking statements, which are identified by the use of words such as will, expect, and similar phrases. Actual results may differ materially, depending on a number of factors, as indicated on the slide.

I now hand the conference over to Miguel.

Miguel Martinez *- Repsol SA - CFO*

Thanks, Angel, and thank you all for attending this conference on our first quarter results. This quarter, we [reached] a CCS adjusted net income of EUR676 million, 40% (sic - see slide 6 "47%") higher year on year, and a CCS adjusted operating income of EUR1.3 billion; 22% higher than the same quarter last year.

Before we focus on our earnings performance, I would like to highlight the main events of the quarter.

First, the sale of our LNG division, we announced earlier this year. We signed an agreement with Shell to sell all of the assets and operations related to our LNG business outside US and Canada for an enterprise value of $6.7 billion. The sale includes the minority stakes in Atlantic LNG, Peru LNG, and Bahia de Bizkaia Electricidad, as well as the LNG sale contracts and time charters, with their associated loans and debt. The deal strengthens the Company balance sheet and financial position.

Second, the sale of our 5% treasury stock to Temasek, the investment company of Singapore, for EUR1 billion. With this transaction, we have completed the delivery of the measures to which we committed in order to strengthen our balance sheet following the confiscation of YPF by the Argentinean Government. We welcome Temasek to our Company.

Third, in the Upstream business, and regarding our exploratory drilling campaign, seven out of the nine wells drilled during the first quarter 2013 have found hydrocarbons.

In Alaska, in the North Slope, we recently announced three new good quality hydrocarbon discoveries. The Qugruk-1 and Qugruk-6 wells produced two oil shoals with encouraging results during production test. In the Qugruk-3 well, hydrocarbons were identified at multiple levels. Exploration, an assessment, and eventually a startup development, will continue next winter.

In Russia, in West Siberia, wells Gabi-1 and Gabi-3 have found hydrocarbons, gas with an oil ring at two different levels. Gabi-3 is testing productivity right now.

In Brazil, in Block BMS-50, Petrobras has already reported the presence of oil in Sagitario.

And finally, in Algeria, in Block Sud-Est Illizi, a significant gas discovery ensures the commercial development of this block, where we previously announced a first discovery back in November 2012.

Further tests will be performed to determine the commercial possibilities of these discoveries.

Four additional wells have been recently spudded; Dunquin offshore Ireland, Margaree offshore Canada, and a new well in South Illizi, Algeria, and the appraisal of our discovery in the Gulf of Mexico, Buckskin. Rigs for Margaree and Buckskin have drilled a pilot hole, and will have to resume drilling later in the year.

The 13 wells already drilled are ongoing. We have made a good progress in our annual schedule of 32 wells.

Before I start to explain our first quarter results, let me say just a few words about YPF. Repsol remains open to discuss, with the Argentine Government, a fair settlement for the confiscation of YPF, respecting bona fide and legal principles. In the meantime, Repsol has no other alternative but continue pursuing all available legal options.

Entering into the first quarter results, I would say that adjusted operating income in the quarter, on the basis of current cost of supply, was EUR1.3 billion; 22% higher than the same quarter a year earlier, after excluding YPF figures.

On a business-by-business basis, starting with Upstream, adjusted operating income in the first quarter was EUR668 million; only slightly higher than in the first quarter 2012.

Production output was 360,000 barrels of oil equivalent per day; 11% higher than in the first quarter of 2012. Since five out of the 10 key growth projects of the strategic plan 2012/'16 have come onstream, together with better volumes from Trinidad and Tobago, we are confident that we will achieve the 10% average growth targeted for 2013.

Incremental production will come from the ramp up of Mid-Continent in the US, and Sapinhoa in Brazil, and the start up of Phase II of Margarita in Bolivia.

On the other hand, Kinteroni is already technically prepared to come onstream. But the delay is mainly due to the negotiation with the final contractor arrangements, to be completed with the coming share partnership. And Trinidad will undergo planned maintenance.

The increased production volumes had a positive impact of EUR72 million.

Repsol crude realization prices remained flat, despite the weaker performance of Brent prices in comparison with first quarter 2012, while gas realization prices increased by 26%, having a positive effect of EUR43 million.

Increased depreciation charges had a negative impact of EUR45 million. Depreciation charges per barrel are higher in the earlier stage of production.

We also had cost increases of EUR63 million, mainly due to the new production of Sapinhoa in Brazil, and the start up of the new projects in Russia.

Sapinhoa produced 20,000 barrels per day in gross terms during the quarter, but [whereas] the cost of a FPSO with a capacity of 120,000 barrels per day. Two additional production wells will be connected before year end.

Other minor items explain the remaining differences.

Moving to LNG, adjusted operating income in first quarter 2013 was EUR311 million, versus EUR158 million posted in the same quarter last year.

We achieved a very positive operating profit of EUR129 million from the North American assets, that will remain in our portfolio, due to exceptionally extreme cold temperatures in North-East coast of North America.

The 97% increase between the period is due also to higher volumes, and better marketing margins in the rest of the businesses.

Regarding our Downstream, we have remained profitable, even though the market environment was tough during the quarter, showing the resilience and efficiency of our integrated operations.

Adjusted CCS operating income was EUR183 million; 123% up year on year.

Better margins in the Refining business, improvement of the Chemicals division, and better LPG results explain the year-on-year earnings growth, while the Marketing division continues to suffer from the weakness in the Spanish environment.

By business division, in Refining, our margin indicator reached $3.9 per barrel. Taking into consideration the weak margin environment in Europe, they're still above the $3 per barrel achieved in first quarter 2012. The slight improvement year on year in light heavy oil and gasoline spreads explain this difference, while diesel spreads remain flat.

The premium margin, due to the upgrade investments, reached $1.8 per barrel distillate.

The better volumes and margins had a positive impact of EUR98 million.

In the Chemical division, higher margins were able to offset decreasing volumes, having a positive impact year on year of EUR35 million.

On the other hand, commercial businesses, LPG and Marketing, had a lower operating income of EUR12 million.

In Gas Natural Fenosa, at EUR253 million, adjusted operating income in first quarter 2013 was 5% higher than the EUR241 million reported in the same period last year; mainly because of better wholesale marketing margins, and better results in international business, mainly LatAm, offset by lower income from power marketing activities in Spain, and weaker earnings performance of Union Fenosa Gas.

The effective corporate tax rate in this quarter was 42.7% before results from affiliates. We forecast a 42% tax rate, including accrued inventory effects, for the full year under current circumstances.

After this brief analysis of our performance, let me focus now on our financial situation. We are maintaining a robust financial position. Our liquidity, cash, and outstanding credit lines reached EUR8.9 billion; in line with our prudent approach through the financial economic crisis period.

The Group's net financial debt at the end of first quarter 2013, excluding Gas Natural Fenosa, amounted to EUR3.9 billion; approximately EUR560 million lower than at year-end 2012.

When the LNG sale is concluded, net financial debt will decrease by around EUR2.2 billion.

The net debt plus preference shares-over-capital employed ratio excluding Gas Nat was 19.1%.

Summing up, our P&L performance for this quarter was positive. Our numbers improved, despite the difficulties in the economic environment beyond our control, namely the Downstream division, offset by the resilience and competitive advantages of our assets.

During the rest of the year, we will devote our efforts to continue to develop the growth projects foreseen in our strategic plan.

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

QUESTION AND ANSWER

Operator

Good morning, ladies and gentlemen. The Q&A session starts now. (Operator Instructions).

Angel Bautista *- Repsol SA - Director, IR*

Thomas Adolff, Credit Suisse.

Thomas Adolff *- Credit Suisse - Analyst*

Thanks for taking my questions. Just, firstly, on working capital, there was a negative move of about EUR1 billion. My question is whether this was purely related to refinery maintenance, or otherwise how we should expect this to evolve over the balance of the year.

And I guess on the tax rate you're guiding to a tax rate of 42%, which is down year on year. I wondered whether you can give a bit more color on the year-on-year changes, and how you expect the tax rate to evolve, let's say, in '14 and '15.

And then just on Upstream, production was decent, 360,000 barrels per day. Let's say Kinteroni doesn't contribute this year, are you still confident on the 10% year-on-year target? Or, in other words, can you talk about contingencies?

And finally, just staying also in Upstream, when you look at these 7 discoveries, or at least with encouraging signs, do you feel you would have met your annual target for net contingent resource addition? Or is it still too early to say? Thank you.

Miguel Martinez *- Repsol SA - CFO*

Thanks for your questions, Thomas. Starting with the working capital, I would say that everything came at the same time, by March 31.

First of all, let me highlight that 2012 year-end working capital level was a bit lower than our current structural operating requirements. The increase in this first quarter has been affected mainly by inventories level, and, to a lower extent, to positive price effects.

With regards to the higher volumes, at the end of March there have been no program operational stand downs already saw in some units; basically, the coker in Bilbao and the hydro in Cartagena, that have led to an increase in crude oil and intermediate product levels.

Also, some experts, basically, one cargo from Bilbao, another cargo from Coruna, were completed in the first two days of April, so part of the reason is also there.

And as a final comment, I would say that the spread between the Urals crude and the heavy Saudi has increased enormously. So we are reducing somehow the Ural consumption in favor of the Arabia one. This also implies to have more crude in transit; Ural takes seven days, while Saudi it's 20 days.

If you want somehow a which is my estimate for the whole year, which will be a normal situation, I would say that probably somewhere in between the 4.2 million tons, we ended up 4.3 million tons, basically, at the year end, and 5.6 million tons we have at the end of March, will be probably the place in which we would be.

So, in April, we already have recovered half of this increase in the working capital.

In the tax rate, normally, that depends logically on the mix. But for the whole year, we expect 42%. And this quarter was a little higher, 42.7%. Basically, we analyze the whole year, but we split the charges by quarter. So in every quarter we're saying the tax rate that it's on it.

In relation with the production, I keep it at the 10% growth, which was my prior comments in the last quarterly results presentation.

And it's true that Kinteroni has been delayed. Basically, and only, it's for commercial reasons. We are discussing somehow the backup of Blocks 88 and 57 to the LNG, Peruvian LNG, and to the internal market, and this is why it's taking us somehow a little longer.

And finally, in relation with the exploration for the year, I would say that we have already covered the expected contingence reserves funding for the whole year. So, it has been a real successful partner.

Did I answer you, Thomas?

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

Yes, perfect. Thank you very much.

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

You're welcome.

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

Filipe Rosa, Espirito Santo.

Filipe Rosa - ***Espirito Santo Investment Bank - Analyst***

Three questions, if I may. The first one, a follow up on Thomas' question on exploration. We have seen that you have been quite successful in the Q1 activity. Could you just give us some color what has been the wells which have had a bigger impact in terms of your resource backlog? I will specifically ask you about [Trezitalia], which seems to be the one that has been the most promising.

The second question relates to your Downstream operations. The profitability in Q1 has been low, mainly for Marketing and for Chemicals. Could you update us what -- whether we can expect some sort of recovery, at least for the Marketing division, over the next few quarters? Or should we annualize the results from the Q1 to reach the full-year EBIT?

And the final question on YPF. Could you just give us a better idea what would be the minimum expectations for Repsol in a negotiation with Argentina over compensation for YPF in terms of whether assets, or cash, or some guidelines on what would be your minimum requirements for -- to start negotiations with Argentina? Thank you very much.

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

Thanks, Filipe. Well, in relation about which would be the most important, I would say first comment is it's way too early to say. We are still testing some of the discoveries, so it's a little early to say.

But I like them all, to be honest. But if I had to choose, probably Sagitario and Alaska are the ones that I would say I'm more about it. But, as mentioned, it's still way too early.

Touching the second question, which refers to the market in Spain, I would say we keep falling; close to 10%, which are figures I never expected to see. So it's difficult to see when we will reach the ground over here. But since 2007 we have lost 25% of our volumes in our retail network, without losing market quota, so difficult to say.

And for the full year, I don't have any other data to give you. We can extrapolate the existing situation, but I don't have any clue. I never expected it to keep falling at this pace.

And finally, in YPF, our aim is clear. The valuation we have, and we have it in different ways, by banks that have established a price, by the main bylaws of YPF, are clear, and we simply want a fair treatment.

They already have taken our shares, they are even taking the dividends. And we simply want a fair treatment, and that implies, for sure, liquid assets, at the most. If it's possible, in cash-cash; if it's financial instruments that can be cashed in, that would be the second option. But we expect somehow to obtain the fair compensation we think we deserve.

Filipe Rosa *- Espirito Santo Investment Bank - Analyst*

But would you consider to hold the assets in Argentina?

Miguel Martinez *- Repsol SA - CFO*

Well, I'll have to answer to that one personally. I will not. Personally, I will not, but it's not on me. As mentioned, liquids is what we are looking for, at least personally. Okay?

Filipe Rosa *- Espirito Santo Investment Bank - Analyst*

Okay, thank you.

Angel Bautista *- Repsol SA - Director, IR*

Hootan Yazhari, Bank of America Merrill Lynch.

Hootan Yazhari *- BofA Merrill Lynch - Analyst*

Two questions. One, on the update on how the conversion of the preference shares is moving along, what we can expect there in terms of any updated guidance you have on the reduction in interest expenses that you will face when converting preference shares into a bond.

And secondly, also, if you can give us some sort of color on the sale of the Peruvian downstream assets, and what sort of capital release we can expect from that. Thank you.

Miguel Martinez *- Repsol SA - CFO*

In relation to the first one, Hootan, I cannot talk much because we are pretty close to the filing in the Comision Nacional del Mercado de Valores. But what I can tell you is that there would be no dilution for the shareholders.

As you can understand, anything I tell about the formula we are going to use to swap those prefs could affect the market. So the only thing I can tell you is that it will not affect our shareholders; there will be no dilution.

And in relation with the Peruvian sale, the process goes ahead. We have made a shortlist, and due diligence has already started with this small group. Our estimate is that would be closing, if everything works out well, by the end of the third quarter this year.

Basically, what we expect over there would be something around $700 million, more or less. And then you have to discount also approximately another [$700] of loans that we already incorporate in our balance sheet. So this would be, more or less, the situation.

Hootan Yazhari - ***BofA Merrill Lynch - Analyst***

Miguel, sorry, does that include the working capital at the facility as well?

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

Sorry, the sound wasn't that good, can you repeat the question, Hootan?

Hootan Yazhari - ***BofA Merrill Lynch - Analyst***

Yes. The question was does that $700 million figure also include the working capital at this facility?

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

Yes, it does.

Hootan Yazhari - ***BofA Merrill Lynch - Analyst***

Okay, understood. Thank you very much.

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

Haythem Rashed, Morgan Stanley.

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

Thank you, Angel. Two questions. Firstly, just to come back on production, and specifically looking at North Africa, I just noticed that the production levels have been coming down relatively steadily since 2Q '12. I just wondered if you could, perhaps, give us an update on Libya; in particular, how you see activity there on the production side, and where we should be thinking about those volumes stabilizing for the rest of the year, and how that should evolve.

Secondly, just a quick question on CapEx. It looks like it was a relatively light quarter in terms of CapEx in the Upstream, and just wondered if -- obviously, if you run that forward for the full year it implies somewhat lower for the overall CapEx figure for the full year versus guidance. I just wondered how we should be thinking about CapEx for the rest of this year. Should we be thinking about CapEx, perhaps, coming in below where you'd originally guided? Or is there some phasing there? Thank you.

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

Thanks, Haythem. In relation with Libyan production, we are already at plateau with approximately 340,000 barrels per day of production, and we expected it to continue that way throughout the year.

We will have between six and seven exploratory wells throughout the year, but I don't see it impacting in our production figures. So I will say flat at 340,000 barrels, which counts for us approximately around 40,000 barrels net.

In CapEx, we keep attached to a EUR3.3 billion/EUR3.5 billion ex-Gas Nat. It's true that the first quarter was light. I think it was EUR717 million, or EUR720 million. But normally, it always happens that the last quarter is the one that gets more loaded, and it's always the first one the one that is lighter. So I keep attached to the EUR3.3 billion/EUR3.5 billion ex-Gas Nat.

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

Great, many thanks.

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

Brendan Warn, Jefferies.

Brendan Warn - ***Jefferies & Co. - Analyst***

Just one question; a couple of the other ones have been answered. I guess just with the delays at Kinteroni, if you can just give us an indication are there any additional costs related to the delay?

Actually, I will ask a follow-on question, I apologize. Just in terms of Downstream, you highlight Downstream this quarter as profitable. Can you give any sort of indication on if you had positive free cash flows, and, again related to CapEx, whether the run rate CapEx in the Downstream is indicative for the remainder of the year?

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

Thanks, Brendan. Well, the only cost related that I can think of with Kinteroni is that with our partner we already have, I think it was, $570 million, which are not producing. But only the financial cost of it. But Nemesio is already in Peru trying to sort out the issue of the Blocks 88 and 58 so it couldn't take, I hope, longer.

So no extra costs related, and just the closing of the commercial conditions are the ones that are on top.

In relation with the free cash from the Downstream division, the quarter was really light, it's true. But, really, I think that at the end of the year we'll be around EUR600 million/EUR700 million for the whole division. So as I told to Haythem in the question before, 'til now, I don't see any reasons why we will not be around the EUR3.3 billion/EUR3.5 billion for the whole year.

Is that okay, Brendan?

Brendan Warn - ***Jefferies & Co. - Analyst***

Okay, thank you, cheers.

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

Alejandro Demichelis, BNP Paribas.

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

A couple of questions from my side. Coming back to Kinteroni, should we think that the Kinteroni [wells] are completely separate from the disposal of the Peruvian Downstream assets and any approval that you need to get for the LNG plant? That's the first question.

And the second question turns to the LNG numbers we have seen this quarter, particularly out of Canaport. Maybe you can tell us how much do you think that is sustainable from that?

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

Well, the first one, Kinteroni, as mentioned, is linked to the backup, in one hand, of the Peruvian LNG; and also, to the gas that has to go to the local markets. And the thing that can be separated, we have approximately eight or nine partners, so it's not that easy to end up closing a deal that satisfies everyone.

And this is the only thing that is taking us more time, and for sure is not linked to the Downstream movement. It's only linked, as mentioned, to the -- which would be the gas that we have to place for the LNG, and which would be the one that will go into the local market.

And in relation with the LNG Canaport, I would say that it is not sustainable. Basically, the good results there, which has been the whole increase in the LNG division, has been due to the real cold weather they had during January and February in the East Coast.

Four cargoes went to Canaport through the quarter, and at a given moment even prices were above $20 per millimeter used. So I would say it's one off, in one sense, and we'll have to see.

What we have done is a project to reduce the limits of what the Canaport plan needs to operate down to 10 million cubic feet per day. And we know that this plant will be working two months, three months, four months at the maximum for the year, but I don't see any possibility to repeat it.

Last year, to give you an example, operating results in the assets we kept in the US were minus EUR8 million in the first quarter. And this year, we have been EUR116 million. So, basically, it has been a good quarter, and that's it. Okay?

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

Okay, that's very clear. Thank you.

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

Bruno Silva, Banco Portugues de Investimento.

Bruno Silva - ***Banco Portugues de Investimento - Analyst***

I just have a follow-up question related with Refining margins. When you mentioned regarding, I think, working capital, and it was mentioned the input crude mix change in light of the devolution of spreads between heavy and light crude, what was the impact in the reported Refining margin in this first quarter?

Or if there was none, is it possible to have an estimate of what could be the impact of those actions over the coming quarters? Thank you very much.

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

To predict this is difficult, especially the future. But I would say that, I think, that approximately almost 50% of our diet is on heavy stuff, so the spread between heavy and light really affects us.

Also, we have seen, especially in the last month, that the diesel spread with Brent has reduced enormously, which implies that those refineries with no real complexity are producing with more heavy stuff, which also implies a reduction in the spreads.

Our estimate for the whole year, I would say, we will keep it at to $5.50 per barrel, more or less, though I can tell you that right now there is no margin in Europe in Refining. This is due to the smaller spread we have today between the fuel oil and the crude oils. But we will see. As mentioned, the future is quite difficult to predict.

Bruno Silva - ***Banco Portugues de Investimento - Analyst***

Okay. Just another follow up, I forgot to mention in the first time. Can you make an update, or confirm whether or not you are taking actions to sell the remaining interests in LNG; namely, Canaport?

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

Can you repeat the question, Bruno, please?

Bruno Silva - ***Banco Portugues de Investimento - Analyst***

I was asking if you are taking any actions, or there is any process ongoing, for the divestment from the remaining assets in the LNG unit.

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

Okay. Sorry, the sound is not good today, so sorry for asking you to repeat the question.

Basically, once we close the whole transaction with Shell, we will have to, and we will, accrue approximately $1.8 billion out of $2.5 billion, which is our book value. And then we have to see how we move ahead with the plan. Today, it's April and -- as you all know. But several things are clear.

I think that we were last year at the worst scenario for the plants. With an average of $2.40 per million btu, it was sure that no LNG was possibly coming to North America. This situation will change, one way or the other.

First, if the US allowed more exports of all the gas they are producing, for sure prices goes up -- will go up. If they don't, I'm sure that all the fleets will start shifting into gas, their trucks, so this also will imply a higher price. And also, as looking to the issue from the other side, from the LNG producers, more and more LNG will come to the sea in the following months and years.

So, at a given moment, I think that Canaport will be in a better situation than the one we have today. Right now, what we're doing is having contingent plans to analyze which are our options, and how operationally we can reduce debt short term.

Bruno Silva - ***Banco Portugues de Investimento - Analyst***

Thank you very much.

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

Alastair Syme, Citi.

Alastair Syme - ***Citi - Analyst***

Just one question. Can I ask, Miguel, what you can fundamentally do about the poor profitability in Marketing? Is there something you can do on the cost side to help get margins back up? I assume the problem is that you're running a reasonably higher fixed cost base and you just can't pass through the price increases.

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

Marketing, probably, is the most profitable business we have within the Company. I think that our total capital employed should be around EUR1 billion, and we are doing that figure almost in two years. So, basically, it's a very profitable business.

The point there, which is also something to consider, is that right now we are working with a margin of [EUR0.02] per liter that we sold. So in a market that is being reduced 10%, up to 10%, right now, we are simply somehow trying to put the margins where they were last year.

I think that by the beginning of the year there was an extra taxation for the biofuels. And we are absorbing this tax increase, though we expect to little by little to capture it back.

But there is no other thing to do. We are not losing market quota, so it's the whole market the one that is falling. And by the year end, we expect in the whole division to also move, at EBITDA levels, between EUR1.5 billion and EUR2 billion, which is what we have been capable in the last five years of crisis to maintain in that division.

On top of that, we finished all our CapEx program by the end of 2011. At that time, we were investing EUR1.7 billion, EUR1.8 billion, and we have reduced that figure down to EUR700 million. So extra cash, free cash will come easily into the rest of the Company, especially to fund the upstream projects.

Alastair Syme - ***Citi - Analyst***

So but what -- given you did EUR350 million EBITDA in the first quarter, what drives the improvement to get to that EUR1.5 billion to EUR2 billion range?

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

In the first quarter, we were at EUR360 million, more or less. I would say that Marketing would be, basically, the one that will have to improve their performance.

On top of that, as mentioned, we expect approximately $5 per barrel produced in Refining, while in the first quarter we have been around $3.5 per barrel. So, also, Refining will have to increase that.

And finally in Chemicals, the margins keep improving. The volumes have been [shored up].

So the combination of all these three factors is what I think will lead us into this minimum figure that we expect of EUR1.5 billion.

Alastair Syme - ***Citi - Analyst***

Yes, I guess I just don't understand what the -- in response to your earlier question -- or earlier response about getting Marketing profits back up, what drives that improvement, because if the market remains difficult it remains difficult?

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

Well, I think that the point is that [simply] increasing by [EUR0.01] our price there, that will go straight to the bottom line. And this implies a 50% increase of the [EUR0.02] we have had in this quarter, so the leverage we have there is quite important. I think also that this will imply, as mentioned, 50%.

Right now, we are working with [EUR0.02] per liter after tax, so [EUR0.01] would make the difference. I'm sure that no-one knows whether the last time they'll filled their car the price was EUR1.47 or EUR1.48, so -- but it's the only way out. For sure, demand, I do not expect demand to recover.

Alastair Syme - ***Citi - Analyst***

Okay, thank you very much for that.

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

Okay, thanks. Irene Himona, Societe Generale.

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

Just one question remaining. If I can go back to the realized liquid price in your Upstream, the discount Brent in the quarter was only about $14, I think, compared to $30 a year ago. If you can just talk about what that was due to. Is it the mix of production? Is it a one-off, basically, or was it sustainable? Thank you.

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

It's sustainable, Irene. Good afternoon, by the way. It's sustainable, but basically because within our mix we had a quarter in which we sold last year 20% of our stake there. And in a quarter realization price is $37 per barrel. You can add up to this that it's a little more US production, a little more Brazil production, which also had a higher prices. So I would say it's consistent, and we can keep that throughout the year.

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

Great, thanks very much.

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

Anish Kapadia, TPH.

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

I have three questions. Firstly, on the Mississippi Lime, we've seen SandRidge, just recently, cut back the number of rigs being run to 25, from over 30, given its focus on liquidity. So I think they're running -- they're intending to drill less than 500 wells this year. Just wondering what this means to your medium-term Mississippi Lime production targets, as I think your original plan was to drill something like a 1,000 wells next year.

The second question was I just wanted to see if we could get a little bit of an update on your 2P Venezuelan upstream projects; some just more detail on the progress, initial production timing, and the ramp up.

And then the final one was on Trinidad and Tobago. It's the largest producing asset in your portfolio. We've seen the reserve life on that fall down to seven years at what's now a reduced production rate; just wondering how much of a concern that is, and how you see production over the next few years there. Thank you.

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

Thanks for your question, Anish. Starting with SandRidge, they have announced in April their newest strategic plan, reducing somehow their total CapEx by 17% versus prior guidance for 2013. This implies that the number of rigs on average will be 25 instead of 32, which was the original estimate. We will have to look at it. For this year, there's practically no variation on our figures.

And what I think is important is that I think that SandRidge is a very good operational company. In fact, some of the initial estimates within our investment plan, like the cost per well, which we include $3.6 million, they're drilling at almost $3 million per well. I think that part of the reason why we entered with them was the [covariance].

We have some experience there, and we think that we can help out the production. This is -- they work more like a factory, and they know that their areas are what they call the sweat spot areas. But we are looking more, and our people is analyzing more, the why; why are those areas really the ones that get more production? So I think that the combination of the team will work out pretty well.

In relation with the year, no variance for us; it will not imply much of a variance.

The second question, which refers to the ramp up of the different projects, I would say that in Mid-Continent the increase up to an average of 8,000 barrels per day, which is what we expected for the year, it's more or less lineal.

In Russia, it's somehow loaded in the last five months of the year.

In Kinteroni, the ramp up will be quick, once we have started. But as mentioned before, it's dependent on the commercial negotiation with our partners.

In Brazil --

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

I think you misunderstood the question. The question was -- it was specifically on Venezuela, actually. Just I wanted to get an update on the progress that you were making on Carabobo and Perla; how that was going, and timing on first production and ramp up.

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

Okay. Sorry, I understood it was for the whole project. In Carabobo, the ramp up will start May/June. And we expect really small figures; we are talking that we will end up, on average, at 2,200 barrels per day. So it's, I would say, quite a small one.

In Perla, there will be no production within the year. We expect to start production in 2014.

And the final question, in relation with Trinidad and Tobago, we are at plateau there. I think we have reserves in our books for the next seven years of production, approximately. So no more news, or no more things to comment there. We are at plateau, that's it.

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

So, yes, just on seven years reserve life, should we expect fairly significant declines now from Trinidad and Tobago over the next few years?

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

No. The only variance that you will see throughout the year will be due to maintenance. There was some maintenance expected for the first quarter; that has been delayed for the second one. But as mentioned, we are at plateau. And I don't see any decline in Trinidad and Tobago production, other that those that are forced by maintenance.

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

One other just quick follow up on Mississippi Lime. Under the new plan of drilling with 25 rigs over the next few years, where would you see production in 2016 versus your previous target of 40,000 barrels a day?

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

We don't have still all the data. We are discussing with them right now. They have launched their strategic plan; we have to analyze those figures, and the impact in our own. So I still don't have any extra information I can provide you.

I think they somehow published their new strategic plan, and we are analyzing the impacts that will have. But as mentioned, I don't see -- for sure they -- for them, it's more important than for us. For us, it's -- but I still don't have any data.

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

Okay. Thank you, Miguel.

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

Biraj Borkhataria, Royal Bank of Canada.

Biraj Borkhataria - ***Royal Bank of Canada - Analyst***

I had a couple of questions. First one, just on the LNG disposal to Shell, when do you expect that to close?

Secondly, are you in discussions with the rating agencies regarding potential implications if the Shell payment wasn't received by end of 2013? Thanks.

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

Right now, the process is going smoothly. And I would say that [P50] would be that we would be closing by September/October. We already have the agreement of four out of the five authorities of anti-trust, but at this moment we have meetings with the lenders, and then with some of the contracts.

So things are moving smooth, and I would say that if everything keeps that way we should be closing by September/October this year.

In relation with the rating agencies, I would say that, on average, the sale -- the closing will imply a direct positive outlook, probably. And if we applied those proceeds into debt reduction, I would say that short term an upgrade in our rating will arrive.

Biraj Borkhataria - ***Royal Bank of Canada - Analyst***

Okay, perfect. Thanks.

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

Okay, thank you very much. Barclays, Rahim Karim.

Rahim Karim - ***Barclays - Analyst***

Two questions, if I may. To ask the second half of Irene's question around realizations, gas realizations were very strong in the quarter. I understand it's probably due to Bolivia, but is there anything else in there that we should be aware of? Or should we expect current levels of realizations to be sustainable?

The second question was just regarding PEMEX. If you could just provide any detail regarding the developments of the heads of agreements there. Have we made any progress on that? And if you can at least, I don't think you will, but if you can, make any comments regarding the suggested sell down of their position. Thank you.

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

The first one, as mentioned before, in realization prices, we think it's sustainable what we have achieved this year.

I think that in liquids, I comment to Irene, that the disposal of Ecuador, plus more US and Brazil, is helping out the price in liquids. And in relation with gas, the one that moves the dial, it's Bolivia, which, [so Amboro], we're obtaining 10% of the Brent price for our gas there. So, yes, I think it's sustainable.

And in relation with the news that appear about the sale of the stake of PEMEX, I spoke with the Board member that is the representative of PEMEX in our Board and he told me that it was simply an accounting issue. Due to IFRS, they have to account the 5% they bought as ready to dispose, or ready for the sale, but there's nothing behind it.

And in relation on how we are moving on the agreement, I would say that step by step there has been groups in the Upstream and Downstream divisions that are working together, and we will see how it evolves. But outside that, in relation to PEMEX today, it's perfect.

Did I answer you, Rahim?

Rahim Karim - ***Barclays - Analyst***

Yes, that's perfect. Thank you very much.

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

Jason Kenney, Santander.

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

Thanks for taking the questions. Just a couple of data points, if I may. Can you give me the EBIT for the North American LNG business that you're going to retain for the full-year 2012? I know you mentioned the first quarter EBIT number earlier.

And then also, if possible, can you remind us of the EBIT for Peru refining in the full-year 2012?

And can you just clarify, because I did have some technical issues on a phone earlier, that EUR1.5 billion to EUR2 billion range that you mentioned for, I think it was, EBITDA in Refining, was that for a 2013 full-year number?

And then finally, I think your results have beaten by around 10% on average for eight quarters now, and I was just wondering if you had a view on what you think analysts are not willing to believe in your earnings capability. Or maybe, how cautious do you think guiding currently is? Just to kind of get a sense of how you view that consistent beat quarter on quarters.

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

Thanks for your questions, Kenney. North America results, or the assets that will get, EBIT 2012 was EUR114 million negative, minus EUR114 million.

Peruvian EBIT, was EUR43 million in 2012.

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

Thanks.

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

Okay, and now your question in relation with the EBITDA in the Downstream division, which was exactly, Jason?

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

Well, there was a technical issue so I didn't hear whether you said the EUR1.5 billion to EUR2 billion range was for a 2013 delivery. Or is that a future target?

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

Well, basically, what I commented is that I think that the figures we have obtained during the crisis always have moved in this division between EUR2 billion and EUR1.5 billion. We are still in crisis, so my estimate is that we would be in that range; probably in the lower part of it.

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

Full-year 2013?

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

That's correct.

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

Okay, thanks.

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

And in relation with the consensus, I think that the only difference that the consensus have with us in this quarter was our North American LNG assets. The rest of them were really accurate, and probably nobody was expecting that we will be selling gas in the Eastern cost $20 per million btu. But it's up to the consensus to approach the [valuer]. In the rest of the areas, I think that it was really accurate.

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

I suppose my question was more that if you do look over the last eight, or maybe even 10 quarters, you've had a consistent 10% beat QonQ. So even ignoring the one-off North American LNG this time, do you think that the forward consensus for earnings is 10% light?

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

I think that for 2013 the consensus for the full year has not been actualized. I don't have in mind which -- where the consensus in five years in previous quarters. What I know is that in this quarter the main reason was the LNG North America, which even for us was somehow unexpected.

I think that last year, as mentioned before, we lost I think it was EUR8 million, and this year we made a very good gain over there. But I don't -- I cannot think in any other reason. But we will double check, and turn back to you, if you want. Okay?

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

Okay, thanks very much.

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

You're welcome.

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

Okay, thank you very much. Marc Kofler, Macquarie.

Marc Kofler - ***Macquarie Research - Analyst***

I have two very quick questions, please. Just firstly on the incremental startup costs in the Upstream that you alluded to in the first quarter, I was just hoping to get a bit more color on that in terms of if that is solely a first quarter effect. Or if -- is it incremental costs?

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

Sorry, Marc, we don't understand. The noise is not very good. Could you please repeat it slowly?

Marc Kofler - ***Macquarie Research - Analyst***

Is that any better now?

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

No, but try slowly so we will try to understand.

Marc Kofler - ***Macquarie Research - Analyst***

So two questions. Firstly, on the Upstream margins in the first quarter, I was wondering if the incremental startup costs you alluded to, if they were likely to roll over into the second quarter, and for the rest of this year, or if it was just a first quarter effect?

And then secondly, on the high utilization on the Downstream in the conversion units in the first quarter, given your comments around local market conditions and some of the maintenance effects, again, I was just wondering if that sort of 98% was sustainable for the rest of this year? Hopefully, you heard that.

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

Thanks, Marc. Sorry, the sound was not good. In relation with the incremental costs, I would say that there a couple of factors that are affecting it, despite increase in production, for sure. One of them is that when you start a project, or start producing, normally the figure we have of developed research is quite small, so they get really penalized in their depreciation figure.

And the second one refers to also the startup of, for example, in Sapinhoa. We have the whole [co] cost of the FPSO that can produce up to 120,000 barrels, while we are only producing 20,000.

So, extra costs come for these reasons. It would be sustainable, but progressively coming down in a cost per barrel, I would say.

And in relation with the conversion, the answer is, yes, I think we can keep the percentages of utilization we are having.

Marc Kofler - ***Macquarie Research - Analyst***

Great. Okay, I'll leave it there. Thanks.

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

Okay, thank you. Matt Lofting, Nomura.

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

Just one question left, please. Just wanting to come back to exploration. Clearly, an encouraging start to the year. I think at the start of the year you pointed to an expectation of testing about 6 billion barrels in gross terms for the year. I was just wondering if you could give us a sense of what sort of percentage of that 6 billion balance you think is still left to be tested through the rest of this year. Thanks.

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

That's a tough one (laughter). I resign, Matt; I don't know the answer. But I will ask my people to call you back to give you some color there.

Though I think that more or less throughout the year the process is quite balanced, basically because some of the more riskier exploration wells we have aims for bigger prospects. So depending on the results, we will see. But I would say that one-fourth could be probably the figure. But, as mentioned, I will check with the exploration people and I will turn back to you. Okay?

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

Perfect. Thanks very much.

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

Thanks a lot. Samuel Simon, Cannacord.

Samuel Simon - ***Cannacord Genuity - Analyst***

I'm sorry. I didn't have a question to ask.

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

Okay, thanks. Neill Morton, Investec.

Neill Morton - ***Investec - Analyst***

Sorry, I've no questions left, either. Thank you.

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

Okay. Then I think we are finished with the Q&A session. Thank you very much, all of you, for attending this conference call for our first quarter results. Any new data, any clearance, any new queries that you need, please feel free to call us, to the IR area, and we will go -- we will come back to all of you with the pending questions that we had that you have.

Thank you very much. Bye.