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# EDITED TRANSCRIPT

REP.MC - Q2 2013 Repsol SA Earnings Conference Call

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**OVERVIEW:**

REP.MC reported 1H13 CCS-adjusted net income of EUR1.2b and 2Q13 CCS-adjusted net income of EUR509m.



## CORPORATE PARTICIPANTS

**Angel Bautista** *Repsol S.A. - Director of IR*

**Miguel Martinez** *Repsol S.A. - CFO*

**Miguel Klingenberg** *Repsol S.A. - Deputy Legal Counsel*

## CONFERENCE CALL PARTICIPANTS

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**Oswald Clint** *Sanford C. Bernstein - Analyst*

**Jason Gammel** *Macquarie - Analyst*

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**Neill Morton** *Investec - Analyst*

## PRESENTATION

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### Operator

Good morning, ladies and gentlemen. Thank you for standing by and welcome to Repsol's second 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.

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### Angel Bautista - *Repsol S.A. - Director of IR*

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

This presentation will be conducted by Mr. Miguel Martinez, CFO. Other members of the Executive Committee will be 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. Present results may differ materially, dependent on a number of factors, as indicated on the slide.

I now hand the conference over to Miguel.

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### Miguel Martinez - *Repsol S.A. - CFO*



Thanks, Angel, and thank you for attending this conference on our second quarter results. First of all, we would like to express our deepest condolences to the families and friends of the victims of yesterday's tragic train accident in Galicia. Our thoughts and prayers are with them today.

Today's conference call will cover two topics. First the operational activity and the main events of the quarter, including an update of the situation concerning the YPF confiscation; and second the quarterly results.

Starting with the operational activity, I would like to highlight the following. In the Upstream business during this quarter, production of hydrocarbons reached 359,000 barrels of oil equivalent per day, which represents a 12% increase year on year.

The additional volumes arise mainly from the ramp up of the projects that came on stream during the second half of 2012 and the beginning of 2013 in Russia, the US, Spain and Brazil, and the improved performance of our operations in Trinidad and Tobago, partially offset by the reduction in volumes from Ecuador, where we sold a 20% stake in Block 16 last September, and Libya, due to recent disruptions.

In Libya, we resumed operations on July 12 and we are currently producing at normal levels. From an operational standpoint, Kinteroni is ready to start production. However, we are working on some commercial arrangements.

The Peruvian Government decision is that gas reserves from Block 57 replace the ones related to Block 88, as the guarantee to the Peru LNG export facility. In consequence, some contract modification between Camisea and Peru LNG needs to be made, since gas from Block 57 will be sold to Peru LNG. We are making progress and expect to start production shortly.

In relation to the JV with SandRidge in the Mississippian Lime, we are reducing the production forecasts. This reduction is due to the new plans released by SandRidge, after changes in the Board, with a strong focus on value creation rather than production volumes. For this year, we expect to produce, in average, 7,000 barrels of oil equivalent per day.

We are in permanent contact with the new management with the aim of approving in the following months 2014 activity.

Moving to Brazil and Bolivia, and before the yearend we expect to connect two more wells to the FPSO in Sapinhoa, as is scheduled, and to put into production Margarita-Huacaya Phase II in Bolivia, thereby consolidating the successful delivery of two of the key projects of our strategic plan.

Let me emphasize that the 10% production growth target for the year is achievable.

Regarding our 2013 exploratory activity, we have already achieved the 300 million barrels of oil equivalent annual target of contingent resources addition.

During the first part of the year, 12 exploration wells and one appraisal were completed. Nine of these wells located in the US, Brazil, Colombia, Algeria and Russia had positive results. We are currently in operations in Brazil, Canada and the United States and Indonesia.

In the second half of the year, we will continue drilling the ongoing wells and will continue with exploratory campaign in Libya. We will start new wells in Norway, Kurdistan and the Gulf of Mexico. And, by the year end, we will start with new winter campaigns in Alaska and Russia, expecting to achieve the target of drilling 32 wells this year.

Turning now to our seismic activity, we finished our campaign in Campos 33 in Brazil and have started campaigns in Australia, Bulgaria and Venezuela.

In relation to the exploratory acreage, we have four new licenses in Norway, in the Norwegian and Barents Sea, where we will be the operator in two of them. We have also acquired additional acreage in Guyana and Indonesia.

On the LNG sale we continue working on the closing of the transaction, along with Shell. We have received all the anti-trust approvals, and we will be continuing with the initial plan to close the deal before the year end.

To finish with the operating aspects, in the Refining business the utilization rate has improved. On the one hand, the distillation capacity moves up to 80%, from 68% during the same period in 2012. On the other hand, the conversion units increase up to full capacity, 100%, compared with 82% during the same period a year ago.

Before going to the results analysis, let me provide you with an update concerning the YPF confiscation. Last month, Repsol Board of Directors unanimously rejected the compensation offer it had indirectly received for the expropriation of YPF as it did not satisfy the losses suffered by Repsol.



The offer was based on over value assets, far from market values seen in recent transactions in Argentina and in the US, and had a structure which was far from the declared interest of Repsol for an agreement, since it lacked of liquidity, did not include the minimum necessary legal nor financial warranties, and required significant and compulsory investments.

It's also worth mentioning the recently announced Chevron-YPF agreement. Repsol regrets that a company like Chevron, that seeks the endorsement from the international community in its conflicts with foreign states, is willing to take advantage from an illegal act, entering into an agreement where they expropriated assets prior to the payment of a fair compensation to Repsol.

In the meantime, we would like to acknowledge the support received from the best companies in the industry. Repsol trusts in the justice of the legal proceedings already brought in different forms in response to Chevron's actions, including the request made yesterday before [it sits] in Washington, for any injunction in order to protect the assets of YPF.

The same time, Repsol maintains its confidence in the recognition of its legitimate claims through the legal actions taken against the Government of Argentina, reiterating, notwithstanding, as it always has, its open attitude to reach an agreement negotiated through the appropriate corporate channels, with the necessary balance and which provides for a fair compensation, bringing to an end the claims surrounding the expropriation.

Let me start now with the results.

In this quarter we've released a CCS adjusted net income of EUR509 million, 6% higher, year on year; and a CCS adjusted operating income of EUR979 million, 5% higher than in the same quarter last year.

In the first half of the year we released a CCS adjusted net income of EUR1.2 billion, 26% higher year on year; and a CCS adjusted operating income of EUR2.3 billion, 14% higher than during the first half of 2012.

In Upstream the adjusted operating income during the second quarter 2013 was EUR514 million, in line with the same quarter of last year, mainly due to the increasing production by lower realization prices.

The explained 12% production increase had a positive effect of EUR51 million, while the related increase in the depreciation charges had a negative impact of EUR33 million.

Exploration costs decreased this quarter by EUR86 million, if compared to the same period last year, due to the success in exploratory wells during the period.

Repsol Group realization prices had a better performance than Brent, due to higher volumes in Brazil and in the US, while gas realization prices decreased year on year, due to the sales volume mix. These two price effects have a negative impact of EUR71 million.

Other minor items explain the remaining differences.

Moving on to the LNG. Adjusted operating income in the second quarter was EUR170 million, versus EUR78 million posted during the same quarter last year. We achieved higher volumes and stronger marketing margins, along with a better performance in our North American operations.

In the Downstream business, adjusted CCS operating income in the second quarter 2013 was EUR147 million; 28% down year on year. The results of our Brazilian marketing business could not offset the lower result in this industrial businesses.

By business segment, in the Refining area we suffer weak margins in Europe, mainly during April and May, but recovery slightly during June. This decrease in margin was due mainly to narrower spreads of mineral distillate and gasoline versus Brent, and the spread between light and heavy crude oils.

The margin indicator and the premium margin, thanks to the upgrades, for the second quarter were \$2.6 per barrel and \$1.2 per barrel respectively.

The higher volumes could not offset the lower margins and caused a total negative impact of EUR11 million.

In the Chemicals division, lower naphtha prices and better volumes could not offset lower product prices, having a negative impact of EUR23 million. The Chemical division results were close to break even.



The Marketing businesses had a performance (technical difficulty) in the second quarter 2012, despite 7% (technical difficulty) decrease in our services stations located in the Iberian Peninsula.

In Gas Natural Fenosa, EUR239 million adjusted operating income during the second quarter of 2013 was in line with the same period last year, due to better wholesale marketing margins, partially offset by a lower contribution from (inaudible) Fenosa Gas.

The Government of Spain recently announced a change in the law that regulates the electricity sector in Spain, putting pressure on the regulated business. We estimate that this change will produce a negative impact, pre-tax, net to us of [EUR27 million] and EUR54 million in 2013 and 2014 respectively.

The effective corporate tax rate in the second quarter of 2013 was 48%, and we forecast a 44% tax rate for the whole year, including inventory effects under current circumstances.

As a conclusion, or in summary, I would say that, despite the tough macro and regional environment, we were able to release a resilient set of results. Moreover, we have maintained our focus in the execution of our strategic plan, delivering production growth and results (inaudible).

And now, I will be pleased to answer any questions you may wish to put forward.

## QUESTION AND ANSWER

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### Operator

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

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### Angel Bautista - Repsol S.A. - Director of IR

Hello again. Let's begin with our Q&A session. We have enabled a chat in the webcast in order to post questions in the event there are connection problems on the call. You may identify it by a tab called ask a question. If any, we will address these questions at the end.

Thomas Adolff, Credit Suisse.

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### Thomas Adolff - Credit Suisse - Analyst

I've got three, please. Firstly, on your production maybe in 3Q, can you give some form of guidance, and perhaps go into some details on the moving parts?

And secondly, on your solid liquidity position, which will improve further post the LNG disposals completed, I was wondering whether you intend to bid for the Libra field as part of the JV with Sinopec. And I'm assuming you have seen the data already. And perhaps can you comment on the oil and gas ratio, and say something on the CO2 content.

And just sticking around with liquidity, I was wondering whether you also consider potential share buyback, just to keep the share count the same.

And finally, just on the US and conventional play, I was just -- or the onshore play. I was just wondering whether you feel you have the capability to be ultimately an operator. Thank you.

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### Miguel Martinez - Repsol S.A. - CFO

Regarding some light for the 3Q, I would say that it's going to depend much on the influence of Kinteroni, because the rest of the additions will come more in the fourth quarter. And by that, I refer to the second wells that will be tying in to Sapinhoa and Margarita.

So it's going to depend much on the influence in production of Kinteroni. So I would say flat with this quarter, if Kinteroni doesn't start.



In relation with Libra, firstly, this is still -- there is time at least to analyze but it doesn't have much to be with liquidity. In relation with Libra, we analyze, for sure, everything that moves. And, in that case, we'll have to analyze that in conjunction with our partner, Sinopec.

Having said so, probably I would say that there are other companies that would be more aggressive initially, because our position in Brazil is quite long, and we already have capital employed which -- it fits with our portfolio.

Turning back to liquidity and share buybacks, I would say, no, we don't -- we are not analyzing any share buybacks. And, also, you have to think that the liquidity that is shown, which is EUR10 billion, from which EUR4.5 billion, more or less, our base line, will shrink because cash proceedings, we are not renewing the EUR1 billion bond that matures in July. And we also have the conversion of the half of the preference shares.

So, basically, no buybacks and the position we have at the month end somehow exceptional.

Finally, as an operator. Well, right now, I would say that we will keep in touch with them to analyze which are the proceedings. They are more oriented to value than to production figures, which for us is fair. And we keep working with them.

Being an operator, well, could be, but it's not in the table at the present time. Okay?

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**Thomas Adolff - Credit Suisse - Analyst**

Perfect. Thank you.

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**Angel Bautista - Repsol S.A. - Director of IR**

Oswald Clint, Bernstein.

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**Oswald Clint - Sanford C. Bernstein - Analyst**

Just two questions. First of all, maybe just talking about the weak Downstream result there. Can you talk about how your crude diet has changed for the refineries in the second quarter?

And is there anything you can do here with the low light heavy spreads to try and improve that capture, or improve that positioning in terms of light heavy spreads? Any other crude that you could actually start to import?

And then, secondly, I wonder if you could just give or talk about your OpEx per barrel just in the Upstream, and how that's trending through 2013 relative to last year. Thank you.

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**Miguel Martinez - Repsol S.A. - CFO**

Starting with the second one, I would say that the OpEx is moving very slightly up. It has to be more with the type of activity we are entering in, more deep water, more than with cost inflation that we are not receiving yet.

And also, with transportation costs from Sapinhoa, it is just one well. So costs there are impacting more per barrel produced, because we are in several of our productions the startup phase. And so they normally pursue more costs per barrel.

And in relation with the crude diet, I think that we have keep attached to the crude diet, more or less, the same we had last year, except for the change in the Iranian crude. But this affected more the first quarter than the second one. So second one, I would say it's the same diet.

We basically operate with 40%, 45%, 48% of our diet is heavy crude. But I don't see any other thing we can do. It's the market the one that really marks the spread between heavy and light.



And in relation with weak results, I agree with you, they have been weak. And I think that probably this quarter, at least it's the trend in the last year, the second quarter has always been the weakest in Refining. So we will see how we end the year.

But, in relation with your question, I cannot see any way to really modify the spread.

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**Oswald Clint** - *Sanford C. Bernstein - Analyst*

That's great. Thank you.

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**Angel Bautista** - *Repsol S.A. - Director of IR*

Jason Gammel, Macquarie.

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**Jason Gammel** - *Macquarie - Analyst*

I just had a couple. First on Brazil. You mentioned that there is only one well producing now, and that you expect to tie in two during the fourth quarter, I believe is what you said.

Can you comment on the production that you're seeing from the well that's in operation? And then just clarify that the reason for the delay in the other wells being tied in is simply the unavailability of the subsea buoy.

And then second of all, if I could turn to Kurdistan. Can you talk about any progress that you may have had in farming down your interest in Kurdistan? I believe you mentioned that you're intending to drill a well there later this year.

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**Miguel Martinez** - *Repsol S.A. - CFO*

In relation with the first one, the producing well is producing 25,000 barrels per day gross. Okay.

And in relation with the second one, we are in talks with two companies at the present time to allow them to farm in in Kurdistan. But still, probably within one month or so, we'll have news in that sense. But yes, our idea is to dilute our 100% that we already own today. Did I answer you, Jason?

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**Jason Gammel** - *Macquarie - Analyst*

Yes, you did. If I could just ask, though, the delay in tying in more than one well at Sapinhua. Obviously, it's been producing for a while now. Is this due to the unavailability of the subsea buoy? Or are there other issues on the FPSO?

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**Miguel Martinez** - *Repsol S.A. - CFO*

What you mention. Exactly what you mention.

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**Jason Gammel** - *Macquarie - Analyst*

Okay. Thank you.

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**Angel Bautista** - *Repsol S.A. - Director of IR*

Flora Trindade, BPI.



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**Flora Trindade - BPI - Analyst**

The first question, basically, is a follow up on the last one; the delays on subsea equipment. Are you also seeing any cost inflation? And what's your view here on the impact it could have going forward?

And then, in line with this, and considering the information you have as production advances in Sapinhoa, can you share with us any updated expectations for the typical OpEx per barrel and CapEx per barrel you have implicit in your models?

And then, the last one, just trying to look forward to the second half of the year. Can you update any expectations for Canaport, and also for the marketing within the Downstream division? Thank you.

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**Miguel Martinez - Repsol S.A. - CFO**

Well, in relation with cost inflation, I would say that 5% is the figure of cap inflation that we are seeing, but no more than that.

What is possible is that, in Brazil, due to the extra works, there are not many companies or suppliers available. But, if you remember, part of our -- we are negotiating. The operator is negotiating that now with [Sahin] MODEC and we will have to wait and see which would be the final cost of this process of negotiation.

So I would say, on average, 5%, and with the factor I mentioned you in relation with Brazil.

In relation with the second one, I would say that altogether it would be around \$35 per barrel, \$37 per barrel, combining CapEx and OpEx. And it's not -- I prefer to give you the combined figure because, depending on the property of the FPSO, figures can change from one company or the other, depending if you own the -- if you simply rented it. So \$35 per barrel, \$37 per barrel.

And second, in relation with Canaport, well I'll say that Canaport figures will [buy] our North American LNG business, I mean the part that we didn't sell to the Shell, the results vary once the transaction is closed because at that moment, we will not have the availability of our own gas.

As mentioned in the press release after the announcement of the Shell -- to Shell, we will accrue the necessary quantity so that, at the end in the figures for your models, the operational result will be zero. So the negative part that we expect in the future would be absorbed by the amount accrued. Did I answer you Flora?

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**Flora Trindade - BPI - Analyst**

Yes, perfect. Thank you.

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**Angel Bautista - Repsol S.A. - Director of IR**

Filipe Rosa.

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

Two questions, if I may, the first one on CapEx. Apparently it's running slightly below the full year -- your full-year run rate. Could you -- namely in Downstream, could you update us on your guidance for full-year CapEx?

My second question would go for Peru on the asset sale, if you could update us on that?

The third one would be for the marketing division, again a follow up on that one. Have you seen any recent signs of recovery in terms of volume stabilization? Could you update us on your view for the second half on that one? Thank you very much?

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**Miguel Martinez - Repsol S.A. - CFO**



Always the first part of the year you're a little below what you ended up. So our figure of -- our indication we gave in the first-quarter presentation results were between EUR3.3 billion and EUR3.5 billion ex Gas Nat. And I think that we are going to be in line.

In the first six months, we have CapEx of EUR1.5 billion and normally, especially the fourth quarter, it's a little higher. So I think that we are in line with our budgets and with the indications or color we gave you.

In relation with your second question in Peru, we did the process. And I'm under confidentiality clauses so I cannot tell you more, but the process continues and let's see how it evolves. But I cannot tell you more about this, sorry.

And in relation with the volumes, we have seen somehow soften the fall in the retail network because at the end the retail network is the one that provides you the best data. In wholesaling, through a small discount, you can move volumes easily.

But if you look at the figures, the fall was 7.3% in the quarter, which was smaller than what we have seen before, and in this month a little above what we saw in July 2012.

So the situation it looks like somehow recovering, though if someone would have told me six years ago, if I could think that the consumption in our network will fall [3%], I would say that the guy would have been crazy. So this is really a tough position and we'll see, but it looks as if news are a little better.

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

On the margin front, if there is a stabilization of the volumes, or if the drops are relatively small in second half, do you think that it will be possible to have some margin improvements? Or do you think that it will be something similar to the first half?

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**Miguel Martinez - Repsol S.A. - CFO**

I would say that margins [would be] a little better in the second part of the year. You have to think that when we started the year, the Spanish Government's changed the tax in relation with the biofuels. Initially, the biofuels were not taxed with the hydrocarbon taxation and we have been slightly recovering that tax.

So I expect a little recovery in the second part of the year in comparison with the first one.

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

Thank you very much.

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**Angel Bautista - Repsol S.A. - Director of IR**

Haythem Rashed, Morgan Stanley.

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**Haythem Rashed - Morgan Stanley - Analyst**

Just two quick questions from my side. One is a very quick clarification and a follow on from the previous question on the Downstream.

Just to understand, given comments that there is cautiously optimistic outlook potentially for the marketing side, do you feel guidance for the full year could be exceeded? Or have you got any updated view on where you see full-year EBITDA for the Downstream ending up?

Second question I had is a slightly bigger picture. You've made good progress on all the financing parts of the strategy, and it sounds like with the LNG sale effectively, with all the approvals in place now, it's a matter of time now to have that completed.



Are you thinking about the potentially -- a potential next stage in the sense of where you see Gas Natural in the portfolio? And have you had any updates on your thoughts there? I know that previously that was something you wanted to see the LNG sale done before thinking about, but is that something that you're now looking at in a bit more detail? Thank you.

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**Miguel Martinez - Repsol S.A. - CFO**

In relation with the first one, I think that my comments in the first-quarter presentation results were that probably we will reach EUR1.5 billion as EBITDA for the whole Downstream division. If you look at our figures today, we closed the first part of the year with EUR430 million, I think.

But my comment was based on non-impact from the inventory effect, and we have suffered EUR230 million impact on the inventory valuation. So if we add up both figures, so considering for the whole year that the inventory impact would be zero, the figure of the first half of the year would be around EUR670 million. So expecting a slightly better second part of the year. I think that if we don't reach it, we're going to be pretty close, with no inventory effects.

In relation with the second one, you are right in your comment. Part of the rationale of our staking Gas Natural was the ability to make money throughout LNG division and the rationale disappeared once we sold the LNG business to Shell.

Having said so, well we are not in a hurry. Only with the financial advantage we get, (inaudible) yield 6.5% after tax and our last bond issue was 1.8% after tax. So we have a positive carry of almost 500 basis points. So we are not in a hurry, but it's true that it's something we seriously have to think of it.

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**Haythem Rashed - Morgan Stanley - Analyst**

Thank you.

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**Angel Bautista - Repsol S.A. - Director of IR**

Alejandro Demichelis.

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

The first one is a follow up on your last answer. On Gas Natural, if you're thinking about where your next steps are, do you need to agree with la Caixa to do something jointly? That's the first question.

Second question is on Argentina, and you mentioned the situation with Chevron. Does that change your willingness to take part of the asset as part of the transaction, given that Shell has taken probably the jewel in the crown of the asset?

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**Miguel Martinez - Repsol S.A. - CFO**

Well, for sure, any transaction we possibly foresee in the future, it would be much, much better and much simpler if we do it in agreement with Caixa and with the Gas Natural management, that's clear.

So, as mentioned, it's way too early. We have to think of it and look for the future. But I would say, yes, I would prefer to have any future transaction in agreement with Caixa and with Gas Natural.

In relation with Chevron and Argentina, here I want to explain that basically we are not against any expropriation. I think it is a right that all the governments have, but the point here is that we need a fair compensation, which is something that after 15 months we haven't seen. We haven't seen a single dollar.

And one way is to receive the liquidity now for valuing (technical difficulty) for the assets that were expropriated. The other possibility if we don't reach an agreement of fair valuation is to obtain the assets back. And, in that sense, Chevron is interfering in our process.



But the jewel of the crown, yes, it's true that it's probably the best part of Vaca Muerta but think that Vaca Muerta is huge. And, on top of that, we are looking more for liquid assets more than for future investments in Argentina.

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

That's clear. So are the negotiations with the Government continuing or have they stopped now?

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**Miguel Martinez - Repsol S.A. - CFO**

As mentioned, we believe there were no negotiations with the Government. I mentioned that it was indirectly. So basically what we had was a meeting in Mexico with YPF people and Pemex people and our team and that was it. So I cannot say that we are in conversation because the contact has been totally indirect.

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

That's very clear. Thank you.

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**Angel Bautista - Repsol S.A. - Director of IR**

Theepan Jothilingam, Nomura.

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**Theepan Jothilingam - Nomura - Analyst**

Actually two questions. Just coming back to exploration, please, could you perhaps give us any indications of, on a volumetric basis, what you're targeting for H2 after having a successful H1?

And then just on Alaska, again could you just talk about what the next steps there are, how much you think you've discovered to date and when you may think about first oil? Thank you.

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**Miguel Martinez - Repsol S.A. - CFO**

Well, I'm sorry but to the first question I have to say no. We do not disclose volumes we are aiming at, though I have to say that still in front of us we have Kurdistan, Norway, Canada, Brazil, US, Libya, in front of us, and Romania. So it's still a really weighted second part of the year. But we not disclose the volumes we are aiming at.

And, in relation with Alaska, if you remember we still have one campaign to go; an exploratory campaign. So we do prefer to really end up all our homework before disclosing any figure. Sorry about that, Theepan.

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**Theepan Jothilingam - Nomura - Analyst**

Okay. Could you -- just two follow-up questions, I guess. What do you think an economic threshold is there, therefore? I might spin it a different way on that question.

And secondly, just coming back to the previous Q&A, subsequent to the Chevron announcement, has there been any further contact with the Argentine Government? There's not been any change in stance. Is that what you're trying to tell us today?

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**Miguel Martinez - Repsol S.A. - CFO**

In general terms, we always aim for a return which depends on the risk of the country and also the fit with our strategic plan. So I would say that for sure it was, or what I can tell you, it was two figures before we started and after the tax modification, it's going to be a little higher in Alaska.



But for sure it's going to depend also on what we find during this winter. Depending on the size, the development project would [braai] so still way too early to say. What I can tell you is that, based on our initial analysis, we are in better shape today than when we approved the first exploration campaign.

And the other one, the answer is no, there has been no contacts.

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**Theepan Jothilingam - Nomura - Analyst**

Okay. All right. Thank you very much, Miguel.

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**Angel Bautista - Repsol S.A. - Director of IR**

Hootan Yazhari, Merrill Lynch.

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

Two questions, if I may. Starting with YPF, you indicated that you will be pursuing some activity in the US Court system. Can you just give us some clarity on what exactly you are pursuing there? And if a successful judgment is given in your favor, what would that entail and how could this play out for you?

And secondly, moving to the exploration portfolio, I just wanted to get an update in terms of whether you have the rigs lined up for your re-entry into BMC-33 and what we could expect in terms of timings there. Thank you.

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**Miguel Martinez - Repsol S.A. - CFO**

I'd like to pass the first question to Miguel Klingenberg, which is our lawyer and the one that is suing everyone that moves around. Miguel?

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**Miguel Klingenberg - Repsol S.A. - Deputy Legal Counsel**

Well, very quickly, as you probably know, we have filed an arbitration procedure at the World Bank arbitration tribunal, ICSID, and the claim is related to the fact that the expropriation has been (technical difficulty) also is illegal itself. And, therefore, our claim at ICSID is two-fold.

On the one side, we are requesting the tribunal to grant us the restitution of the assets expropriated, the shares. In fact, we are still the legal owners of those shares, although economic and voting rights were seized by the Government. And secondly, as an alternative, an economic financial compensation.

So far, therefore, it is our obligation to protect the assets of YPF. And this is what we are trying to achieve. We have advised third parties that we are going to fight against those who are willing to take advantage of these illegal expropriations and, therefore, that's what we are doing.

And what we have by now done, apart of other proceedings in the US courts, is basically to request the tribunal to grant an injunction to the Government of Argentina, imposing on them the protection on the assets and, in particular, those who are the subject of the Chevron YPF agreement.

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**Miguel Martinez - Repsol S.A. - CFO**

Thanks, Miguel. Hootan, your second question was referring to Campus 33 or in general terms?

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

Campus 33.

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**Miguel Martinez - Repsol S.A. - CFO**



The rig would be in place by the end of 2013, probably the end of October, November. Okay?

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

So we won't get any results on BMC-33 until early next year?

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**Miguel Martinez - Repsol S.A. - CFO**

Yes, at the best.

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

Okay, understood.

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**Angel Bautista - Repsol S.A. - Director of IR**

Anish Kapadia, TPH.

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

I have three questions. The first one was on Brazil, on a couple of developments over there. On Carioca, it seems like the size of the FPSO has come down in size. And also that I think there was only one company that tendered for the FPSO. I was just wondering if there's any risk of delays over there and impact on CapEx.

And on the gas condensate developments, it seems like the Panoramics well was unsuccessful. Just wondering how that impacts development of Panoramics and the other discoveries around there.

Second question's on the Refining division, given the very weak performance you've seen, would you consider closing down one of your underperforming refineries? Or is that -- or will you not be allowed to do so by the Spanish Government?

And then the final one is just a little bit of guidance for 2014. I was just wondering, with the LNG business coming out of the portfolio, can you give a guidance on what the increase in tax rate will be? And, following the preference share conversion, what the decrease in the financial expense will be that you expect in 2014? Thank you.

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**Miguel Martinez - Repsol S.A. - CFO**

Well, in relation with Carioca we do not expect any delays, through that the FPSO is a little smaller, and this is due to the results of Carioca (inaudible). So we are going to develop the north part of Carioca with the FPSO, but we do not expect any delay.

And, as mentioned before, the operator is negotiating right now with MODECA and Sahin the tariffs for it. No delay expect there.

Your second question refers to Panoramics. Yes, Panoramics, we have abandoned this project. The dry was well and was not commercially interesting to go ahead. There was a 4 meter pay, so we have abandoned this project.

Your third question, well, first it is true that the Refining, or the Downstream division has been weak this quarter, but we're still better than we were last year. This is our first comment. And second, we do not expect to close any facility. Our system works as a unit and we took advantage of it, so not any closing expected so far.

And finally, in relation with 2014 for the tax rates and the financials, it's way too early to being able to give you any color or any hint. But I would be happy once we have all our budget for the next year to comment that with all of you.



So I would say it's still way too early to provide you any flavor. I think that also in relation with financials, it's going to depend much on how the closing of the LNG is. There are many factors, so I would rather prefer to wait for the buyer to give you those data. Okay?

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

Okay. Just one clarification in terms of Panoramics, abandoning that project, are you still going ahead with Piracuca, though? And what's the timing on that?

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**Miguel Martinez - Repsol S.A. - CFO**

Piracuca, Petrobras is the operator and we're still going ahead. In Panoramics we're the operators, and we just decide to stop the project.

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

Thank you.

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**Angel Bautista - Repsol S.A. - Director of IR**

Lydia Rainforth, Barclays.

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**Lydia Rainforth - Barclays - Analyst**

I just have a couple of questions, if I could. Firstly, Miguel, just to clarify on the LNG sale closing, now you've got the anti-trust approval is there any risk at all that the deal doesn't happen? Or is it just a case of going through each of the individual contracts and sorting those out?

And then secondly, I'm sorry just to ask you to do this again, but could you just go through the outlook for the profitability of the North American LNG business again for me? And what would it take for that business to be break even?

And then, actually, if I could just do a third one. It is now pretty much over a year since you signed the strategic alliance with Pemex around the Mexico side. I'm just wondering, have you actually seen much progress in that, or what more you might expect from that to come through? Thank you.

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**Miguel Martinez - Repsol S.A. - CFO**

Well, to the first question I would say no. I'm totally positive that the deal will be closed. We already have the anti-trust permit. And the point there is that exactly we have 152 contracts to be transferred to Shell. And in all these contracts we have other parties, so it takes time. It takes time, but things are going well.

My comment in three months ago was that probably by September, October there would be possibilities; probably would fall more in the fourth quarter. But the answer is that we think that will, for sure, will go ahead with it.

In relation with North America and the LNG, what we mentioned when we announced the deal with Shell is that we will accrue the quantity necessary for those assets. So at the end the losses could be between \$50 million and \$100 million per annum. But this will go against the accrual, so basically at the operating level the result would be zero.

And in relation with Pemex, we are in talks with them, especially in the petrochemical area, with some possible projects in the -- but going slow, but we keep talking with them, but no major advances, to say something. Okay Lydia?

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**Lydia Rainforth - Barclays - Analyst**

Perfect. Thank you very much.



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**Angel Bautista - Repsol S.A. - Director of IR**

Alastair Syme, Citi.

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**Alastair Syme - Citi - Analyst**

One point of clarification on the -- you mentioned the change in electricity tariffs in Spain, and, just to clarify, is that EBIT impact coming through the Gas Natural line? Or is it coming through the E&P in the form of lower natural gas prices, to the extent that those are linked to Spanish electricity prices?

And my second question, just you mentioned the big fall in marketing volumes over recent years. Is there anything or are the things you are doing on the fixed cost side to adjust for that lower capacity?

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**Miguel Martinez - Repsol S.A. - CFO**

The changes in the regulation of the electrical system in Spain affects us two ways. The first one is through our participation in Gas Natural for the figures I mentioned and then we have an extra minor impact on our co-generations, but that's it. All combined will not represent EUR100 million for us for a whole year, so -- and that's it, through Gas Natural or part time through our co-generation system in the other.

And in relation with fixed costs, you can imagine that yes, we are really somehow squeezing every single cent we have cost (inaudible).

And officially, if you remember, we have in 2009 we really did an extraordinary effort cost cutting and we have reviewed almost everything, starting from timing tables in the service station, until the -- all the costs have been analyzed, reanalyzed and we are trying to reduce all of them in order to somehow save the impact on the volumes. Okay, Alastair?

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**Alastair Syme - Citi - Analyst**

Is there a thought to closing capacity at all?

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**Miguel Martinez - Repsol S.A. - CFO**

You mean in the retail network?

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**Alastair Syme - Citi - Analyst**

Yes.

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**Miguel Martinez - Repsol S.A. - CFO**

Well, services stations normally die alone and by that mean that independently of the moment in which you are. There is a limit, probably around 2 million liters per annum, in which those sites cannot be operated by companies. Between 1 million and 2 million liters per annum, it can be operated by families and below 1 million liters, they die alone.

Okay? But there's not any idea or global concept of closing services stations. As mentioned, they die alone.

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**Alastair Syme - Citi - Analyst**

Okay, thank you very much.



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**Angel Bautista - Repsol S.A. - Director of IR**

Irene Himona, Soc Gen.

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**Irene Himona - Societe Generale - Analyst**

Most of mine were answered. I just had one question, if I may, Miguel, on the financial side. You've now obviously sold LNG. You've exchanged the prefs for a bond. You've got the scrip dividend going. What is it that the credit agencies want you to do from here on in order to, at some point, have a chance for a credit rating upgrade? Thank you.

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**Miguel Martinez - Repsol S.A. - CFO**

I agree with you, but basically they want us to close the deal with Shell. Once this deal is closed, all the ratios would be, I would say, in the upper part of the BBB and then we'll have to wait. The agencies always take their time to move you up. They're a little faster moving you down, downgrading you.

But in our case I have to say that they have been quite conscious of the problem we face after the confiscation of YPF. We presented the plan with the measures you mentioned and some other ones, and we have delivered everything. So I think it's only pending on the closing of the LNG deal.

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**Irene Himona - Societe Generale - Analyst**

Thank you very much. Thank you, Miguel.

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**Angel Bautista - Repsol S.A. - Director of IR**

Neill Morton, Investec.

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**Neill Morton - Investec - Analyst**

Two exploration questions, please, the first one on Namibia. I think results to date have been fairly mixed. I appreciate you don't get full access to other operators' data but has that given you any pause for thought against -- ahead of your own drilling in 2014?

And then secondly in Ireland, again you're not the operator there, but I just wondered what the next steps are on Dunquin and, for example, when you're -- if you're planning to drill Dunquin South? Thank you.

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**Miguel Martinez - Repsol S.A. - CFO**

Well, in relation with Namibia, I have to say that we are aiming for a totally different play. So I would say there's nothing to do or to be with it.

And your second question on Dunquin, I have to say that it was a great well for the geologist but a horrible one under an economic point of view. The reservoir was there. The quality of it was great. All the conditions were great, but it was water instead of oil. So I don't know which conclusions the geologist will send us, but one thing is clear, the idea was correct. So probably they will keep moving around, to say something, Neill. Okay?

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**Neill Morton - Investec - Analyst**

That's great. Thank you very much.

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**Angel Bautista - Repsol S.A. - Director of IR**



And now we move on to the questions that we received in our chat. First one comes from Brendan Warn from Jefferies. He's asking about an update on the results of the Sagitario discovery in Brazil and if there were any other analogous prospects in the block?

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**Miguel Martinez - Repsol S.A. - CFO**

Well, the appraisal plan will be presented this month and (inaudible) talking we normally do not give some hint, but we are talking about a really big one over here and Petrobras always -- they don't like us to comment on that, but it's a big one and I cannot tell you more.

And the second question, well to see if there are some other prospects similar in the area, I'll have to -- first let's appraise Sagitario and then we'll see in the future how the other prospects look.

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**Angel Bautista - Repsol S.A. - Director of IR**

And then moving on to a question that has been made by Jason Kenney from Santander, a comment on gas realization prices as compared to Henry Hub.

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**Miguel Martinez - Repsol S.A. - CFO**

Yes, it looks a little curious that Henry Hub went up but our realization prices went down. Two reasons for that. The first one refers to the gas we provide to the Government of Trinidad and Tobago, which was higher this month so -- and it affects the mix.

And the second one is that we have 20% of our gas sales indexed to the Brent price, especially and importantly is Bolivia due to its volumes, and Brent went down. So the total mix at the end didn't follow the Henry Hub. To give you that, I think that only approximately 30% of our gas production is linked to Henry Hub and that's reason, the mix.

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**Angel Bautista - Repsol S.A. - Director of IR**

So that has been everything for today. Thank you very much for attending this conference call about our second quarter results. Thanks to everyone for the questions and I hope we have answered everything. If you have any further doubts or queries, please contact us in the IR department and we'll be available for you at any time that you need. Thanks a lot and bye.

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