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# EDITED TRANSCRIPT

REP.MC - Full Year 2013 Repsol SA Earnings Conference Call

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## OVERVIEW:

REP.MC reported full-year 2013 CCS adjusted net income of EUR1.8b and 4Q13 CCS adjusted net income of EUR251m.



## CORPORATE PARTICIPANTS

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

**Antonio Brufau** *Repsol SA - Chairman and CEO*

## CONFERENCE CALL PARTICIPANTS

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

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

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

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**Lydia Rainforth** *Barclays - Analyst*

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**Luis de Toledo** *BBVA Global Markets Research - Analyst*

**Matt Lofting** *Nomura - Analyst*

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

## PRESENTATION

### Operator

Good day and welcome to the Repsol fourth-quarter and full-year 2013 Preliminary results conference call. Today's conference will be led by Mr. Antonio Brufau, CEO of the Company. A brief introduction will be given by Mr. Angel Bautista, Director of Investor Relations.

Please, Mr. Bautista, go ahead.

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### Angel Bautista - Repsol SA - Director of IR

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 taking the time to attend this conference on Repsol's fourth-quarter and full-year results, where we will also give an outlook for 2014.

This presentation will be conducted by Mr. Antonio Brufau, our CEO. 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. Recent results may differ materially depending on a number of factors, as indicated on the slide.

I now hand the conference over to Mr. Brufau.

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**Antonio Brufau** - *Repsol SA - Chairman and CEO*

Thanks, Angel. Thank you for attending this conference where we'll discuss our fourth-quarter and full-year results, review the main events which marked 2013, and give a general overview of what to expect in 2014.

I will be addressing four topics during the call. First, the settlement with the Argentinean Government for the expropriation of YPF; second, the main events of 2013 marked by the delivery of the objectives of our strategic plan released in May 2012; third, the quarterly and full-year results; and fourth, an outlook for the year 2014.

Yesterday, the Board of Directors of Repsol approved the terms and conditions of the settlement with the Republic of Argentina, which includes a compensation for the 51% stake of YPF, and the 51% stake of YPF Gas expropriated in April 2012.

The terms and conditions were approved after a formal internal analysis with the advice of independent experts. The settlement between the Republic of Argentina and Repsol consists of the recognition by the Republic of Argentina of a debt to Repsol amounting to \$5 billion.

The Argentinean Government will deliver Argentinean sovereign bonds, with a face value of \$5 billion. One of these bonds to be received carries \$500 million of capitalized interest. If the market value of these bonds does not reach \$4,670 million, the Argentinean Government will deliver additional bonds with a limit of \$1 billion. These bonds have an average interest above 8%, and will deliver a financial income between \$400 million and \$500 million a year in case Repsol decides to keep them.

Repsol is free to sell these bonds in order to monetize this agreement, with a limit of the \$5 billion debt recognized by the Republic of Argentina. The bonds will be delivered to Repsol pro solvendo. This means that the debt of the Republic of Argentina will not be considered settled until the amount has been fully paid by the sale of the bonds, or by any other transaction which transfers the property of the bonds, or the regular principal payment and maturity is collected.

As a final guarantee, the Republic of Argentina recognizes that the compensation and the bonds used as payment of the compensation cannot be restructured while owned by Repsol, including any change in the agreed currency of reference.

The agreement includes the withdrawal by both parties of all judicial and arbitration actions, and the parties waive the right to any future claims. Moreover, the settlement will be protected by the bilateral investment treaty between Spain and Argentina; and if the Republic of Argentina fails to make any payment of any amount due under the bonds, Repsol will be entitled to accelerate maturity and claim full repayment of all outstanding bonds up to \$5 billion in a specific arbitration conducted in accordance with the United Nations Commission on International Trade Law Regulations.

This settlement must be approved by the Honorable Congress of the Republic of Argentina. It will also be submitted for approval by the Repsol's Annual General Meeting. All the details can be found in our official notice released yesterday afternoon. We estimate that the whole process will be completed in May.

Now let us explain the rationale of this settlement. Since the expropriation of the stakes in YPF and YPF Gas, Repsol filed all necessary legal actions to protect its rights from what we consider an unlawful act of the Argentinean Government. However, Repsol has always expressed its willingness to speak to the Argentinean Government in order to reach an agreement that could be satisfactory for all the parties implied. We have succeeded in making it happen in order to return the lost value to our shareholders. This is a fair and reasonable agreement which we believe avoids the normal [intensity] of a long litigation process, and returns value to our shareholders after expropriation.

As a consequence of the terms and conditions of settlement, Repsol has decided to book a provision of EUR1.3 billion after tax in the discontinued operation results. Likewise, we no longer have any legal constraints to keep the remaining 12% stake in YPF. Therefore, we will analyze all available options.

This settlement enhances our sound financial position together with the proceeds of the LNG disposal and the option to potentially sell the remaining 12% stake in order to continue our sustainable path of growth in the upstream business.

We hope that, with the help of these positive steps, Argentina finds the path to prosperity, growth and energy independence.

Now turning to the operational activity of the core business of the Company. During 2013, we have been delivering the objectives of our strategic plan presented in 2012. In the upstream, our growth engine, we achieved an increase in production of 4% compared to 2012, reaching an average level of 346,000 barrels of oil equivalent per day, thanks to the delivery of the key growth projects in our strategic plan that has started production during 2012 and 2013, even after suffering disruptions in Libya.

With Libya at normal levels, the growth in production would have reached 8%. The projects that came on stream during 2013 that contributed to this year's growth are, in Brazil, Sapinhoa, where we began production in January. The first well is behaving very promisingly, producing more than expected. Last week, we connected the second well, and it is producing right now 33,000 barrels per day. The next two wells are expected to be connected in March and in May, with the first FPSO reaching plateau by June.

The second FPSO is already in Brazil and will be producing and ramping up before year's end. The net contribution of Sapinhoa during 2014 to the total production will be around 15,000 barrels of oil equivalent per day compared to an average production in 2013 of 4,000 barrels of oil equivalent per day.

In Russia, the SK field has been in production since February. In the United States, we have continued with the development of the fields in the Mississippian Lime. In Bolivia, the second phase of Margarita-Huacaya project came on stream at the end of September, one month ahead of schedule and on budget.

Another piece of good news coming from Brazil is that we have submitted at the end of 2013 the declaration of commerciality of Lapa, formerly Carioca, confirming the great potential of the BM-S-9 block in the Brazilian pre-salt. We expect to have first oil by the second half of 2016.

Regarding our reserve replacement ratio, we achieved 275%. This year is the fourth year in a row in which we surpassed our target of 120% per year in average during the period 2012-2016, cementing our future growth beyond this period. We ended 2013 with more than 1.5 billion barrels of proven reserve, increasing substantially the reserve life of the Company.

Turning to our exploration activity, we were able to add more than 300 million barrels of oil equivalent to our contingent resource base, surpassing the target of the strategic plan. During 2013, 24 wells were drilled, and nine of these wells located in the United States, Brazil, Colombia, Algeria, Libya and Russia, were positive, and one of which is currently being tested.

In relation to exploratory acreage, we have acquired additional acreage in order to secure a sustained future growth. We have strengthened our portfolio by acquiring more acreage in OECD countries such as Canada, the United States, Portugal and Norway, opening further [coverage] opportunities, mirroring the Perla play in Aruba and Colombia; moving into new acreage in West Africa, in Namibia, and working on final negotiations in Gabon to take advantage of our pre-salt expertise.

These new areas comply with the stated strategy of building a balanced portfolio with more oil concentration and focus on our geological expertise.

Moving to the downstream division, despite having the toughest macro environment in recent years, we were able to maintain a positive free cash flow. We achieved positive results in all of the quarters, confirming the resilience of our advanced system, thanks to the upgrade in our refineries and our commercial strength.

In refining, we saw a decrease in margins from \$5.3 per barrel in 2012 to \$3.3 per barrel in 2013 due to the general weakening of the spreads of products, mainly middle distillates, partially offset by lower energy cost and the opening of the light heavy crude oil differential.

The premium obtained in the whole system, thanks to the upgrade of Cartagena and Bilbao, rose from \$1.6 to \$2 per barrel. The decrease in margins was compensated by the increase in the distillation capacity utilization from 74% to 78%, and the increase in the utilization of our conversion units from 90% to 99%, allowing us to almost reach the break-even point in 2013.



Regarding our petrochemicals division, we again had a difficult year, mainly due to maintenance activity in the Tarragona plant, the most profitable site in our petrochemical business. During the outage, which has to be done every five years, we took the opportunity to change the turbines of the cracker in order to increase the efficiency and improve future margins. In September, we approved a plan for the coming years to allow the chemical business to reach the break-even level, even in a low-margin environment.

During 2013, our commercial business continued to show their strength, supporting our results. During the course of the year, we have seen a change in the trend of continuously declining sales, especially in middle distillates. In the second half of the year, on the one hand, the drop in sales in our service stations has slowed, and on the other hand, the sales in our wholesales division is starting an encouraging recovery. This is the first year since the crisis started that we see an increase in total sales.

Turning to our LNG business, in January, we completed the disposal of our LNG asset to Shell, as planned. With this agreement, we received \$4.3 billion in cash; \$4.1 billion from the sale of assets to Shell, and \$200 million from the sale of BBE to BP; and transmitted \$1.7 billion of financial leases. The effective date of this transaction was September 30, 2012, and the final closing date, January 1, 2014.

The transaction has generated approximately \$2.9 billion in profit and capital gains after tax booked in the following way. \$831 million of net operating income during the fourth quarter 2012 and the year 2013; \$1,640 million as net capital gain in December 2013; and \$448 million to be booked in January 2014.

At the same time, in line with the Company's policy of financial prudence, we adjusted the book value of the North American assets with a provision of \$1.5 billion after tax in the fourth quarter of 2013. I would like to highlight the good performance throughout the year of our North American assets, which were not included in the transaction, mostly due to the long-term purchase in North America.

During the first quarter of 2013, the impact of bad weather allowed us to achieve very good results, and the same has happened this January. We continue to work on optimizing these assets and on bringing optionality in order to maximize the value of this business. We also want to highlight the sale at the beginning of the year of our treasury shares amounting to 5% to Singapore's Temasek, which has now a seat in our Board of Directors.

Moving to our financial situation, it remains very sound. At the end of 2013, our net debt plus preferred shares stood at EUR5.4 billion ex-Gas Natural Fenosa, representing a reduction of EUR2.1 billion as compared to 2012, mainly due to the LNG business disposal. This net debt will reduce by EUR0.5 billion, with the proceeds paid in January 2014 due to that disposal. Our liquidity position now stands at EUR9.3 billion, which covers our short-term debt 2.7 times.

Let me start now with the results. Fourth quarter 2013, CCS adjusted net income was EUR251 million, and CSS adjusted operating income was EUR604 million. These results were 51% and 43% lower respectively compared to the same period of last year.

2013 CCS adjusted net income was EUR1.8 billion; and CCS adjusted operating income was EUR3.7 billion, 7% and 14% lower compared to the same period of last year.

In the upstream business, the adjusted operating income for the quarter was EUR211 million, 57% less than what we obtained during the same period of previous year. This decrease is mainly due to the production disruptions in Libya which could not produce for 64 days in the quarter, and which affected the operating income by EUR166 million.

Additionally, the increase in exploration costs has an impact of EUR159 million. This increase is a consequence of the positive news about the Declaration of Commerciality of Lapa, formerly Carioca, and the decision to exclude our Abare, Abare West, Iguazu, and Iguazu Mirim from the development plan.

Offsetting these effects, we had lower amortization costs due to the reduction of production, mainly in Libya, and in Trinidad and Tobago, with a positive effect of EUR49 million, and better gas realization prices, with a net positive effect of EUR16 million. The remaining differences I'll explain by the depreciation of the dollar and other minor effects.



In the LNG division, the adjusted operating income was EUR218 million (sic - see results, "EUR219 million"), a 99% increase compared to the same period of last year. The increase in results was mainly due to the higher margins on volumes commercialized during this period. The income of our North American business increased as a consequence of the cold weather, delivering a positive result of EUR35 million in this quarter.

In the downstream business, the CCS adjusted operating income was EUR18 million, 94% lower than in the fourth quarter of 2012. We remained profitable in the worst macroeconomic scenario since the refining low cycle at the European crisis started.

The decrease in results arises mainly from the refining businesses due to lower margins. Our margin indicator stood at \$4.1 per barrel versus \$6.3 per barrel in the same quarter of last year, combined with a low utilization rate of 72% versus 83% due to maintenance. Both effects caused a negative impact of EUR207 million in the operating result. The premium margin due to the upgrades reached \$2.7 per barrel during the quarter, and the utilization rate in the conversion units was 94%.

Our chemical business had negative results due to the maintenance work in the Tarragona plant, the most profitable site in our petrochemical business. This outage, which reduced the utilization and increased the cost of the division, has to be done every 4 years (sic - see Results, "5 years"). Nevertheless, during the outage, we took the opportunity to change the turbines of the cracker in order to improve the efficiency and improve future margins. The maintenance negative effect was partially offset by an improvement in margins geared to a reduction in the price of the naphtha. These two effects caused a negative impact of EUR48 million.

Our commercial business maintained a very healthy level of profitability quarter on quarter, thanks to the increasing sales volumes for the first time in years, which shows the formation change in the trend.

To finish with the quarterly results, in Gas Natural, the adjusted operating income of EUR208 -- EUR210 million was 7% lower than during the same period of the previous year. The decrease is due to lower results in the electricity business in Spain, affected by fiscal measures and the new regulation adopted in July 2013.

We want to remind you that this year, we will start booking our stake in Gas Natural Fenosa as an equity investment due to changes in the accounting rules.

Moving to the 2013 cumulative annual results, I said before 2013 CCS adjusted net income was EUR1.8 billion, and CCS adjusted operating income was EUR3.7 billion. These results were 7% and 14% lower respectively compared to the previous year. If Libya had been at normal levels, the CCS adjusted net income of 2013 would have been higher than in 2012.

In the upstream business, the adjusted operating income was EUR1.8 billion, 22% lower than what we obtained during the previous year. We had good news thanks to the startups of the key growth projects in Brazil and Russia, (sic - see slide 23, "Brazil, Russia and Bolivia"), the new production coming from our projects in the United States, Spain and Bolivia (sic - see slide 23, "USA and Spain"), and the better results in Trinidad & Tobago.

This higher production could not completely offset the disruptions in output in Libya of around 100 days during the year, the increase in exploration costs, and the depreciation of the dollar.

In the LNG division, the adjusted operating income in 2013 was EUR829 million, 55% higher than 2012. This increase is due to better margins and higher volumes commercialized during the year, and lower transportation cost in North America. The income attributable to our remaining businesses increased mainly due to higher LNG margins in North America, with a remarkable operating result of EUR185 million for the year.

In the downstream business, the CCS adjusted operating income was EUR491 million, 47% lower than in 2012, but is still healthy given the tough environment. The decrease arises mainly from the refining business due to a lower margin indicator of \$3.3 per barrel versus \$5.3 per barrel in the previous year, partially compensated by a higher utilization rate of 78% versus 74% in 2012. The premium on the margin from the new unit reached \$2 per barrel during the year, and the utilization rate in the conversion units reached 99%.



In our chemical business, as explained before, the effect of outing our plant in Tarragona during the fourth quarter mainly impacted the full-year results by EUR50 million, reducing also the utilization rate and increasing the maintenance cost.

Moving to the commercial business, we were able to deliver similar healthy results to 2012 mainly due to higher volumes in our wholesale division, as explained earlier.

To end with the cumulative annual results in Gas Natural, the adjusted operating income of EUR925 million was at the same level as 2012.

I would like to cover now our outlook for 2014.

In the upstream division, we expect to increase production over the 7% compound average growth rate guidance presented in our strategic plan, depending on the production in Libya. We expect to add during 2014 new barrels coming from Sapinhoa which will have a positive impact on profitability, SK and Mississippian Lime. We also expect to put Kinteroni on stream soon. At the end of the year or beginning of next year, we expect to add the production from Perla, Cardon IV.

As presented in exploration day back in January, our exploratory activity in 2014 will include 31 wells, comprising 7 appraisals. 65% of investment will target oil, and around 70% of the total budget of \$1.3 billion will be spent on drilling. That means that we will continue investing heavily in exploration and risk, with the exploration CapEx per barrel produced above the industry average.

From lower to higher risk, this activity would be as follows. In Brazil, two appraisal wells that are currently being drilled, Seat 2 and Pao de Acucar 2 in Campos 33.

Low-risk exploratory areas, such as Libya, Alaska, with a fair winter campaign currently being [carried], with three wells being drilled right now; Gulf of Mexico, with the Buckskin 2 appraisal well and the Leon exploratory well; Romania, Algeria, and testing the boundary of the basin in Kurdistan where we are also drilling a well now.

Following our success in 2013, we will continue our intense exploratory activity in Russia. In Colombia, we will start drilling activity, extending our Caribbean play from Venezuela.

Mix plays in OECD countries like Norway and Canada, using the [Rowan Renaissance] rig, we'll explore Namibia and Angola, and contingent to the timing of the final permit, the Canary Islands. And also, in West Africa, we will explore in Liberia and onshore Mauritania, where the well planned for this year is currently being drilled.

Turning to our seismic activity, we have already started the exploratory seismic campaigns in Bulgaria and in Guyana, and developments since we campaigned in Venezuela, Algeria and in Campos 33 in Brazil.

In our LNG asset in North America, we will continue with our efforts to optimize the operation of Canaport and maximize their profitability of their North American gas commercialization to achieve the break-even level in 2014.

In the downstream division, we expect to maximize the capacity utilization of our conversion units and to reduce the energy costs of our industrial businesses.

We are optimistic that the positive evolution of Spain's macro indicators will translate into a further evolution of the retail division results, which will continue at the same level of operating results, with very low investments.

We also expect an improvement in the European refining sector within this year thanks to wider heavy light crude oil spreads due to the lower demand of Latin American heavy crude by the North American refiners that will bring also a reduction on the imports coming from the United States to Europe; a new maritime fuel regulation that will increase the consumption of diesel; and further [pleasures] of spare capacity.



All these effects will help us to improve our results in refining, allowing us, along with our profitable commercial businesses, to continue to free cash flow to self finance our upstream growth.

The estimated margin indicator needed to achieve a break-even level in this year's operating income is \$3.3 per barrel with an exchange rate of \$1.3 per EUR1, and around an 80% of utilization rate. At the EBITDA level, such break even is \$1.5 per barrel.

In the chemical business, we expect results from our product differentiation and efficiency programs in order to reach at least the break-even level. All these measures will bring a better optimization of the integration all along our downstream value chain. We expect also to receive the same dividend flow from Gas Natural Fenosa.

Moving now to the CapEx. We will invest EUR3.6 billion in our businesses this year. 75% of our investment will go to upstream. This figure includes their formation, \$1.3 billion in exploration, and the rest will be used in the development of the key growth projects and the rest of our [producing] assets. And 22% will be intended for the optimization and maintenance of our downstream assets.

We are going to continue with our objective outlined in our strategic plan of divesting non-strategic assets, as we did at the end of January this year, announcing the disposal of our 10% in TgP in Peru, with an estimated net capital gain of \$75 million.

We will continue our efforts to reshape our portfolio as we have been doing in the last years. We're balancing our capital employed into a more OECD/non-OECD balanced level.

In conclusion, we face 2014 and the rest of the decade from a very strong and optimistic ground. Once we have settled our dispute with the Argentinean Government over the expropriation of YPF, we now find ourselves financially very sound and with flexibility to continue growing steadily, with the opportunities in the upstream businesses, and with resilient downstream assets.

Even in the current juncture, we are succeeding in reshaping the Company with a clear strategy, diversifying our portfolio and delivering steady growth from our upstream division, which continues to perform above the industry average, and with the above-mentioned strong financial position which supports current and future projects ensured by a constant and dynamic exploratory activity.

With the formation growth, we will continue our efforts to increase the value for our shareholders.

Thank you very much. We will now be pleased to answer any questions you may wish to ask.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions).

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### Angel Bautista - Repsol SA - Director of IR

Thank you very much. Let us move to the Q&A. Just a reminder; we have also enabled a chat in the webcast in order to pose questions in the event there are connection problems on the call. You may identify it by a tab called ask a question. We will address these questions at the end.

Bruno Silva, BPI.





**Bruno Silva** - *BPI - Analyst*

Congratulations for the deal achieved in Argentina. I have a couple of questions regarding the implications of this agreement, particularly if you could provide more color on how you see your credit rating evolving and in terms of possible consequences in terms of shareholder remuneration.

It's certainly positive, the announcement of the up to EUR500 million buyback, but it may seem a little bit conservative considering the interest coupon and the proceeds from repayments and possible bond sales, as you have mentioned.

So could --? Are you ready to assume a longer-term commitment in terms of the buyback program or an increase in regular cash dividend? Or are you going to primarily allocate it to the balance sheet to leverage and reinvestment? And related with that, if you don't mind, is there any pending hurdles for placing as soon as possible the current position in YPF?

The second question, if I may, on chemicals. Is the Tarragona cracker --? I didn't understand if the Tarragona cracker is already at full capacity for the whole of the first quarter this year. And if not, should we expect a similar dollar impact in this first quarter versus the fourth quarter last year?

And finally, you are going ahead with exploration in Libya. The production is still disruptive. Just by analogy, if we are going to see more instability in Venezuela, and I understand this probably falls in the category of non-diversifiable risk, but is there any contingent plan that Repsol could be considering to approach these kinds of risks?

Thank you very much.

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**Antonio Brufau** - *Repsol SA - Chairman and CEO*

Thank you, Bruno. The first thing is about YPF and the implications with the credit rating and the shareholder remuneration.

About the credit rating, we see that this is good news for the rating agencies. We see improvements in all lines of the analysis. Obviously, they will have to decide, but we do think that even though they may not consider the bonds as cash, they will have to consider the interest as income. Then I'm totally convinced that this is going to be positive in the credit rating results.

Obviously, in the case of the shareholders' remuneration, we have a buyback program of EUR500 million. That is slightly lower than 50% of what we think it's going to be, the scrip dividend for this year to come. While this is the first time we do that, we try to be very conservative, we want to see -- we are going to do that. And one day after the discussions we had yesterday in the Board, all the [shareholders] agree that that was a good policy; dilution would be reduced significantly, and based on the experience of the previous cases, that is almost 70%/80% of the total capital increase thanks to the scrip dividend.

Therefore, what is important is that we should not become crazy. And even though we have a better liquidity position, and we will obviously through the monetization of the bonds, we have to be very sound and very prudent financially talking. And then let us start with this EUR500 million capital reduction program and we will see next year.

In terms of the chemical business, the cracker started full operation January 20, I think, or around January 20. And I would say that what we see today from January and February is that the chemical business is performing very well. And I would say that during these two months, we have been working almost at break even. We get significantly better than what we -- than what happened last year.

Our plans, as I said in my speech, are that -- and our goal, and this is a very tough goal, but we are going to get it, I'm sure, is that at least being break even this year, assuming that still we have difficult times, and just going better in the years to come.

And I think that what I have seen up to now is that we are seeing the results of all the things that we have modified during last year; and with the Tarragona changes, etc., and with the propane use -- with the raw material being used in the crackers that are reducing the cost of [energy]. Therefore, I am quite optimistic in the chemical business.



Libya and Venezuela are two different things. In Libya, as of today, we have lost something like 15 days of operation up to now. I hope that this is -- the situation there is instability. I would consider that civil instability, not an instability with a risk of our assets suffering, etc.

There are a lot of discussions between the tribe there in our fields with the national authorities. Our understanding is that they are just trying to get the Libyan nationality, and that debate is just now taking place between the national authorities and the tribe authorities, the two [RX].

Obviously, they use our assets there as a way to influence or to push the Libyan authorities to agree with their request, but the good thing I can say is that when these things happened last year, in three days, we were able to get back to the normal plateau of production. And now, we are ready to do this at the same level. Therefore, we do think that Libya will come back to stability, although we will have to be prepared to suffer from time to time these types of interruptions.

Obviously, we have an exploration campaign there; nothing to do with what I'm mentioning to you about this political debate. This exploration campaign, it's going to continue because it doesn't happen in the same places where we have the production fields. Then we don't see any plan -- we don't have any plan to change.

Venezuela; for the good of Venezuela, let's hope that this instability ends at a given moment. We have been there. I was there two weeks ago. I talked with the authorities. They are quite comfortable that this situation will be solved for the good of the country. And we think that the situation this year in our business, because that's the important side of the -- it's the important factor in Venezuela, will remain as it is today. We are working normally. I mean that we are producing the same as we produced before.

Obviously, we'd like to see Venezuela in a better shape, and we would like to see that this instability, this political instability, ends at a given moment. But as of today, we don't have any contingent plan other than just continue working.

Did I answer, Bruno?

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**Bruno Silva** - BPI - Analyst

Yes. Thank you very much. Just one on YPF current stake, if there is any legal or [procedural] hurdle to proceed with the placement.

Thank you.

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**Antonio Brufau** - Repsol SA - Chairman and CEO

No, there is none.

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**Bruno Silva** - BPI - Analyst

Okay. Thank you.

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

Alejandro Demichelis.

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

Alejandro Demichelis, Exane BNP Paribas. Again, congratulations on the deal with Argentina. Just to follow up on the previous question. If you were to dispose or monetize the bonds, would the priority be to use that cash for acquisitions and finance the growth? Or would that cash be coming back to shareholders in some way, shape or form?

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**Antonio Brufau** - *Repsol SA - Chairman and CEO*

Okay. That's very simple. In our opinion, the best way to increase the remuneration of our shareholders is through an increase in the value of our shares. And I discussed that again yesterday in our -- in the Board of Directors, and all of us agreed that we have to be very driven if we have to monetize again in a very proven manner, this bond, in order to get the EUR5 billion in cash.

We are not in a hurry. We have growth, organic growth in front of us until 2020 and beyond, with growth. But obviously, it is -- for us, it's very clear that there are opportunities in the market. We are -- and our responsibility is studying all these opportunities that are just appearing in front of us.

If we find an opportunity in terms of assets, or even companies, that do not interrupt our way to see our financial structure, being very prudent, but that the remuneration of these assets, or this Company is on top of our cost of capital, then we will study that opportunity in order to place the money that will come from the monetization of the bond.

You have to think that we are free to monetize these assets at the moment that we want. We don't have any type of limit on that. But we are not crazy. We have a sound financial position today.

My instructions to the financial people in our Company is that in two years from now, we should be able to recover nominal value, the \$5 billion plus the money coming from the 12% stake, therefore, reaching that level of \$6 billion to \$6.5 billion.

But we don't want to destroy the market, we don't want to destroy the value of YPF. We want to maximize the value in terms of cash. This is what we will try to do.

Remember by the way that thanks to the settlement we had in Argentina, we are protected in front of all the other bonds, etc., with a default position, with a specification position, etc. Argentina has settled to pay us \$5 billion, and this is no matter the economic situation of Argentina, etc. Then that is good for them, that is mainly good for us; and, therefore, that gives us time to organize in the proper way the monetization of these bonds.

Then also you have to take into account that these bonds bring, on average, a 9% interest rate, keeping those bonds from 8% to 9%. Keeping those bonds, that could mean that in our P&L, we will see something like \$100 million per annum pre-tax. That's good news. Therefore, believe me, that's a combination of stability, prudence, and getting or trying to get the most from what we have today, which means trying to monetize the existing assets, getting face value of those assets.

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

Okay. That is very clear. And I just have a short follow-up. Does this change your view of what is the situation with regards Gas Natural, or what you want to do with that stake?

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**Antonio Brufau** - *Repsol SA - Chairman and CEO*

No. Again, it's the same concept. Remember, in the last conference calls and the last conversations we have had with you, with all of you, we have said that Gas Natural is an optionality. Obviously, today becomes -- that concept of optionality becomes even more important. We have the cash, or we will have the cash coming from YPF that today was inexistent. But tomorrow, it's going to be from \$6 billion to \$6.5 billion.



Then we have the possibility to have cash from the selling of Gas Nat, but at the same time, keeping Gas Nat in our balance sheet. It's not a bad idea. It's a good asset. They are performing very well. They are performing better than all their peers. The rate of -- the remuneration, the yield, that we get from Gas Nat in cash is something like 6%. In terms of shareholder return, it's very far more. And it delivers.

Then obviously, with that, I'm not saying that we are changing our plans if something better in our strategy than keeping Gas Nat happens to us. But again, be prudent. I know that looking -- even ourselves, when we talk ourselves in the Executive Committee, etc., we have very clear ideas.

I mean that we have to focus priority 1, organic, organic growth, organic profitability. Second; now that we've got the settlement with Argentina, monetizing that cash, and investing that cash in profitable assets; third, and after that or together with that, based on the opportunities, maximizing the value of the optionality of Gas Natural.

Okay, Alejandro?

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

It's very clear. Thank you very much.

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

Haythem Rashed, Morgan Stanley.

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

Two questions from my side, please. One is a clarification on the settlement with Argentina. Can I just ask? With the bonds that will be transferred to yourselves, is there any specific lock-up period that's associated with any of the bonds, any of the tranches that you have agreed upon?

And also related to that, could I just clarify this amount that you've talked about in terms of a minimum of \$4.7 billion at the time of transfer? Is that specifically at the time of those bonds being transferred to Repsol? And, therefore, post you taking receipt of those bonds, there is no minimum value then; it depends on the market conditions for those bonds. If you could just clarify that point specifically.

The second question I had was on Kinteroni. You mentioned that should be starting up soon. Perhaps you could just provide a little bit of color on specifically how long you're expecting the startup potentially to take and what would be the key milestones to deliver the startup.

Thank you.

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**Antonio Brufau** - *Repsol SA - Chairman and CEO*

Yes, Haythem, in terms of lock up, there is no lock-up period. We are free to sell at any moment. Obviously, it's again prudence that we will sell them provided that we've done the straight value into the market.

The \$4.7 billion is being billed, and based on the 90 days before the delivery of the bonds. To be accurate, 94 days, it's 94 days before -- 94 days, and it's the average of that period of time in order to define which is the market value of those bonds in order to compute the quantity of extra bonds that they have to deliver to us up to the total of \$1 billion. Then I think that we compute that every day and we are in that range of being below \$1 billion of extra bonds.

But remember that the \$4.7 billion is just a reference. It's nothing magic to us. The market value of these bonds, it's just a theoretical point. Because if we try to sell those bonds tomorrow, for sure, we could not get \$4.7 billion. We would get less, at least 10% less than that \$4.7 billion.



But we are not planning to do that. We will get the \$5 billion for sure. We will get an extra up to \$1 billion more. We have the capitalized interest of \$500 million. Let's say that in total to get \$5 billion, we have to work with \$6.5 billion in bonds or in capitalized interest. Then I think honestly that we are covered and we will have plenty of room not to lose money, not to get less money than the nominal value of the bonds if you do a good job. And I'm sure that we are going to do that good job.

In Kinteroni, unfortunately, it's day by day a delay in the opening of the operations. Today I could say, but unfortunately, I would have said the same three months ago that the opening of the Kinteroni is going to happen in this quarter, by the end of this quarter.

Why I am more optimistic today than I was before? Kinteroni, as you know, was linked -- the Block 57 was linked basically to Camisea and to the LNG deal, and everybody was trying to get the most from this deal. Obviously, the Peruvian authorities are forcing the Camisea Group to give Block 88 in Camisea for internal purposes, for internal market, and substituting the 88 for the 57, which is Kinteroni. That's done.

We have already signed an agreement with the operator of Camisea and with the operator of the LNG plant. Now it's just a matter of getting the approval of all the other partners in Camisea. That should not be difficult. Having said so, it's not up to me. They have to put their signature in the agreement. But I think we are in the last phase of this in order to have Kinteroni starting production this year.

We do think honestly, our budget this year, we have Kinteroni on average net to us producing something like 9,000 a day of oil equivalent per day. And I'm optimistic that that's going to happen and that you are not going to need to ask for Kinteroni again in the next conference call.

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

Thank you very much. Very clear.

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**Operator**

Irene Himona, Societe Generale.

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

Congratulations on the YPF resolution. I had to quick questions, please. So firstly, if we look at the 2013 results, stripping out the discontinued LNG, basically, adjusted EBIT fell about 23% in a flat oil price environment despite the 4% production growth. What guidance can you give us for 2014 regarding in particular downstream EBIT? And also, what is the probable production growth that captures the Libyan risks?

And the second question, again going back to the issue of resolving YPF and the much increased financial flexibility, I just wanted to see or to ask where you would like to take Repsol next given that you do have that flexibility. So what do you feel you can now do really differently in the next three to five years that you clearly couldn't do before, given the balance sheet?

Thank you.

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**Antonio Brufau** - *Repsol SA - Chairman and CEO*

Thank you, Irene. About the 2013 EBITDA in -- let me say that 2013, basically, everything was against the industry, the European industry. At the upstream level, flat prices in oil, but some operators in Europe were working for instance in Libya, as you know, and we suffer from Libya. That's the basic problem we had in Libya.



Downstream; the downstream business in Europe suffers, in my opinion, the worst year in many, many years, which is not sustainable. What we see today is that the EBITDA that we had last year in downstream that was EUR800 million -- something like EUR900 million has to go up significantly this year.

And I'm going to say very simple things. One, improvement in our margins; that we are seeing this year an improvement in the margins coming from growth that we had last year. Our system is more efficient. Our units, our conversion units are working better. The new units of Cartagena and Petronor are delivering better results compared with those of last year. Energy efficiency has improved, and we have invested very heavily in improving energy consumption and CO2 reductions, etc.

Then at the refining business, I see a very clear improvement, and also, the basics that we see heavy and light crude spreads widening, and it's just now a matter of seeing the same in products, in middle distillates.

In chemicals, we suffer around EUR100 million because of the outage of Tarragona and because of the big crisis we had. That's not any more the case. All what we have invested in chemicals will prove to be very efficient this year.

At the retained situation, we lost something like -- we lost. We didn't make that money in the [fourth] quarter of 2013 because of the biodiesel taxation. I mean that because of the [bios] composition in our products. The detaxation -- or the contrary. The taxation of the bios in our products was being paid by Repsol, not by our customers. Through all the year, we have managed to improve prices and increase prices, and we see this year a big difference in terms of margins at the retained level from those that we had last year, etc. And then I think that looking item by item, I see that we will see a significant improvement at the downstream level.

Obviously, we are not delivering. The downstream cash flow is not what we thought it should be when we decided to build or to create the strategic business plan. But I would say that 2014 will be very similar to what we expected three years ago.

Then in terms of EBITDA and the results of 2014, my impression is that we will see a better result than what we had in 2012, thanks to what I have said until now. If we don't have Libya -- well, you may manage Libya in different cases. Assuming that we have Libya t 90%, that means 30 days of interruption; that will mean that our production would be on top of 7%. Assuming that you have Libya with no production, that would mean that together with Kinteroni in operation, that would mean that our production would go between 4% to 5%, etc.

That's not a big, big problem for us. Libya will come in operation. We will have disruptions of 60 days, 30 days or 40 days. But at the end, with Libya working at full, our production would grow at the level of more than 11%, working at full. Then --

And I am totally committed to deliver in terms of production what we said in our business plan in the 2012-2016 business plan that was a compound annual growth rate of more than 7%. That's already there.

And the question about YPF was what?

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

(inaudible - microphone inaccessible).

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**Antonio Brufau** - Repsol SA - Chairman and CEO

Well, with the financial flexibility, again, to answer this question we need some time. First we have to have the cash, which is not the case. Now in two months, we will have papers, not cash. Second -- papers that are profitable, by the way. And then, as I said before, in two years the goal is getting that cash becoming a reality, meaning with that with the selling of the bonds and the selling of the 12% stake getting between \$6 billion to \$6.5 billion.

And at that moment, or at that moment or during now and that moment, we will have to reinvest that money to get a [firm] rate of return. I mean that in terms of buying assets or buying specific medium or small companies that adds value to us.

Irene, did I answer to you?

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

Yes. Thank you very much.

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**Operator**

Filipe Rosa, Banco Espirito Santo.

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

First of all, congratulations on the deal; really positive what you managed to achieve in terms of compensation and guarantees versus market expectations in your counterparty [talks]. So well done.

And now I think that you are forced to have a view on Argentina as you are creditors of Argentina, or you are about to be. Do you think that your deal will help them going forward? Do you think that the [credit] risk premium following these steps in the right direction could go down? Or you are skeptical and you just are working on basic assumptions that the credit risk will remain stable at very high levels over this period of two years where you are planning to exit?

That's my first question.

And the second question; I know it's a little bit tougher to answer, but this has been a topical issue regarding the stake held by Pemex which is a key shareholder of Repsol. As of today, could you give us an idea how you see this shareholder. Do you think that they are closer to have it following the public statements that they have done? Or do you think that, for instance, distilled in Argentina has been important to smooth a little bit the relationship between Repsol's Board and Pemex?

Thank you very much.

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**Antonio Brufau** - *Repsol SA - Chairman and CEO*

Thank you, Filipe. Our view on Argentina, I think that this deal is the first step for Argentina going in the right direction. I mean that our deal with Club de Paris agreement, with inflation being in accordance with international institutions, etc., they tried to agree with the holdout.

My impression is that, and my hope and my will is that this settlement will help Argentina to be in a better situation. With that, I'm not saying that this is not in a good situation, but that deal will open the international financial market to Argentina, in my opinion, or at least that would be the Repsol's will. Then let's hope that.

The stake in Pemex, this is not up to me to answer that question. Yesterday, we had a very thorough debate in the Board trying to have a very good -- to improve the relationship with Pemex. And we have an industrial agreement with Pemex which is not being in play now. That is just not being very efficient. And I offer to the representative of Pemex to sit with the people of that company in order to start thinking, or starting all type of possibilities to cooperate.



From the point of view of Repsol, that's our position and our attitude; to be -- to answer all the needs or the demand of Pemex provided that they are good for Repsol, and this is our position. What they are -- what's going to be the position of Pemex, this is not to me that they have to answer.

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

Okay. Thank you very much.

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**Operator**

Jon Rigby, UBS.

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**Jon Rigby** - *UBS - Analyst*

Two, please. The first is I just want to explore this [\$4.67 billion] lower level and in relation to the billion dollar set of reserve bonds that you have. If, and Argentina's economy is not strong, the realizable value of the bonds dips below that, can you go back to Argentina to get further consideration if the [\$5 billion] plus the [\$0.5 billion] plus the [\$1 billion] don't make up that minimum level? That's the first question.

And also actually alongside that, can you just explain again when the \$1 billion of supplementary bonds become deliverable to you?

The second question is it occurs to me that over the next couple of years there's a significant amount of your free cash flow is actually coming from non-oil businesses, Gas Natural and the bonds that you're being issued. So I'm trying to think more about post the two years about what it is you're going to try to make Repsol look like. Should we think that as you go about reinvesting that you want to get to a point where the oil and gas activities both upstream and downstream can support the CapEx reinvestment and the dividend that you're intending to pay?

Thanks.

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**Antonio Brufau** - *Repsol SA - Chairman and CEO*

Okay, Jon. I mean that in terms of the \$4.67 billion we cannot -- we cannot go back to Argentina for additional bonds, asking for more bonds. But we have again be sure -- I have to be sure that our [goal for you] in terms of the \$5 billion are protected and are pro solvendo. That means that if Argentina goes into -- and nobody wants that, but it goes to a default situation, etc., we will be entitled to receive \$5 billion. If Argentina cannot pay, we will be entitled to go to an arbitrary court to ask for those \$5 billion.

The bonds are the collateral that we have in order to monetize as we need that \$5 billion debt. Therefore, we cannot get less in terms of -- sorry. We cannot get more bonds if market value goes below \$4.67 billion because our market value, it's \$5 billion. It's an account -- in account receivable from Repsol to Argentina. Argentina has to pay and we have guarantees to receive that \$5 billion money. And Argentina is giving us \$6 billion, or something like that, in order to monetize that the sooner we want. Then that's done.

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

Sorry, Miguel.

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**Antonio Brufau** - *Repsol SA - Chairman and CEO*

Well, but again, Miguel is telling me that the weakest point in terms of market value was almost \$4 billion, but again, that's nothing to do for me. It's a reference.





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**Jon Rigby** - UBS - Analyst

So a way to think about it, would it be that you -- that Argentina would have to find another way of making up --?

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**Antonio Brufau** - Repsol SA - Chairman and CEO

Exactly. That's very clear. Imagine that something goes wrong, Argentina cannot pay. We go to the court. The court, it's very simple. They say Argentina has to pay. At that moment, imagine at that moment, having to receive \$1 billion, it has to pay \$4 billion plus interest. They will have to find a way to pay \$4 billion plus interest, no matter the bonds.

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**Jon Rigby** - UBS - Analyst

They could offer you a stake in Vaca Muerta.

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**Antonio Brufau** - Repsol SA - Chairman and CEO

Yes. But let's hope that that's not going to happen and that Argentina, thanks to this settlement and thanks to other things, will find the path to prosperity.

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**Jon Rigby** - UBS - Analyst

Right.

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**Antonio Brufau** - Repsol SA - Chairman and CEO

Then the second question is how would I see Repsol in future years and how is going to be the cash flow and how we are going to finance. And how does not fit in this business.

In front of us today, we have a good liquidity position. We have cash that will come into our balance sheet in a very sound way very soon, and we have the shares of Gas Nat. If I have to dream in three or four years from now, I think that Repsol should have an upstream division, very powerful, based on what we have today, based on what we can buy, provided that this thing that we buy adds value to Repsol and to the stockholders of Repsol in terms of technology, in terms of remuneration, in terms of the basics of this business. And obviously, with that upstream being self-financed. I mean that they upstream cannot, should not rely on the EBITDA of the CapEx long term.

Tomorrow the upstream still needs some money coming from the downstream division, but in our organic growth, in one year from now that's over. The upstream will self-finance growth in 2015 with what we have today.

Then, I was not here, but at the time that we decided to buy YPF, it's the same moment today. But we -- for sure, we are not going to do the same mistakes with it 13 or 14 years ago. Now we have a huge potential to improve the quality of our portfolio, keeping or not keeping Gas Nat. I am saying improving the quality of our portfolio.

And that means improving the asset, the OECD asset base, improving the technological aspects of the business that we have today, and we still need something in our technological portfolio, improving our production, improving our acreage of exploration in good areas and promising areas, together with what we have today. And this is what we are going to do with the money that we are going to have that will be free after the selling, etc.



Then I think that in three years from now you will see a Repsol very sound at the upstream level with a medium size to -- being a medium-sized company, very profitable, less risky company, with all the assets producing.

Today, remember we have \$5 billion that are -- well, a \$5 billion asset that did not produce at all in two years. Now it will start producing. Obviously, with the portfolio that we have in Gas Nat, with that optionality to increase what I am mentioning at the upstream level, and with a very sound and a very profitable downstream operation, that's what I see in Repsol.

And therefore, in my opinion, at that moment, we will have significant quantity of upstream assets that will be producing. And the work in progress, the assets that will be in the developing phase, will be lower than the ones that we have today, therefore, impacting in a very dramatic manner the P&L of the Company for the good, obviously.

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**Jon Rigby** - UBS - Analyst

Right. It sounds very exciting, actually. Thank you.

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

Alastair Syme, Citi.

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**Alastair Syme** - Citi - Analyst

Sorry. I thought I'd been taken out the queue. My question has been answered. Thank you.

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

Okay. So you don't have any further questions, Alastair?

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**Alastair Syme** - Citi - Analyst

No. Thank you very much, Angel.

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

Lydia Rainforth, Barclays.

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**Lydia Rainforth** - Barclays - Analyst

A couple of questions, if I could. Firstly, can I just come to a change in the article for the Board? There is now a clause in there that, I think, three-quarters of the Board need to approve a spinoff of either the upstream or the downstream division. And just in the context on what you were just saying, Antonio, why was that clause put in place and is that something that the Board has been actively considering?

And then secondly, if I come back to the YPF side and the idea of adding value to the portfolio, when you are evaluating whether or not to sell the Argentine bonds, or YPF or Gas Natural, it seems to me that there has be something better to invest in. Is there a minimum rate of return that you would want on such investments?

Thank you.



**Antonio Brufau** - *Repsol SA - Chairman and CEO*

Lydia, in terms of the quorum, we increased the quorum in order to spin off both divisions up to the level of 75% at the stockholders meeting and at the Board meeting. The reason for that was because there was some debate here about Repsol being divided into two pieces in order to -- I don't know exactly what. Our people was quite -- were quite concerned with this situation and the strategy we have followed, and the rating agencies that are studying us would like to have us be -- would like to have Repsol integrated. The reason, there are a lot of merits of being really integrated.

Therefore, we are not just creating a barrier in order not to spin off the companies that we are making the life more difficult. We do think that there is merit in terms of remaining integrated. Our strategy is being an integrated company. We do think that there is a lot of value maximizing the good things of both divisions, and I wouldn't like to see that thing not happening.

And that was the discussion we had yesterday on the Board, and the Board agrees with me that it would be very good to increase that percentage of a quorum in order to put less flexibility, even though there is flexibility, to have some less flexibility in order to decide of things like that which is very important.

In terms of the internal rate of return of the new investment, obviously, should be higher than the bonds, should be higher than the Gas Natural stake. We are not in a hurry --. I'm sorry. And should be higher than our cost of capital.

We are not in a hurry. We see that there are today plenty of opportunities. I mean that at the upstream level this year, nowadays, there are many, many opportunities. And at the asset level, we see also opportunities that would create more value to us in terms of technology, in terms of knowledge, in terms of people, in terms of rate of return, etc., than just keeping the bonds or just keeping the shares of Gas Nat.

Then my responsibility, as I've said before, and the responsibility of the Repsol team is just trying to study everything that may add value to the Repsol shareholders. And therefore, provided that we have more rate of return on top of the bonds more rate of return on top of the shareholder returns on Gas Nat, and more rate of return on top of our cost of capital, then why not? But we are not in a hurry. It will take time.

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**Lydia Rainforth** - *Barclays - Analyst*

That's very helpful. Thank you very much. And congratulations again on the deal.

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

Fernando Lafuente.

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**Fernando Lafuente** - *N+1 Equities - Analyst*

I have a follow-up on the Argentinean agreement, just a confirmation that in this agreement, you have not included any kind of core operation or investment, or whatever you want to call it, with YPF.

And my second question is on the dividend. Two questions on that side. The first one is what is your view on the dividend; how should it evolve in 2014 from the euro you've approved for this year?

And secondly, what is the rationale to maintain the scrip, and if it wouldn't be better to just pay in cash.

Thank you so much.



**Antonio Brufau** - *Repsol SA - Chairman and CEO*

Okay. We don't have any obligation to collaborate or to invest in Argentina. One of the reasons to -- for this deal to happen is that it frees us from Argentina, which is very important. That's one of the main aspects of this deal.

Therefore, with the bonds, we have finished our collaboration. Fortunately, we have many Argentinians with us, which is one of the best assets we get from this situation. But other than that, nothing. And we don't plan to be back in Argentina in the next, let's say, years, no; in the next few years.

Obviously, we will have to collaborate with Argentina in specific things like [max rules], etc., outside Argentina, but nothing in terms of investment or collaboration in the country.

And in term of dividend evolution, I mean that we do think that the EUR1 dividend is a fair value comparing with our peers in Spain, comparing with our peers in Europe, and comparing with our peers in the United States; that it's good remuneration based on the normal level of profits that we have.

The scrip dividend, together with the capital reduction, I think in my opinion solves two things.

One, it helps Spanish people and individuals to maximize the tax value of the dividend. I mean that because for many people that do not need the cash, receiving shares instead of cash reduces the tax burden that they have. Therefore, it's good for them, and it's more value for them. And for the people receiving cash, then the capital reduction reduces the dilution aspect of this scrip dividend.

Then I think that this year, we will combine both; the scrip for people trying to maximize the tax position and the tax situation of themselves in terms of receiving shares, and not being diluted with the people or institutions getting cash.

Obviously, the EUR500 million capital reduction may be smaller than the total capital increase that we will have to do this year, that it will depend on how many people will go for the scrip. But that we will -- I mean that next year we will try to adjust that money. That's the first step.

Okay, Fernando?

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**Fernando Lafuente** - *N+1 Equities - Analyst*

Thank you so much.

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

Thomas Adloff, Credit Suisse.

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**Thomas Adloff** - *Credit Suisse - Analyst*

Just a few on production to start with. Correct me if I'm wrong. You today reiterated your 2016 production target of 500,000 barrels per day or more since you talked about this 7% CAGR, and I'm just asking this because my sense is that Mississippian Lime is under-delivering and possibly Algeria will be delayed. And perhaps if you can remind us what sort of contingency is assumed in this target given your large non-OECD exposure in the upstream.

Secondly, for budgeting purposes, when do you expect Libya to be back to normal operation on an annual basis? And also, if you can perhaps talk about what your assumption is for US price realization for the Shenzi field given the dislocation to crude pricing there.



And just to clarify on your comments on the downstream, my understanding is you previously targeted an EBITDA of EUR1.5 billion to EUR2 billion, and so you expect this range to be reached in 2014?

And just a final question on your dividend policy. I think your payout ratio was 40% to 55%. It seems a bit inconsistent with your current payout ratio, a function of your underperformance in EPS this year. If you're so positive on cash flow growth in the next few years, does it make more sense to actually link the dividend to cash flow over the medium to long term?

Thank you.

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**Antonio Brufau** - *Repsol SA - Chairman and CEO*

Thank you, Thomas. Your first question, 2016, we still feel that we can reach that 500,000 barrels a day of production by the end of 2016.

Mid-Continent, you are right that at that moment in 2012 when we joined the Mid-Continent sandwich, we felt that we could reach something like 40,000 barrels a day of production at the end of 2016. As of today, we are lower than that. We are thinking about between 20,000 and 25,000 barrels a day. That means that we have a gap between what we expected and what we think today of something like 15,000 barrels.

Obviously, there are many other places that are going better; maybe Brazil. Well, not maybe. Brazil is going better. Peru is going better. Bolivia is performing extremely well. Russia is going better, etc., of what we thought. Therefore, I think that it's not going to be difficult to substitute the Mid-Continent reduction into all these other assets that I have mentioned to you.

Then in terms of -- on top of that, we have the [inorganic] growth, but I don't want to consider that in the analysis. Algeria was not there. I mean that Algeria's target production in the business plan, by the end of 2016 it was not much production there. I mean that it doesn't account.

We don't see significant delays in Algeria. I mean that we do think that we are on budget, no doubt, and if we are not on time, it's not going to be because of us; it's going to be because of the pipe that has to be built in order to reach the central headquarters of the gas distribution pipes in Algeria.

Then Bolivia, back to normal operations. Let's hope that tomorrow. But it's not up to us. Thomas, I mean that.

The only thing that it makes me be prudent, optimistic too, is that as I said before, the operations are not damaged, the facilities are not damaged. They know that it's just a matter of using us as a way to push the national authorities to agree with the needs of the [Turiwara] tribe. I hope that we will see operations back to normal sooner than later, but I cannot give you a date.

We try to help the national oil company all the time and be there, but in order to deliver. The day that we will be able to go back in two or three days, we have to reach normal plateau but that's the problem.

In terms of the Shenzi realization prices, that's true. I mean that the Shenzi prices in 2013 were \$4 below Brent. Now in 2014, we see a minimum -- or a maximum price of \$6 below Brent, which now Shenzi is more linked to West Texas than Brent. And obviously, we are taking that into account in our analysis of the P&L for this year.

But at the same time, Shenzi is producing very well. It's keeping production at plateau. The water injection fields are performing very well, and we see that production this year will remain or even increase a little bit from last year. Therefore, Shenzi, it's performing well even though prices are slightly lower than what we had last year.

In terms of the target in downstream, you're right. In our strategic plan, we target a EUR1.5 billion to EUR2 billion, closer to EUR2 billion; more than to EUR1.5 billion in terms of EBITDA level. [This year] we're mindful, because we have to consider that we are mindful because (inaudible) in this in terms of [Kaiser] the same. Last year, as I said before, it was EUR900 million. My forecast for this year should be closer to EUR1.5 billion, and in the years to come, going to EUR2 billion.



And for the reasons I mentioned to you, better margins, better spreads and improvement in the economic situation in Spain, therefore, better marketing margins; a chemical business which is not going to perform that bad of last year, etc.

LPG doing very well. Trading performing; last year, we had an increase in trading of something like EUR30 million from 2013 to 2012. This year, we have done a lot in order to increase that operating income coming from our trading activity, and we do plan a significant increase in the operating income from this activity.

Therefore, all these things together, and I'm not realistic at this point, make us to think that, as I said before, 2014 will be better than 2012, no doubt, at [TCS]. Obviously, if something dramatic happens, we will have to see, but my impression is that we will deliver and we will deliver good results.

And linking, your last point, the dividend to our cash flow, that's a very sound statement, sound concept. I have to manage different things here in Repsol. I have to manage the linking of the dividend to our ability to create cash, therefore to our cash flow; I have to manage also -- and I don't want to confuse you -- to the needs of our shareholders, but in the positive manner; I mean that provided that we are not damaging the Company.

I want to consider the scrip as one way to lift the cash flow goal because the scrip dividend is just a capital increase with no outflow of cash, etc. Now we are going to have the capital reduction, by the way, but all these things together make me to think that the EUR1 per share based on the normal scenario of the operating -- let's say the net operating income, at CCS, excluding non-recurrent of 2013/2012, it's the right base of the dividend.

Then this is what I can say. The dividend that we pay is not damaging us. It's in our strategy. It helps everybody. It gives a good reward in comparing with our peers. It gives good reward in comparing with our Spanish peers too, etc. And this is our position today.

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

Okay. Thank you very much.

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**Operator**

Luis de Toledo, BBVA.

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**Luis de Toledo** - *BBVA Global Markets Research - Analyst*

Again a question regarding YPF. I don't know if you --

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**Operator**

Luis, can you speak a bit louder?

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**Luis de Toledo** - *BBVA Global Markets Research - Analyst*

Can you hear me now? It's regarding YPF and if you could maybe share your thoughts on the mild share price reaction to this announcement. And maybe also on the price on November, you're still trading more or less at the same level. We acknowledge that there are a lot of uncertainties, that there's the complex deal, but do you have any reaction, any thought on the share price today?



**Antonio Brufau** - Repsol SA - Chairman and CEO

Well, of the reaction, the market is very smart and the market is market. My impression is that still there are some things to be made or to be done from now to the final moment of the settling, which means the moment that we are going to have the bonds.

I think that the market would, should, realize what we have got in Argentina, and approaching the date that -- or the moment that we will receive the bonds, the share price will react better than today.

Having said so, that is the market. Very few things they can say in terms of this mild reaction. I'm totally convinced that we will deliver and we will see that the market, once realizes what we got, and the sooner we get closer to the final settlement and after the settlement, and getting the bonds and starting cashing those bonds, will realize that better to have dollars in our portfolio or assets in our portfolio than just a dream, which is a [litigation] and waiting for something to happen 10 years from now.

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**Luis de Toledo** - BBVA Global Markets Research - Analyst

Okay. Thank you very much.

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**Operator**

Matt Lofting, Nomura.

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**Matt Lofting** - Nomura - Analyst

Just one question left, please. If I could just come back to the share buyback program and if you could talk a little bit around how you think about that going forward. Should we just view it as a standalone program for 2014? Or given the increased financial flexibility that Repsol now has and continued commitment to the scrip portion in the dividend, is this something that the market should think about as an ongoing underlying element of the cash return proposition at Repsol 2015 plus?

Thank you.

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**Antonio Brufau** - Repsol SA - Chairman and CEO

Well, our buyback program means it's going to be -- as of today, what I can say today, it's going to be a normal thing that will happen every year in order to offset the dilution of people receiving cash instead of shares. Therefore, I think it's a way to offset the capital increase because of this scrip dividend.

This is what we said, we have said in many occasions. Now is the right moment to apply. I mean that when I talk to you, to most of you in the different conversations, I thought that that was something that was being expected by the market and therefore it's just there.

We will increase capital because of the scrip dividend. We will reduce capital approximately with the same amount that we increase capital, therefore avoiding dilution for our stockholders.

Okay, Matt?

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**Matt Lofting** - Nomura - Analyst

Excellent. Very clear. Thank you.

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**Operator**

With this, we have finished. No. We have one more question. Anish Kapadia, TPH.

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

A couple of questions. Just wondering, in terms of the upstream, how do you see the EBIT per barrel evolving if you assume a flat commodity price if we look over the next few years? It seems like you have got some high-margin growth in Brazil but also some quite low-margin projects as well. So just wondering how you see the evolution of that.

And then also, just some clarification on the production side. In terms of Kinteroni, I think said you're assuming around 9,000 barrels a day for this year. Is the guidance still the same of around the net production to Repsol will be around 20,000 barrels a day?

And then looking out to 2016, I think your production target for -- from Venezuela was over 80,000 with combination of Carabobo, existing production and Perla. Just wondering what your confidence was in that.

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**Antonio Brufau** - *Repsol SA - Chairman and CEO*

Okay, Anish. The EBIT per barrel as of today is around \$15 per barrel, on average obviously, and think that that's going to remain or even improve, thanks to Brazil, thanks to the United States, thanks to Russia. Not exactly Russia, but in my opinion, we have some gas projects like Margarita that are being linked to oil. Then other gas projects are fixed prices like Cardon.

If you combine that with the production of oil coming from Brazil, the United States and other areas, I think that the level of [15%] value, \$15 per barrel, will remain there for the next three years or four years.

In terms of Kinteroni, in Kinteroni, the -- at the beginning, the gross production and net production to us was 20,000 barrels. No. The net production to us was 20,000 barrels a day. The agreement we have today with the Camisea consortium and the Peru LNG are just slightly less. And today, what we see in front of us is that Kinteroni will deliver net to Repsol, as I said before, 9,000 barrels a day of production and ramping up in two years from now.

By the year 2016, Kinteroni will deliver in 2016 -- sorry, will deliver the 20,000 barrels a day, but that's going to be ramping up from Kinteroni, plus Sagari, which is the discovery we had two years ago and the development that we are doing now, from zero to 9,000 barrels a day 2014 to 20,000 barrels a day 2016. That's going to be what we said two years ago, and it's going to happen in reality. And Venezuela at 80,000 barrels. Today, we are producing something net to us, something like 45,000 barrels.

Obviously, we have different projects that will go up, will increase that quantity. The Cardon will start producing natural gas by the end of this year in 150 million cubic meters a day. Next year, we'll go to 450 million cubic meters -- sorry, cubic meters -- cubic feet a day. Then this is the production that will have a significant impact in our case that will account, by the end of 2016, by something like 17,000 barrels a day of oil equivalent in terms of production.

Then together with Cardon, we have Carabobo. In Carabobo, we are producing already something like 4,000 barrels a day. Our idea is going to 9,000 barrels a day of production in Carabobo by 2016 net to us.

Then if you take Carabobo, 9,000 barrels, 17,000 barrels of Cardon, and just being on time and on budget, and then we take the increase in [Petrol Kirakira] from [45 to 52/53]; then we have Yuca Placer, which is the block that we have together with Total that are now just building to reach the level, the plateau of 300 million cubic feet per day, etc. I mean that all these things combined make us to feel very comfortable with the figure of 80,000 barrels a day in 2016.





This is what I can tell you. The [topics really] are many things together, but all of them are under control and on budget, on time, and we don't see today any cloud that this figure is not being reached.

Okay, Anish?

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

Thank you. Yes, that was very clear. Just one follow-up, if I could. In terms of the acquisition market, you said you see quite a lot of opportunities out there. I know there's an OECD focus. Is it the key area you're looking at still North America, or are you looking a bit further afield?

Thanks.

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**Antonio Brufau** - Repsol SA - Chairman and CEO

Well, there are many areas, but obviously, North America, which means the US and Canada, is a very critical area and very important area with plenty of opportunities.

Obviously, I wouldn't say no. I consider Canada and the United States very, very, very important area to be deeper than what we are today, although as you know, our main area in terms of capital employed today at the upstream level is the US. Still Canada is not that significant, and many opportunities are there cheaper than in the US, and more efficient; and technologically talking, equally similar. Then I think that North America.

But in general, OECD, I mean that we do have to change the profile of our portfolio and that I think that it's a very critical element of that -- of this move.

Okay, Anish?

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

Okay. Thanks very much.

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

Okay. So now we're finished with the questions that we received through the phone. We have some written short questions. I believe most of the queries that we received by writing are answered regarding cash flow from the downstream business, etc.

Jason Kenney from Santander just asks about if you are confident to reach an 80% utilization rate in the next years in the refining business.

The second question is about Libya. I believe it's already answered.

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**Antonio Brufau** - Repsol SA - Chairman and CEO

Yes. Reaching the 80%; today, we are at 78%/79% utilization rate. The important thing, however, to make money is using the conversion rate that we are using the most, the 99% conversion rate. Therefore, if margins remain like they are today, I don't see any problem on improving, even improving that percentage.

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

And just one last question is Nitin Sharma from JPMorgan just asks what is -- if we don't sell the bonds, what is the cash flow that we'll receive from the coupons?

**Antonio Brufau** - Repsol SA - Chairman and CEO

Sorry?

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

The cash flow that we'll receive from the coupons.

**Antonio Brufau** - Repsol SA - Chairman and CEO

From the coupons; the cash flow and the profit before taxes will be gross \$500 million.

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

Okay. So with that, we've finished with every question. I believe that we've answered everything. In any case, we'll be more than happy from the IR area to continue with your service and answer any further queries that you have.

Thank you very much for attending this full-year 2013 conference call and thanks.

Bye. Cheers.

**Operator**

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

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