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PRESENTATION

Operator

Hello and welcome to the Repsol third quarter 2015 results conference call. For your information today's conference is being recorded. This conference will be conducted by Mr. Miguel Martinez, CFO. A brief introduction will be given by Mr. Angel Bautista, Head of Investor Relations. I would now like to hand the call over to Mr. Bautista. Sir, you may begin.

Angel Bautista - Repsol S.A. - Head of IR

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

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

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



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

Thanks, Angel, and thank you all for attending this conference on the third quarter 2015 results. In today's call we will address three topics. First, some remarks on the strategic plan 2016-2010 that the Company presented on October 15. Second, the market environment for the quarter and thirdly, the quarterly results and the main operational highlights.

Let me start with some remarks about the new strategic plan that we presented last October. The acquisition of Talisman culminates our previous strategic plan in which we delivered all the targets that we committed to back in 2012. Or to put it in a different way, it was the first step of our new strategic plan.

Our strategy for the period 2016-2020 focuses on value and resilience, seeking to harness the Group's increased scale and balanced portfolio to create value even in a low oil price environment through increased efficiency and flexible portfolio management. We are aiming for a more competitive and leaner company, adding value by avoiding unnecessary complexity.

We will reduce our organic free cash flow breakeven after CapEx, dividends and financial costs below \$50 a barrel by the end of this plan. Strong cash flow from the businesses together with a more efficient portfolio will allow us to generate more than EUR10b of cash for dividends and debt even under a \$50 per barrel flat scenario.

The first driver to achieve our targets of value and resiliency would be efficiency. In this regard we have launched a Company-wide program with the specific targets monitoring and accountability. We aim to achieve OpEx savings up to EUR1.5b. EUR0.5b corresponds to the upstream division, EUR0.5b to the downstream and the rest will come from the corporation and the capture of synergies from the acquisition of Talisman. We will provide regular updates of the progress of this program from the first quarter of 2016.

Active portfolio management will be the second driver for delivering value and an important tool to increase focus on the areas where we can excel. We will increase our resiliency through a reduction of our free cash flow breakevens and Company gearing and (inaudible) scenario. We will divest more than EUR6b through 2020 and our strategic plan includes the impact of the disposals to be made over the next five years. This target has been calculated on an estimated 6 times EV to EBITDA multiple without capital gains.

For 2016 and 2017 our objective is to divest EUR3.1b. We are not in a hurry but we have already accomplished EUR1.6b through the partial disposal of our piped LPG business in Spain, a transaction that will be closed and cashed in 2016, the dilution of our position in Alaska and the sale of our stake in CLH. We will initially divest assets whose value is not linked to the oil price.

The aforementioned sale of part of our piped LPG business for a multiple close to 4 times EBITDA shows how Repsol keeps a wide range of assets with hidden value that can be divested in the near term, achieving great multiples, without penalizing the Company ability to generate cash.

In Alaska we have reached an agreement to transfer to Armstrong 15% of Repsol's interest in the North Slope plus an option for a further 6%. The value of this transaction is around \$750m, reflecting the quality of the asset as valued by a player with a deep knowledge of the area.

Our upstream CapEx flexibility allows us to reduce our investment for 2016/2017 by more than 35% compared to the combined amount of Repsol plus Talisman in 2014. Of this EUR2.4b reduction, EUR1.1b corresponds to a lower exploration effort, EUR600m comes from the capture of cost deflation across the industry together with operating efficiencies, and the other EUR700m is a result of lower activity.

Turning now to the downstream, it will remain as a strong free cash flow generator during the 2016-2020 period, providing an average of EUR1.7b of free cash flow per year. Approximately 50% of the expected EBITDA for our downstream comes from the refining division with the other 50% being quite stable, thanks to our commercial business and our chemicals division.

In our strategic plan we have established a \$6.4 refining margin reference. I would like to clarify that figure which has raised some controversy among the oil and gas analysts. The base Repsol crack margin indicator used for the plan is \$2.7 per barrel which would compare to the margin of an average European refinery. This figure is 25% lower than the average base margin of the last 10-year cycle where we had periods of low, medium and high margins. We are using for the plan a premium of \$3, which compares with an actual of \$4.3 during 2015.



Our margin indicator was \$8.8 in the third quarter of the year and has averaged around \$7 in October, being currently around \$9.

To finish with this recap of the strategic plan I would like to reaffirm Repsol's commitment with shareholder remuneration in line with our current practice. Our priority is to deleverage the Company but nevertheless we firmly intend to analyze the potential removal of the scrip option from 2018 on, provided that the conditions are favorable.

Turning now to the market environment and outlook for the full-year 2015. During the quarter the weakness in oil price together with a strong dollar continued. Brent crude prices averaged \$50.5 per barrel, more than \$11 lower than the previous quarter and less than half the average price in the third quarter of 2014.

In relation with gas prices, they were also weak during the quarter and we have averaged \$2.8 per million btu, a figure that compares with the \$2.6 of the previous quarter and with the \$4.1 seen in the third quarter 2014.

In refining we saw a year-on-year increase in margins from \$3.9 to \$8.8 per barrel due to the strengthening of the products and light-heavy spreads. On top of the lower energy costs derived from the efforts in efficiency undertaken in the past years, the margin premium, thanks to our refinery upgrades has averaged \$3.8 in the quarter. Utilization rate of the distillation capacity was 94.5% during the quarter while conversion continues to run at full speed.

In our marketing activity we have experienced a 1% growth in gasoline and diesel sales in service stations and 4% growth in the wholesale segment. Based on the current price environment, Repsol estimates this year's adjusted net income for the full year 2015 will be in the range of EUR1.6b and EUR1.8b with an estimated net income in the range of EUR1.25b and EUR1.5b.

Now let me move to the third quarter 2015 earnings performance and operational highlights. Third-quarter CCS adjusted net income was EUR159m, 62% lower compared with the same period of last year and 49% lower than in the second quarter. Operating income stood at EUR511m, in line with last quarter. CCS adjusted net income for the first nine months of the year was EUR1.4b, 5% higher compared to the same period of last year.

Third-quarter results have been impacted by several atypical effects. First, at the adjusted level we suffered the effect in tax charges of the devaluation of several local currencies, mainly Brazil, Colombia and Malaysia. This made our negative operating income equal to our net adjusted result.

On the non-recurring items we booked impairment in the Mississippian Lime and in the gas and power business units, partially offset by the net gains from the sales of our remaining 10% stake in CLH and our offshore exploration acreage in Canada.

Looking at the results by division, starting with the upstream business, adjusted net income for the third quarter was minus EUR395m, which is EUR580m lower than the same period of 2014. This result has been mainly affected by low realization prices, high exploration expenses, the absence of production in Libya and the atypical effects in the tax charges previously mentioned. These effects were partially compensated by higher production, mainly as a result of the contribution of Talisman assets, and the ramp-up of the strategic projects in Brazil and Venezuela.

Higher exploration expenses due to the write-off of two wells in Angola that were previously under evaluation, together with another negative well in Norway, have materially impacted our results in the quarter.

The remaining drilling schedule for the last quarter of the year, in line with our strategic plans for 2016-2020 is made up of less risky exploration. Good news come from the successful completion in November of the second appraisal of the Pao de Acucar discovery in Campos Basin. Before the end of 2015 Repsol Sinopec Brazil plans to test a well in the third discovery in the same block.

Average production in the quarter stood at 653,000 barrels of oil equivalent per day. This figure is 79% higher year on year and 24% higher than in the second quarter of 2015, which includes less than two months of production from Talisman assets. In October, daily production has averaged 685,000 barrels of oil equivalent per day.



Year-on-year performance excluding the impact on results of Libya and Talisman contribution is explained as follows. Lower crude oil and gas realization price had a negative impact at the operating level of EUR464m. Taxes had a positive impact of EUR185m due to the lower results, partially offset by the impact of the devaluation of the local currencies, mainly in Brazil. Higher exploration expenses led to a decrease in the operating income of EUR70m. Higher production, thanks mainly to the ramp-up of our Sapinhoa project in Brazil and Cardon in Venezuela result in a positive impact on the operating income of EUR36m. Other minor effects explain the remaining difference.

The impact of the disruption in Libya was minus EUR131m and minus EUR42m in the operating and net adjusted income respectively. Operating income of Talisman asset was minus EUR57m. We had positive results in South East Asia and Colombia that were offset by exploration expenses and the negative results in Norway, Australia and North America.

The contribution to the adjusted net income has been minus EUR90m, due to the mix of results with different effective tax rates and the impact in taxes of the devaluation of local currencies, mainly Malaysia and Colombia.

Turning to our downstream division, CCS adjusted net income in the quarter was EUR682m, significantly higher than the EUR190m of the third quarter of 2014 and EUR243m above the result of the second quarter. Adjusted net income for the first nine months of the year was EUR1.7b, 158% higher year on year.

This improvement in earnings is mainly driven by better refining and petrochemical margins and an enhanced performance in the commercial and trading businesses, partially offset by lower results in gas and power.

Drilling down into the quarterly results, in refining the higher margins, together with higher utilization rates, had a positive impact at the operating level of EUR273m. In the petrochemical business we continued the previous positive trend, improving operating income by EUR186m. We are profiting from enhanced efficiency as a result of operational improvements in our sites, higher sales volumes and margins.

In the commercial business, operating income increased EUR24m year on year, driven by sales growth in service stations and in the wholesale business.

Moving to gas, power and trading, these businesses increased their joint operating income by EUR65m. With regard to Gas Natural Fenosa, the EUR103m adjusted net income in the third quarter of 2015 was higher year on year, mainly due to the contribution of CG Chile that offset the lower result from gas commercialization and the lower contribution from the gas and power distribution businesses in Latin America.

Moving now to the financial aspects, our third quarter financial result was EUR223m of net expense compared to a financial expense of EUR12m in the same period of last year, due mainly to two effects. We booked a positive exchange rate position result of over EUR100m in 2014 while accounting a small negative in 2015. The second reason is the EUR65m increase in interest payments on debt as a consequence of the consolidation of Talisman.

The Group's net financial debt at the end of the third quarter amounted to EUR13.1b, a decrease of EUR141m compared to the end of the second quarter of 2015. Our liquidity position stands above EUR9b.

As a conclusion, we may say that we ended a challenging quarter where atypical effects like the exchange rate impact on our taxes and non-recurring items have lowered our net income. Focusing on the underlying performance at the operating level, our results have been in line with those of the second quarter.

With the new strategic plan we have begun a new era for Repsol. Thanks to our large scale we have given ourselves the tools to improve value for our shareholders through a more flexible and focused allocation of capital while implementing our Company-wide efficiency program.

Thanks so much.



QUESTIONS AND ANSWERS

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

Thank you very much. We are moving now to the Q&A session. In case you run into any technical problems during the webcast please send an e-mail to investorrelations@repsol.com and we'll contact with you immediately and try to solve it. And now we are moving into the Q&A.

Operator

(Operator Instructions).

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

Well, we are starting with Brendan Warn from BMO Capital Markets. Hi Brendan, how are you? Please, your questions?

Brendan Warn - *BMO Capital Markets - Analyst*

Yes, good afternoon and thank you. Thanks for taking my question. I'll keep it to one, considering we've had the strategy update. But I was going to say, Miguel, could you just talk through the 307,000 barrels a day contribution from Talisman? And seeing as this is our first full quarter can you just talk through the margins you saw per barrel and if you could just break it down a little bit further from region? Obviously you got support from South East Asia but could you just talk through which assets contributed positively and negatively in terms of the price effect being at \$50 this quarter please?

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

Thank you for your question, Brendan. Basically I may say that, as you show, we clearly have a defense in the South East Asia assets because of the PSC type of contracts. So this has been the positive part along with Colombia and Algeria, also PSCs in Algeria I mean. So basically those have been the positives.

I'm not going to disclose the operating margin one by one but in the other side of the equation for sure Norway is in the negative part of the equation while Canada and the US have been almost even in the negative side of it. And this is as much as I can clarify.

Brendan Warn - *BMO Capital Markets - Analyst*

Cheers, Miguel.

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

Thanks, Brendan.

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

Thank you very much, Brendan, for your questions. Now we're moving to Flora Trindade, from BPI. Sorry Flora for that spelling of your name. Please go ahead with your questions.

Flora Trindade - *BPI - Analyst*

Hello, good morning, no problem. The first question is on the specifics of results considering the strong losses in upstream this quarter. Can you give us an idea of what are the trends for Q4 and effectively what this does mean for your expectations for everything in the upstream division throughout the year?

And then secondly on downstream, the performance of the chemicals business has been outstanding. What part of this do you believe is sustainable? So what would be a reasonable level for next year for instance?

And then finally, I'd like to ask a question regarding the hybrid bonds. There was a decision by the S&P on the equity weightings. Just wondering if you are working on any changes in the clauses or if you are looking for alternative funding options? What are your thoughts on this? I notice that you haven't changed the accounting in this quarter really so I was just wondering if you could share what you think about it now. Thank you.

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

Thanks for the questions, Flora. Starting with the third point, first we don't have to change the accounting because what has changed is the ruling of an agency but the IFRS remains exactly the same. So under an accounting point of view the agencies, at least in that area, doesn't account too much.

In relation with the rest around the hybrids, I may say that in December, as of December 14 we reached somehow an agreement in which it was a package, a package which includes EUR5b of issuance plus EUR1b in divestments plus EUR1b as net present value of the synergies. As of today we have -- the agreement also includes 18 months since the closing of the transaction of Talisman so we still have almost a year to go ahead with -- to fulfill this agreement.

But I have to say that it's a package and right now our synergies are -- the net present value is closer to EUR2b than to EUR1b. I'll have to say that the divestments only in this first six months have been around EUR2b. So we are doubling these two parts of the agreement. So we'll have meetings with the agencies once we have the closing of the year, probably the end of February, and then we will see which is the new way we find out. But one thing is clear, we keep totally committed to maintain the investment grade.

In relation with the first question about the results in upstream, I may say that for the fourth quarter if we take out the impact of EUR127m due to the devaluation of different currencies and also you take out let's say approximately EUR80m from the exploration costs, so if the rest of the variables remain even with the third quarter, we should improve this quarter results by EUR200m approximately.

And in relation with the downstream performance, especially in the chemical business, I would say that approximately 60% of the improvement comes from the market conditions and 40% is all the homework that has been done in the business in the last I would say two or three years in which we have modified the structure of the business, we have downsized it, we have changed the feedstock of the whole business, and additionally including extraordinary measures to be energy efficient. So I would say that 40% of the improvement is permanent and then the rest will be on the market.

Did I answer you, Flora?

Flora Trindade - *BPI - Analyst*

Yes, thank you.

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

Thank you very much Flora for your questions. Now we move to Filipe Rosa from Haitong. Ola, Filipe. Please go ahead with your questions.



Filipe Rosa - *Haitong Research - Analyst*

Ola. Morning to everyone. So three questions from me as well. The first one in terms of CapEx outlook. So I know that you have just done your strategic plan but the Brent price continues to drop, the natural gas price in US continues to drop versus I think three or four weeks ago. My question relates to 2016. What will be your flexibility to lower your CapEx if the oil price and the Brent and the Henry Hub stay at the current level?

And what could be -- if you could provide some guidance for the output in 2016 and what could be the risk associated to the need to lower CapEx because that CapEx would not be profitable at the current level of the Brent and of the Henry Hub. That would be my first question.

My second question relates to asset divestments. I would like to ask whether you feel more pressure now than you were two weeks ago to accelerate the asset divestments as again there has been a further deterioration of the pricing backdrop in the industry and whether you could announce, you believe that you could announce further asset divestments still during this year? So that would be the second.

And thirdly, just to follow up on the chemicals business, could you just give us an idea what is the free cash flow or the EBITDA that you are considering in your guidance for the downstream business? What is the component allocated to the chemicals? Just for us to have an idea what would be your expectation for a recurrent EBIT coming from this division? Thank you very much.

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

Thanks, Filipe. Well, starting with the CapEx flexibility, I may say that the easiest part or the most flexible part would be the exploration wells that are not committed. So we have some room there. Other than that, I would say that there's not much flexibility, perhaps hundreds but we are not talking about huge flexibility.

Having said so, you have to think that basically we don't look in any of our investments just to today's price. So I would say that basically it would be some hundreds at the exploration level but not much. This over the EUR4.8b that was the CapEx estimate for the 2016.

Filipe Rosa - *Haitong Research - Analyst*

Sorry (multiple speakers). But in US you have some flexibility; you have some flexibility because you're saying that you are now about breakeven and the oil price in Q2 was higher than -- sorry in Q3 was higher than it is now. The Henry Hub was also higher than it is now. So you probably lose more money if you continue to invest there. So could you for instance cut your CapEx in US if there is this persistently low oil and gas prices?

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

We are reducing the number of rigs to one in Marcellus and to two in Eagle Ford. It's going to depend much on where the price goes. If it remains at this level we think that this is where we will keep working. If the prices -- and you are looking at a scenario totally different from the around \$50 we are in today, for sure we will modify that. But I was thinking more in this \$50 world in which we have projected our figures.

But you are right in a sense that if it goes to a really low, low level we'll take measures. Basically we're playing for cash, both in Marcellus and in Eagle Ford. So as mentioned in the strategic presentation, the production growth is not an objective anymore. So we will play for cash. But in that sense I mean that my perception is other than some exploration it would be only hundreds what we can reduce. Okay?

Filipe Rosa - *Haitong Research - Analyst*

Okay, thank you.

Miguel Martinez - Repsol S. A. - CFO

In relation with the asset divestment and feeling more pressure, I don't feel any pressure at all, believe me. I haven't -- we haven't started yet the period of the strategic plan and we have already coped with one-third of the divestments. So on average I'll have to divest something like EUR800m per annum, having a total capital employed of around EUR43b, EUR44b. We believe there's no -- I don't feel any pressure for the pricing backdrop.

And in relation with the chemical business, can you repeat the question please?

Filipe Rosa - Haitong Research - Analyst

Just for us to have an idea what could be your EBIT assumption in your plan, in your business plan, how much you are assuming in terms of contribution from chemicals. Because you spoke about the split between 60% market 40% your own homework, just for to have an idea -- okay, so in terms -- you made EUR200m in the quarter. So what could be your expectation for the EBIT of chemicals in for instance 2016? What are you incorporating in your business plan?

Angel Bautista - Repsol S.A. - Head of IR

Sorry, Filipe, but we don't give the split per business. So sorry about that and thank you.

Miguel Martinez - Repsol S. A. - CFO

I was going to tell you.

Filipe Rosa - Haitong Research - Analyst

Thank you, yes,

Angel Bautista - Repsol S.A. - Head of IR

Sorry about that, Filipe. I'm the bad guy, I know. Thanks, Filipe, thank you very much. Obrigado, muito obrigado. Now let's move to Hamish Clegg from Bank of America Merrill Lynch. Hi, Hamish. Go ahead please.

Hamish Clegg - BofA Merrill Lynch - Analyst

Hi, guys. I've just come back from the US and meeting a lot of US E&Ps who've been amazing me with the amount of efficiency gains they've managed to capture. I was wondering if six months in you could give us maybe a little bit of a guidance on what sort of efficiencies you're managing to get in your US onshore portfolio, maybe what some of the easiest wins are you're seeing and what the challenges are. Any color on average drilling days, length of laterals or down-spacing would be very, very welcome.

That was my upstream question. And then just in the downstream, looking at that chart where you showed us the real deltas between Q4 last year and where we are today, how much of that gain can we put down to the Brent Maya spread? I wasn't sure where the feedstock element of that came in that chart. Would it be in the refining bar or is it spread equally between some of them?

Miguel Martinez - Repsol S. A. - CFO

Starting with the second one, the Maya spread had opened up to \$14 and it's really [playing] the -- an important part of the margin in this quarter. We have moved from the driving season into the I would say winter season and the -- I think that we are going to depend much on the temperatures



for the year in relation with the spread about the diesel. Right now the whole margin is more or less at the same level we had in the third quarter with a small reduction during October due to the contango situation of the diesel. But it has recovered quite well.

So it's difficult for me to assess a percentage of it. But I would say an important part of it has been due to the increase in the spreads on heavy and light. Okay?

Hamish Clegg - *BofA Merrill Lynch - Analyst*

Okay.

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

And in the guidance in relation to efficiency, I would say that the first thing we have to assess, at least in my opinion, is to really gain efficiency in the Eagle Ford asset. Right now to have two operators in the same asset doesn't make much sense. So other than in operations I think that we should reach agreements with Statoil in order to really improve the area.

In relation with drilling, Angel is telling me that [33%] of improvement in drilling cost per foot is what we have obtained from 2014 full year to this quarter in 2015. I don't know if that's much help or not. Okay?

Hamish Clegg - *BofA Merrill Lynch - Analyst*

Yes, that's good. I think we've probably seen some US peers with that.

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

I'm sorry for not being able to be with you in Florida in the previous days because having the presentation of results just a day after it was difficult for me to move there. But next time I promise I will be there. Okay?

Hamish Clegg - *BofA Merrill Lynch - Analyst*

Always a spot. Thank you.

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

Well, that was Hamish Clegg from Bank of America. Now we're moving to Biraj Borkhataria from RBC. Hi Biraj, always nice to speak with you. Go ahead.

Biraj Borkhataria - *RBC Securities - Analyst*

Hi, guys. Thanks for taking my questions. I've got two. The first one on the downstream. Conversion utilization remains above 100% and has been for a few quarters now. So I was wondering what number is baked into your plan and how you -- what number should that be on a sustainable basis going forward?

And then the second one was on the portfolio as a whole. One of the historical problems with Talisman is that there are a large number of potentially suboptimal assets with subscale, and you said before that you may look at asset swaps to concentrate the portfolio. So I was wondering if you see -- are you seeing opportunities at the moment to execute these assets swaps outside of the Eagle Ford potentially? Thanks.



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

Well, I would say in relation with the first one we can work our conversion at 100% permanently, other than taking into account the maintenance, especially the pluriannual maintenance which in fact for the next year will have a -- Cartagena and Bilbao will have maintenance for -- basically for the cokers in both refineries and the idea is to work almost at 100%.

The assumptions in the strategic plan were that conversion will work at 96% in 2016 and for the rest of the year at 100%. And this 96%, as mentioned, is due to the maintenance, both in Cartagena and Bilbao.

And in relation with the suboptimal assets, we're looking to the market and we're permanently thinking on opportunities to really achieve this EUR6.2b of divestments, as well as optimizing the main portfolio. So I do not discard any transaction. But if there were any for sure I will not tell you. Sorry about that. Okay? But we look permanently and any option we have we are. Okay?

Biraj Borkhataria - *RBC Securities - Analyst*

Thanks, guys. Thank you.

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

Thank you, Biraj. Now moving to Thomas Adolff, Credit Suisse. Hi, Thomas, how are you? Go ahead please.

Thomas Adolff - *Credit Suisse - Analyst*

Thanks. Sorry I missed your strategy update. So I do have a few questions. The LPG assets, you've got some -- you sold some assets at very good valuation. Aside from those I wondered how much more of the EBITDA you consider non-core in the LPG business?

And a question on Alaska. You may have put out a press release, it might have gone into my spam, but \$750m is a good value for 15%. I wonder whether that's cash straight in or whether there's some form of structure around that and whether you can give some color on reserves, resources and commitments? Presumably Armstrong isn't just going to hand over \$750m and sit on it without it being developed.

Then a last one maybe. Since you started production on Cardon, payment-wise has that been going smoothly? Thank you.

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

Thanks, Thomas. In relation with the asset sold, we still have an extra 200,000 contracts to dispose. We are already working on those and probably we will add that to the transaction you just mentioned. But both -- I expect both to be closed in 2016.

Remember that we sold an 18% -- the asset sold implied an 18% of the total EBITDA generated by the LPG. Other than the pipelines, I consider the rest as a core business. So we'll keep the unit the way it is without the pipelines.

In relation with Cardon, is this running smoothly. Yes, we had a minor incident in August but it's running smoothly and we expect to increase production up to 400m cubic feet a day by the year end. So everything is working smoothly.

Thomas Adolff - *Credit Suisse - Analyst*

I was referring to payments.



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

Yes, we have received payments. July and August have been paid and we're expecting September. So no problem at all and the contract also was a favorable one. The final agreement reached with the authorities was a good one. So no major deals -- no major problems on it.

And in relation with the resources, we have announced [100]. We haven't split much but if you want through IR they will provide you some more color. Okay, Thomas?

Thomas Adolff - *Credit Suisse - Analyst*

Thanks. Just a quick one on the LPG again, just to clarify. You said apart from what you've announced so far you're not going to sell more of the LPG business or you said there is going to be another 200,000 contracts to be sold?

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

I would say that yes we're going to sell the rest of the contracts linked to the pipelines.

Thomas Adolff - *Credit Suisse - Analyst*

Okay got it. Thank you.

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

You're welcome, Thomas.

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

Thank you very much, Thomas. Now it's Lydia Rainforth from Barclays. Lydia, good to speak with you again. Please go ahead.

Lydia Rainforth - *Barclays - Analyst*

Thanks, Angel, and good afternoon. Just two questions actually if I could. Can I get you to come back to the non-upstream Talisman or non-Talisman upstream performance? Because even if I adjust for the exploration and the deferred tax impact, it still looks like the core Repsol business lost money (inaudible) Talisman. Can you just talk through a little bit more detail around that and where the biggest area for concern actually is?

And then the second was a very, very quick question just as to where you're seeing the indicator refining margin right now? Thank you.

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

Thanks, Lydia. The second one is easy, 8.8 as of today as index. So we are back on track with the margins we had in the third quarter. October was a little weaker due to the diesel situation of high contango and we reached \$7 on index in October. But we are back to the high 8s, lower 9s in November.

And in relation with the non-Talisman upstream performance, I would say that -- you were asking me, Lydia, about the comparison with Repsol assets or Talisman itself?

Lydia Rainforth - Barclays - Analyst

So if I take out Talisman and if I just go back to what you would have had just as standalone Repsol without Talisman, even if I add back the exploration charge and the deferred tax charge, it still looks like that business lost money in the existing environment. And I'm just wondering if there's a particular area that concerns you, be it Venezuela or one of the other areas, or whether there was anything unusual during the quarter.

Miguel Martinez - Repsol S. A. - CFO

Well, at operating level we have EUR395m negative result for the whole division. If I reduce that figure by the EUR266m of exploration I ended up with something like EUR130m of losses. Okay?

Lydia Rainforth - Barclays - Analyst

Yes.

Miguel Martinez - Repsol S. A. - CFO

From this EUR57m is I think the figure of Talisman. So Repsol assets have been around EUR63m. Taking into account that we are a little larger in barrels produced than them I think that we are more or less even on that. And if I have to mention areas of concern I will say those that are more sensitive to the oil and gas prices. In that sense, I would say that Trinidad, Venezuela are areas of higher sensitivity than South East Asia, to say something. But on the quarter I didn't perceive -- if I move the figures through the operating results I see more or less a similar behavior from both the assets of Talisman and those of Repsol. Okay Lydia?

Lydia Rainforth - Barclays - Analyst

Perfect. Thank you very much.

Miguel Martinez - Repsol S. A. - CFO

Thanks for the questions.

Angel Bautista - Repsol S.A. - Head of IR

Now we're moving to Matt Lofting from Nomura. Hi, Matt. How are you today? Please go ahead with your questions.

Matt Lofting - Nomura - Analyst

Hi, thanks, Angel. I'll limit myself to one question actually. Miguel, can I just ask about the exploration activity going forward and specifically the exploration expense line, I guess partly following up from Lydia's question. You talked I think earlier about the expectation of lower risk, lower cost program going forward. I guess though the exploration expense write-downs that we continue to see coming through the P&L are chunky again in Q3. Can you just confirm how you see that expense line trending going forward and whether there's any other similar to Angola high cost work in progress asset sitting on the balance sheet that you see significant risk of needing to write down over the next few quarters? Thanks.

Miguel Martinez - Repsol S. A. - CFO

Matt, I would say that we still have some commitments that we have to go through and talking about those high risk I would mention that we have a commitment with E&I in Angola for the next year. Other than that, we have a commitment as well in Bulgaria, but it's not I would say a very expensive exploration program there. And finally the rest is onshore Colombia which will not be that expensive. And then we have lower risk in Vietnam, Malaysia and Indonesia.

So basically we are moving, as it was a sign in the strategic plan, to lower risk exploration programs. And also we're reducing, as mentioned before, from the \$9.3 per barrel produced at risk in exploration down to \$3.2. So I think that we are in line with the strategic plan. Other than the commitment with Angola I don't see any major risk in front of us for the following quarters.

Matt Lofting - Nomura - Analyst

Okay perfect. Thanks a lot.

Miguel Martinez - Repsol S. A. - CFO

You're welcome.

Angel Bautista - Repsol S.A. - Head of IR

Thanks Matt. Now Jon Rigby from UBS. Hi, John, good to speak with you again. Please go ahead please.

Jon Rigby - UBS - Analyst

Hi Angel. Miguel, can I ask a question about Brazil, and there's two related questions actually. The first is if I look at the cash and receivables that you have sat in there that come from the original relationship, it looks to me that they're actually starting to rise a little bit. So is it right to infer from that that Brazil is effectively self-funding? And in which case I guess that begs the question is there a mechanism that's starting to become relevant about clearing some of that cash back to Repsol itself and what that mechanism is.

And the second is, related to that, if you were to look to try as part of your disposal program to sell anything in Brazil or farm down, is there an issue with that between yourself and a third party with your existing partner that would complicate the structure of any disposal or sell-down? Thanks.

Miguel Martinez - Repsol S. A. - CFO

Thanks, Jon. If you remember, when we -- when Sinopec entered in Brazil it was through a capital increase. So basically we really have cash to self -- Brazil will be for sure self-funding, quite relaxed, in a quite relaxed mood I would say.

The truth is that we don't need any claim cash back there. We already have -- both partners have a percentage of the excellence we have of the cash we have in Brazil and each of the partners have their right to their percentage, 60% in our case, 40% for the Chinese. So we don't need a claim to cash back because we already have the cash of the 60% of excess that we have there.

And in relation with the second one, well actually we'll have to look at any type of transaction. If Sinopec are with us and they want to sell combined, that wouldn't be any problem. If not, we'll have to analyze it. But for sure it's by far more complex when you have a partner within a company than when you are in a standalone basis. So I would say yes, it will complicate the structure of the disposal.



Jon Rigby - UBS - Analyst

Just one other follow-up if I could from a previous question. I think we discussed the Angolan commitment wells at first quarter and I think you said then that the final well was at the partner's discretion to drill. Is that still the case? And is it absolutely certain that you have to drill the final well?

Miguel Martinez - Repsol S. A. - CFO

No, the anyone it's -- I mean the E&I will is a committed one. In other of the areas we had the option to have a discretionary one but this is totally -- it's committed.

Jon Rigby - UBS - Analyst

Okay, all right. Thanks for the clarification.

Miguel Martinez - Repsol S. A. - CFO

Thanks, Jon.

Jon Rigby - UBS - Analyst

Thanks.

Angel Bautista - Repsol S.A. - Head of IR

Thank you, Jon. Now let's move to TPH, David Gamboa. Please go ahead with your question.

David Gamboa - Tudor Pickering Holt - Analyst

Hi, Angel, hi, Miguel. Thank you. I just have one quick question on the operational side.

Angel Bautista - Repsol S.A. - Head of IR

Sorry, can you speak a bit louder?

David Gamboa - Tudor Pickering Holt - Analyst

Yes, is that better? Can you hear me better?

Angel Bautista - Repsol S.A. - Head of IR

Yes, much better.



David Gamboa - *Tudor Pickering Holt - Analyst*

All right. Sorry about that. Just one question on the operational side in the upstream in Brazil. I just wanted to know if you can give an update on the situation at BMC33. We saw the last appraisal of the oil discovery there was a bit gassier and actually flowed a bit of condensate as well. So, I just wanted to know about your updated thoughts of the discovery over there and if that impacts any potential timing on the FID? That will be it. Thank you.

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

Well, taking into account the size of the project, timing is not an issue. First comment. So we'll see and we have to agree with our partners where to go. I think that there was a lot of condensate. We're talking something like close to 200 or 180 bottles per million standard cubic feet of condensate. So we don't see a major problem there, though it's true, your comment, that the discovery was gassier and we have to think of it.

In front of us we have at least two years of appraisal before taking any final decision about Campos 33.

David Gamboa - *Tudor Pickering Holt - Analyst*

That's very clear. Thank you.

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

Thank you very much, David. Now we move to Irene Himona from Societe Generale. Hello, Irene, how are you? Go ahead with your questions.

Irene Himona - *Societe Generale - Analyst*

Hi Angel. Thank you. Miguel, I had two questions please. Firstly, obviously the CCS adjusted tax rate is a little bit complicated by the effects of the currency devaluations. I just wondered if you can give us your best estimate for full year 2015 CCS adjusted tax? And then perhaps for 2016, 2017 under your \$50 scenario?

And my second question is on the balance sheet. Obviously this is -- Q3 is the first full quarter with Talisman and you show a goodwill of EUR3.2b at the end of the quarter. I notice that this is 16% higher than the EUR2.8b goodwill at the end of June. But of course in June you had already consolidated Talisman. So I wonder if you can please explain where the goodwill increase has come from. What has changed between June and September? Thank you.

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

I'll start with the second one. That seems easy to me. When we change the price deck, something that we did in October, we have to reanalyze all the impairments of all the assets, both Repsol's and Talisman. The accounting rules allow you to have a year before finally closing the PPA. So what we did was really reanalyze all the Talisman assets with the new price deck and instead of the \$2.6b we have accounted as goodwill at the end of the second quarter we ended up with \$3b by the end of this quarter. So we have increased the goodwill in \$400m.

And in relation with the devaluation and tax rate estimates, I would say the tax rate for the year -- our best estimate today is going to be a little below 40%, so 39% -- between 39% and 40%. And in relation with 2016 and 2017, I don't have the figure at hand but basically if you take the rule that we move from 25%, around 25% at the downstream level and at the upstream for sure, depending on Libya it will vary, but something around 40%, 45% would be the figure for the upstream.



That's one of the reasons why this quarter has been really strange because of the currency devaluation which has impacted in \$127m due to the valuation basically in Brazil. But this is the most color I can provide you. If you want, Angel will provide you with the tax rate we have been using for the whole strategic plan on a yearly basis. Okay?

Irene Himona - *Societe Generale - Analyst*

Thank you very much, Miguel. Thank you.

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

You're welcome, Irene.

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

Thank you, Irene. And now moving to Alastair Syme from Citi. How are you Alastair? Good to speak with you again. Go ahead please.

Alastair Syme - *Citigroup - Analyst*

I'm good, Angel. Thank you very much. Can I just ask -- I think Thomas asked a question on the Armstrong deal but I'm not sure that we got an answer. Can we just clarify a bit the mechanics of that deal and is the \$750m relating to the 15% or is it for the option as well? Thank you.

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

It refers to the 21% and it's \$750m which is the carry that was pending on our side. Okay?

Alastair Syme - *Citigroup - Analyst*

Okay so cash in is (multiple speakers).

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

It's (multiple speakers) cash out. Put it that way.

Alastair Syme - *Citigroup - Analyst*

Okay. And just in terms of the resource base that you have in Alaska then?

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

Well, as mentioned, Angel will provide you some color about the reserves base. We have been talking in our press release about hundreds but Angel will let you know better. Okay?



Alastair Syme - Citigroup - Analyst

And finally, can I just quickly come back to your prepared remarks where you were summarizing the strategy presentation. You made a comment on the scrip dividend. Can I just clarify what your view is on moving to a point of getting rid of the scrip? Thank you.

Miguel Martinez - Repsol S. A. - CFO

I would say that for us the base is investment grade. So if we reached the comfort zone which to me it's the BBB, medium range of the BBB, I think that then there would not be any reason to maintain the scrip dividend. We don't think we're going to reach that level in the first two years so we'll keep the scrip for the first two years and then if the conditions are there and our level is a balanced or a stable BBB we will erase the scrip dividend.

Alastair Syme - Citigroup - Analyst

Thank you very much.

Angel Bautista - Repsol S.A. - Head of IR

Thanks a lot, Alastair. And now we have Nitin Sharma from JPMorgan. Hi, Nitin, how are you?

Nitin Sharma - JPMorgan - Analyst

I'm good thanks. Afternoon, gentlemen. Two questions if I may. First on downstream, the contribution from petrochemicals business has been particularly strong. So maybe you could give us some color on the outlook for this business and an update on what sort of self-help measures have helped you improve the profitability of this business?

Second, more a clarification, this is in relation to divestment target of EUR6.2b. Is it fair to say that you still see potential to meet this target even under your \$50 oil price scenario, given that you suggest that you'll rely on non-oil assets if oil price remains low? Thank you.

Miguel Martinez - Repsol S. A. - CFO

Well, in relation with the first one, I think that Angel already kicked again my leg so I cannot disclose more. Sorry about that.

In relation with the second one, the answer is yes. I think that the EUR6.2b didn't include any net gain. With the first EUR2b including -- and I'm including something that has not been yet signed which is the last part of the pipeline gas, we will obtain all in EUR700m of net gains. So for the rest EUR4b I really have a -- it's not that difficult to really fulfill the EUR6.2b. And if you look at the past you will see it clearly. In the last three years for different reasons we divested more than EUR10b, EUR4.5b in the LNG business in a good moment and EUR6.3b from Argentina.

So -- and even without starting the 2016-2020 period we already have EUR2b. So I don't see any problem at all to really obtain the extra EUR4b that are needed, even in a low scenario.

Nitin Sharma - JPMorgan - Analyst

Thanks.

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

Thank you very much, Nitin. Well, with this we have finished Q&A session of our third quarter 2015 results. You know that any further queries, clarifications you may need, the IR relations -- Investor Relations department of Repsol is entirely at your service. Have a nice day. Cheers. Bye.

Operator

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

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