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PRESENTATION

Operator

Hello, and welcome to the Repsol Second Quarter 2017 Results Conference Call. For your information, today's conference is being recorded. Today's conference will be conducted by Mr. Miguel Martinez, CFO. A brief introduction will be given by Mr. Paul Ferneyhough, Head of Investor Relations. I would now like to hand the conference over to Mr. Ferneyhough. Sir, you may begin.

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

Thank you, operator. Good afternoon, this is Paul Ferneyhough, Head of Investor Relations at Repsol. On behalf of the company, I'd like to thank you for taking time to attend this conference call setting out the company's second quarter results. This conference call and associated webcast will be delivered by Miguel Martinez, Repsol's Chief Financial Officer with members of the executive team joining us here in Madrid.

Before we start, I advise you to read our disclaimer. During this presentation, we may make forward-looking statements, which are identified by the use of words such as will, expect and similar phrases. Please note that actual results may differ materially depending on a number of factors as indicated in the disclaimer.

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

Miguel Martínez San Martín *Repsol, S.A. - CFO*

Thank you, Paul and thank you to those on line for attending this conference call on our second quarter results. In today's call, I would like to cover three main topics. Firstly, a summary of key messages and the main operational highlights for the quarter. Secondly, the financial results, and finally, an update on our progress towards key strategic objectives and guidance for the second half of the year.

Let me start with our key messages for the quarter. At the macro level, the second quarter saw increased volatility in commodity prices along with continued uncertainty around global geopolitics. The strength of North America unconventional production together with the recovery of Libyan and Nigerian volumes put pressure on oil price despite the decision by OPEC to extend its production restrictions. On this background Repsol has remained focused on delivering its strategic objectives, accelerating gains from efficiencies and synergies, while leveraging the resiliency of the portfolio across both Upstream and Downstream divisions.



Progress on the strengthening of our balance sheet resulted in a closing net debt figure of EUR 7.5 billion, reflecting a significant unwinding of the working capital buildup seen in the previous quarter. Upstream production volumes remain in line with guidance and the exploration program delivered another quarter of positive results. Development activity has continuous plan supporting our key projects and with a continued focus on a selective approach to capital expenditure and investment approvals.

In the Downstream division, the refining business completed all major planned maintenance for the year on time and on budget, and we expect to see higher conversion and utilization factors throughout the second half of the year. The chemical business continue to benefit from investments in energy and operational efficiency and generated record levels of EBIT based on our sustaining improvement in the trading environment. The commercial businesses saw another solid quarter of results with marketing delivering in line with increased demands for products in Spain and Portugal.

Let me now go into detail on the main operational highlights from the quarter. Starting with the Upstream division, quarterly production averaged 677,000 barrels of oil equivalent per day, a 2% decrease versus first quarter, but in line with guidance for 2017. The sale of Ogan Komerling and fluctuating gas demand in Indonesia was partially offset by higher [demanding] production in Libya. Libyan volumes averaged around 23,000 net barrels per day in the quarter and production is currently above 30,000 barrels of oil per day net to Repsol. In the UK North Sea, we delivered first production from MonArb, the development project with the startup of the Shaw and Cayley fields. Repsol holds a 30% net stake in this project and the redevelopment will extend the life of the MonArb fields beyond 2030.

In Brazil the ramp up of Lapa progresses on track and the hookup of an additional production well in July has put gross production at 60,000 barrels of oil equivalent per day. In Trinidad and Tobago, we expect to achieve the first gas from Juniper in the third quarter. The joint ventures partners also approved the FID of Angelin in June with an expected startup of production in 2019.

Moving now to exploration. Higher activity quarter-on-quarter resulted in the completion of five exploratory and one appraisal wells with two of the exploratory and the appraisal wells being declared positive. The Savannah and Macadamia discoveries in Trinidad and Tobago have unlocked approximately 2 TCF of gas in place that will support ongoing deliveries and the production plateau of our joint venture.

Now turning to the Downstream division. In refining, the margin indicator averaged \$6.20, in line with planning assumptions and 30% lower quarter-on-quarter. Improving product spreads were offset by narrower heavy to light crude differentials. As expected, the turnaround of our conversion capacity in Cartagena limited our ability to generate a premium to the indicator during the quarter.

In chemicals, the reduction in the price of naphtha compared to the first quarter and the resiliency of international product price, especially in basic petrochemicals, allowed this business to generate an EBIT over EUR 180 million, higher than in the previous quarter and in line with record levels seen in 2016.

Finally, the commercial businesses maintained their steady performance with another solid quarter. Marketing benefited from higher volumes, thanks to the increasing demand quarter-on-quarter.

Now moving on to the financial results, I will briefly summarize the principal outcomes for the quarter. Second quarter 2017 CCS adjusted net income was EUR 496 million, EUR 151 million higher than in the same period of 2016. The EBITDA CCS stood at EUR 1.5 billion, EUR 300 million increase year-on-year. In the Upstream, adjusted net income in the quarter was EUR 115 million, EUR 69 million higher than in the same period in 2016, principally due to higher realized price and the resumption of production in Libya, partially offset by the divestment of Tangguh, TSP and Ogan Komerling, higher exploration expenses and higher taxes.

In Downstream, CCS adjusted net income was EUR 429 million, EUR 51 million higher than in the second quarter of 2016, principally due to better results in trading and gas and power, growth in petrochemical margins, higher distillation volumes in refining, and higher margins in Peru. These were offset by a lower refining margin indicator and then lower contribution from LPG following disposals last year.

Finally, in corporate and others, adjusted net income in the quarter was EUR 31 million, higher year-on-year, mostly due to lower corporate expenses and better financial results, partially compensated by the lower contribution from Gas Natural following the reduction in our equity



stake. For further detail on the company quarterly results, along with detailed variance analysis, I encourage you to refer to the financial statements and accompanying documents that were released today, and for sure you have the IR team to help you.

Let me now finish with an update on the progress of our strategic objectives and some guidance for the second half of the year. Starting with our efficiency and synergy program, we remain on track to achieve our accelerated target of EUR 2.1 billion of annual cash savings by the end of the year. 90% of the expected 2020 synergies for the Talisman acquisition has already been delivered. At the corporate center, we are on track to reduce costs to pre-acquisition levels. Other areas where material progress had been made include reductions in the cost of external services, upstream development and personal expenses. Overall, in the first six months of 2017, projects have delivered 50% of the annual target from a combination of new initiatives and projects already implemented last year.

Capital expenditure was lower than guidance in the first six months, but we expect a higher level of investment in the second part of the year, including our total capital figure between EUR 3.2 billion and EUR 3.4 billion for the year. This reduction has been principally driven by lower development costs, rather than delays or project phasing. We expect Upstream production to stay around 680,000 barrels a day guidance for the year with potential to go above this level depending on the performance of Libya.

Our lower capital guidance allow us to maintain production, while supporting the ongoing development of future projects. In fact, the current upstream portfolio of projects on production and in development included the recently sanctioned Red Emperor and back stream projects are capable of maintaining a plateau at around 700,000 barrels a day through 2022. Future major projects identified, but not yet sanctioned have the potential to stand this plateau or raise overall production volumes.

For the remainder of the year, we expect the startup of Juniper in Trinidad and Tobago in the third quarter, of Kinabalu in Malaysia sometimes in the fourth quarter, and we are working towards achieving first gas from Sagari in Peru and Reggane in Algeria, by the end of 2017 or early next year.

In refining, for the full year we expect to achieve a margin indicator in line with our \$6.40 strategic assumption. With all major planned maintenance in our refineries now completed, we will recover our ability to generate a premium to the indicator in the second half of the year. As a result, we remain confident in our EUR 1 billion EBIT target for the year supported by higher utilization as already experienced in July.

In chemicals, during the second half of 2017, we expect to continue benefiting from improved cost and energy efficiency, with its strong margins supported by solid demand growth, also probably below the record levels of the second quarter.

At the consolidated group level, we are forecasting a net debt figure below EUR 7 billion by the end of the year. This is in line with our objective of obtaining a stable BBB credit rating from each of the rating agencies, and reflects the resiliency of our overall business in the phase of low volatile commodity prices.

In conclusion, and with 6 [trading] months of 2017 behind us, Repsol remains on track to deliver or improve on its commitments for the year. Our Upstream division is continuing to focus on cost efficiency, project management and portfolio optimization. The division is on track to deliver average production of 680,000 barrels a day, and maybe even able to go higher depending on the performance of Libya in the second half of the year.

Capital investments continues to be optimized, but not at the expense of volumes or reserve replacements. In the Downstream, the completion of planned refinery maintenance will [free] the division to improve utilization and conversion factors, allowing us to generate a significant premium to the margin indicator in the second half of the year.

The chemical business is forecast to continue delivering in line with previous quarter and the commercial businesses would be as dependable as in prior periods. As I said, at the end of this first quarter, Repsol remains committed to securing a grade rating at BBB stable, allowing the Group's free cash flow breakeven to \$40 per barrel. The company has made material progress in the first half of the year towards completing the leveraging of its balance sheet as recognized by Standard & Poor's this week, when they raised Repsol's outlook to positive. Our focus on

efficiencies and synergies, the completion of our refinery maintenance for the year and the on time, on budget progress of our Upstream projects are all contributing to our confidence with respect to the delivery of full-year targets.

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

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

Thank you very much, Miguel. To everyone on the line, in case you run into technical problems during the webcast of conference call, please address any problems to our e-mail address, investorrelations@repsol.com, and we will contact you immediately to try to solve it. Now, before moving to the question-and-answer session, I'll ask the operator to remind us of the instructions for placing a question. Operator, please go ahead.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

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

Thank you. Our first question comes from Oswald Clint of Bernstein.

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

I just wanted to follow on, on Libya since you mentioned it quite a few times, that you are 23,000 barrels a day in Q2 giving you a nice EUR 50 million earning swing year-over-year, I see, but then reports [EUR 30 million] today. Can you just remind us what that net number could go to if things normalize in Libya? And obviously, there's been a lot of more discussions recently in France. What signals are you looking for in order to talk about higher Libyan production levels. And then, maybe secondly also linked to OPEC, there's also a lot of discussion that reduced exports in the second half of the year, clearly implications for your light-heavy spread. How are you thinking about that as it feeds into your second half refining margin?

Miguel Martínez San Martín Repsol, S.A. - CFO

Oswald, thanks for your question. In relation with Libya, my first comment is that really things are improving. Difficult to predict though what is going to happen in the following months because their situation is still unstable. Having said so, if things continue in a normal way, I may say that we will probably -- would be around top production, around 39,000 barrels a day by the year-end. And with this assumption to give you some figures, it will imply that for the full year, would be around \$450 million EBIT level and approximately 1/3 of that at the after-tax level. I cannot answer you about reduction in exports or OPEC impacting in reform, I mean -- as you link it to refining. Well, I think that we have seen in this quarter how the margins between, or the prices between heavy and light shrink, but this is also generating a contract by the refiners who really don't see [indiscernible] to use the heavy stuff. So at the end, my opinion probably wrong though, is that I think that this -- we have reached the limit of narrowing this margin between heavy and light, and probably we'll see higher spread in the second half of the year.

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

Our next question comes Flora Trindade at BPI.

Flora Mericia Trindade Banco Português de Investimento, S.A., Research Division - Analyst

The first one is on your CapEx guidance. Can you give us an idea of how much exploration CapEx you are including here and also considering that you said that this is not at the expense of production and at the current portfolio could give you the 700,000 barrels a day, could you -- we assume that this level of CapEx could be the one going forward, so what could be the level of CapEx going forward for stable production level? And then second question on the drivers behind the net debt target for the year, if you could give us what is behind in terms of working capital for the whole year and, also I assume you are maintaining the EUR 6.2 billion EBITDA reference you had given in past conference call?



Miguel Martínez San Martín Repsol, S.A. - CFO

CapEx guidance for exploration is included in CapEx for sure, and it would be at the year-end around \$650 million. In relation with the CapEx to maintain production, I may say that for the whole group, I'm including here Downstream as well, the figure of [\$3.3 million, \$3.5 million], the scenario in which we will feel comfortable to really maintain this level of 700,000 barrels a day of production. In relation with the working capital I think that this year, the working capital, it's around or it should be, remember that in the first quarter, we have the issue of the maintenance of all the refineries and also some cargos to the refineries (inaudible). So I would say this is more a normal working capital for the full year. So I do not expect increases in this figure till the end of the year with one question mark on it, which is taxes. The Spanish Treasury orders from last year, EUR 600 million and normally we get paid this between December and January. So depending on that factor, the whole thing could change a little. And for sure the working capital is also depending on the prices. So I would say if things remain normal, this should be the working capital figure with the question mark about taxes that the Treasury yield us. And in relation with the EBITDA guidance, I think that the second half would be a little better. So, I expect something between EUR 6.5 billion and EUR 6.7 billion for the full year. Did I answer you Flora?

Flora Mericia Trindade Banco Português de Investimento, S.A., Research Division - Analyst

Yes, perfect.

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

Our next question comes from Lydia Rainforth of Barclays.

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

Two questions if I could. The first one, just in terms of capital allocation. Given the progress being made on the debt side and the EBITDA ratios that's towards the end of the year, at what point do you look at either stopping the (inaudible) looking to buy back shares to offset the issuance there? And then the second one, just quickly on refining margins, are you actually able to say what the premium has been so far either this quarter or since Cartagena came back on-stream?

Miguel Martínez San Martín Repsol, S.A. - CFO

I think that the answer to the first one, it's similar to the one I gave last quarter. I mean A, we have to guarantee that BBB is stable and I think it's the place in which the company should be, and for sure in relation with the dividend it's on the board's position to propose to the General Assembly, but I can say that at least my idea is really to aim into (inaudible) once we have guaranteed the BBB stable. Other than that and once this gets over, the next step of buybacks would be absolutely depending on the investments proposals or the investments capabilities we may find in different projects for the future. And in relation with the premium, I may say that in normal conditions we should be around \$0.60 for the full year, between \$0.50 and \$0.70, but probably depending -- but around \$0.60 per year and in this Q it was zero. So I would say in a normal quarter, we should be close to \$1.

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

Our next question comes from Theepan Jothilingam at Exane.

Theepan Jothilingam Exane BNP Paribas, Research Division - Head of Oil and Gas Research and Analyst of Oil & Gas

One question just on chemicals, I think you described as outstanding profitability and you talked about the outlook for H2. I just want to understand, could you compare where the chemical business sits today on an underlying basis versus three years ago. How much self help that's been incorporated into that business? The second question just comes back to the recent sanction of Buckskin. So I just want to get your thoughts in terms of where you saw the economics and breakeven for that project, and sort of the net spend for Repsol on that basis.

Miguel Martínez San Martín Repsol, S.A. - CFO

Thank you Theepan. I may say that we have improved in comparison with 3, 4 years ago approximately in EUR 700 million at EBIT level. From those, we have all the efficiency and all the projects, internal projects and which have we have all the efficiency and all the projects, internal projects in which we have been improving our capabilities there, but also we have the advantage of -- versus 4 years of a different price on the feedstock. So I may say that 1/3 has been efficiencies and 2/3 refer to the market. Basically, the improvement, not only in the naphtha price, but also in the dual feedstock that we have achieved for our system with LPGs on naphtha being used alternatively. So, I will say two-thirds for the market, one-third, which implies that in -- if we turn back to the lower part of the cycle, instead of being zero or a little

below zero would be around EUR 200 million EBIT, this in relation with chemicals. And in relation with Buckskin, the figure of the breakeven point we have there, it's a little below \$50, so it's around \$48. We are optimistic and let's see how it evolves. It's going to take some time and our estimate for Buckskin is that firstly, if all things goes well, would be around 2020. And in relation with our CapEx, we are estimating approximately \$240 million for our stake in the project. Did I answer you Theepan?

Theepan Jothilingam Exane BNP Paribas, Research Division - Head of Oil and Gas Research and Analyst of Oil & Gas

Yes, that's perfect. And that's included in your thinking around that EUR 3.5 billion of CapEx.

Miguel Martínez San Martín Repsol, S.A. - CFO

Absolutely. I mean, the only things that we are not including for all of you to have a clear trend in the EUR 3.5 billion or a little more, but around this figure, are the 5 -- what we call the (inaudible) or the big ones; Alaska, the Duvernay, Akacias, Campos 33 and Sagitario. Other than that, with EUR 3.5 billion, we can remain producing 700,000 till 2022.

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

Our next question comes from Filipe Rosa, Haitong.

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

Two questions for me. The first one on the production outlook for 2018, I know it might be a little bit early, but you are ramping up a few projects in the back half of this year. You have some projects that will continue to ramp up next year. Assuming or if you weren't excluding Libya, or with Libya, but what could be the outlook for production, because it seems that we should expect something clearly above the level that you are budgeting for this year. That's the first one. The second one, just a clarification regarding your net debt guidance, do you still assume -- I believe that it's around EUR 600 million in asset divestments in your net debt guidance, are you still assuming that or are you now assuming a different number in that net debt number?

Miguel Martínez San Martín Repsol, S.A. - CFO

Sorry, in relation with production outlook for 2018, I don't even know which is going to be our final figure for 2017. But to give you at least some color, I think we are going to be above [EUR 700,000], not very much, but above that figure, including Libya. And in relation with the net debt guidance, the EUR 600 million, I actually put that figure in between. So basically, if we recover the EUR 600 million by the year-end, we will probably be closer to EUR 6.4 million, and if we do not, we will probably be closer to the EUR 6.9 million. More or less, this is what my estimates give me today.

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

Our next question comes from Irene Himona at Societe Generale.

Irene Himona Societe Generale Cross Asset Research - Equity Analyst

I just had a couple of questions please. First of all Venezuela, if you could possibly, remind us of what is your exposure, so what is at risk for Repsol either in terms of balance sheet or either -- because clearly there is a deterioration? And secondly, looking at the divisional or -- sorry geographical split of your Upstream adjusted net income, and clearly North America remains loss making. I just wanted to ask what is the gas price and oil price breakeven for that business please.

Miguel Martínez San Martín Repsol, S.A. - CFO

In relation with Venezuela exposure, our total capital employed there is [EUR 2.4 billion]. Having said so, I think that somehow the focus is to limit that exposure around that level, and thanks to the actions we took financially talking, we have been able to maintain this level in the first half of the year. And I agree with you, the situation is critical there and let's hope for the best, especially for the Venezuelan people. In relation with the geographical upstream in North America, I would say that the gas price breakeven in Marcellus is around [\$2.3, \$2.4] all in and the other area in which we really produce gas, it's the Duvernay. And in the Duvernay, the figure is little higher, but it should be around [\$2.8, \$2.9]. So basically, it is not the gas, the one that is generating our losses there, it's more related to Eagle Ford and Mid-Continent than any other place. So, gas breakeven, I would say, that for the gas production, we are close today and it's the other assets the one that are generating somehow difficulties. In Greater Edson in which we have partially gas production, the breakeven point for the gas taking into account, a \$50 for the brand, for the oil would be around [\$2.7].

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

Our next question comes from Anish Kapadia at TPH.

Anish Kapadia Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - MD, Integrateds and Upstream Research

A couple of questions please. Just firstly on the Downstream, you've made a few disposals over the last couple of years in the Downstream, and the level of sell down seems to have slowed down. I was just wondering what is that that was remaining in the Downstream that you see as potentially non-core, so what further disposals could we potentially see in the next kind a year or 2? And then the second one is switching to the U.S., in your Northeast gas position in the U.S., I think the capital allocation there is obviously quite gas price sensitive. I think you've talked about potentially hedging some of your gas price exposure in the Northeast. Can you talk a bit more about your current strategy with regards to your current rig count, what you'd expect to do in various gas price scenarios, what you are in terms of hedging?

Miguel Martínez San Martín Repsol, S.A. - CFO

In relation with the disposal at the Downstream level, I would say that right now, we are not looking about any assets or company to be sold. I think that we are okay where we are. So there is not much remaining that we want to dispose. Having said so, if someone is really too overpaid and give us a non-unsolicited offer, for sure, we will be absolutely open. In relation with the second one, basically in general terms, we like to not to cover our position. This year too we did some little hedging in Canada, taking as a proxy, the Henry Hub or the Canadian prices, but it has been little. Basically all in, I may say that, loyally we do not hedge our production.

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

Our next question comes from Thomas Adolff of Credit Suisse.

Thomas Yoichi Adolff Crédit Suisse AG, Research Division - VP

I have 2, maybe 3 questions. Firstly on refining, obviously 2Q you suffered a bit from the Maya spread narrowing quite a bit. So I wondered whether -- what your truth flexibility is on [feeds] of choices presumably the reason why you processed quite a bit of Maya on the second quarter is because of term contract and linked that assuming that is the case for the second half of the year. I wondered what sort of Maya spread do you assume in your budget? Secondly, is it fair to assume from where you stand that you are \$1, -- if that's the case, I wondered whether you ever considered selling the dividend in US dollar terms as opposed to the Euro. Maybe finally, just kind of thinking out now at longer term, as you think about developing the Duvernay maybe with a slightly smaller stake than it is today, I wondered what the strategic rationale isn't staying in Trinidad and Tobago on the gas side.

Miguel Martínez San Martín Repsol, S.A. - CFO

In relation with the first one, we have total flexibility. The only thing is that we use Maya, because it is one that really fits in our analysis. I may say that it is not something we assume, we do not budget for the second half of the year, but we think as mentioned before, that it spreads between heavy and light crudes, will open in the second half of the year, basically because if it gets shrinking, there is no gain on using this type of crudes. So the demand will decline. So I would say, I hope or I expect a little improvement on the Maya spread versus what we have. Having said so, the name of the game for our system is flexibility on the feedstock. So, depending on which is the slate that provide us a better result or better return is the one we will use. In relation with the second one, dividend in US terms, well, you just gave me an idea. So I'll give it a thought, but initially we have not think of it, but I will give it a thought, I promise, okay. And strategic rationale in Trinidad and Tobago, well, it's an asset that provides free cash flow with the last two discoveries, really we can guarantee plateau for a long, long time. And as mentioned before, I mean we are happy as I mentioned in Downstream with these assets, which doesn't imply that if someone thinks that the asset is more valuable in their hands than in ours, we will relate to region but as of today, nobody has come close to us in relation with Trinidad and Tobago and that's it. I mean part of the assets have to be operated by us, some others we simply join forces with operators and we think that BP despite some I'll say last two years in which CapEx has been in my estimate a little higher than at least what I expected, the results are showing up and we expect good results in the short term for Trinidad and Tobago. Have also good vacations. I know that today and tomorrow, you're quite busy, but probably the day after you -- if you will have the deserved holidays.

Thomas Yoichi Adolff Crédit Suisse AG, Research Division - VP

And you too, thank you.



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

Our next question comes from Christyan Malek at JPMorgan.

Christyan Fawzi Malek JP Morgan Chase & Co, Research Division - MD and Head of the EMEA Oil and Gas Equity Research

Just two questions. First, just back on your capital framework, just wanted to be clear around the priority, I understand that you want to stabilize your rating, which you're effectively doing. Once you consolidated that, I mean, what is that platform to do, to spend more money and develop your profile beyond 2020 or will you direct that to switching off script and buying back shares, I just want to understand, what's the priority beyond a BBB stable rating. The second question at rise, you mentioned sustaining CapEx around [EUR 3.5 billion] to maintain production. How do you risk Libya and Venezuela and other countries in the context of that? And I guess the question behind that is do you have to spend more in the after years from 2018 in order to build sort of a production profile that gives you that cash breakeven you're looking for at the \$40 level?

Miguel Martínez San Martín Repsol, S.A. - CFO

Well, in relation with the first one, I mean to stabilize the credit rating, is not something that we do for the sake of having a credit rating. What is more important that it implies in our case having a very lean and flexible company financially talking, which is something we absolutely need for the future. So it also helps for the internal discipline with the businesses to attach to what we are proposing this year, which is basically cost efficiency, synergies, CapEx reductions. So I think that there are more things around the process of stabilizing credit ratings that just is for the sake of having the rating. The second question, I really don't understand it quite well. Can you repeat it please?

Christyan Fawzi Malek JP Morgan Chase & Co, Research Division - MD and Head of the EMEA Oil and Gas Equity Research

Yes, presumably does your CapEx have to go up next year?

Miguel Martínez San Martín Repsol, S.A. - CFO

No, as mentioned before, I think that we can keep our investment figure for the whole group at EUR 3.5 billion to maintain production and this is still 2022. For sure, if there are instabilities in some countries, this figure can be -- can change. I mean if disruptions in Libya turn back or if something is happened in Venezuela, for sure I cannot guarantee the [700]. But, all things equal, with the EUR 3.5 billion for the whole company, we would be able to maintain our production.

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

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

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

A couple of mine got answered already, but just one still left. After the two big turnarounds you've seen in Downstream in both the first and second quarters, could you comment if there's going to be any increasing complexity in your Downstream portfolio (inaudible) the opportunity when these big units are starting to add -- could add some earnings to your refining margin, it could be pretty attractive. Is that something that's possible? Thanks Miguel.

Miguel Martínez San Martín Repsol, S.A. - CFO

Not at the present time. Basically what we are aiming is to improve efficiency, energy savings and basically improving what we have, but we don't see any increase in our complexity or in our conversion in the system. I think that with efficiencies and the advantages we may obtain from digitalization of some of the processes we would be able to recapture even more margin than the one we are capturing today. So the work for the refining people is really to improve what they have, not to expect major investments in the refining complexity, okay?

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

Just one other if I am allowed. You've done a great job bringing CapEx down and saving lots of money and restructuring the business because in investment community, you are particularly big fans of scrip dividends and we all understand how necessary it's been to help you stabilize your credit rating. In the environment if we fast forward a year, also you feel comfortable with the level of free cash flow for the business, could you mention if your priority will it be to buy back stock or to cut the scrip or is this something we can see staying for long time?

Miguel Martínez San Martín Repsol, S.A. - CFO

I think that the order would be A, guarantee the BBB is stable. This is for us a must and in order I'll say, then we will come to the elimination of the scrip dividend, and I do not close the door. I mean if at the end, we do not have interesting investment opportunities then the whole door would be open for buybacks. But this is a forced step to say something. So first, it's going to be the BBB stable, B, would be the scrip, turning out the scrip, third, no possibilities of investments in the business. And finally, all of these are in, and we still have some extra, I wouldn't mind to buy back shares.

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

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

Michele della Vigna Goldman Sachs Group Inc., Research Division - Co-head of European Equity Research and MD

Miguel, I wanted to ask you a question that actually has nothing to do with the quarter, but rather, with some of the technological changes we're seeing in transportation, so there is increased focus on electric vehicles from both policymakers and consumers, and as a leader in all product marketing, I was wondering how you're thinking about integrating longer term charging stations within your fueling stations. And if you have set out anything in terms of budget and investments for authorities perhaps, you think it is too early?

Miguel Martínez San Martín Repsol, S.A. - CFO

Well, a couple of things here. First, we already have in the north of Spain, a network in which you can charge your vehicle, but as a first comment, it's in the best country and we will increase that probably thinking in the long term. Having said so, we don't expect the electric vehicle to have a real impact in our sales deal 2030, it's the first comment. Second comment, which I think that has not been mentioned, at least, I didn't see it, think that only a 25% of our products goes into light vehicles. So, refining have other factors, think of heavy trucks, think of ships, think of airplanes, think of chemicals, think of bitumen, so there are only a part of this linked to the light vehicle. And as mentioned, in the long term, we are going to be there and no major CapEx is needed once you have the sites. So in some way, I will welcome the utility companies to start putting services stations and once they have invested, we have the best locations and it's not going to be much, much expensive for us to drill into that in all their network. And as mentioned, we have a small area in the north of the Spain, which we already can charge our electric vehicles there.

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

Our next question comes from Giacomo Romeo at Macquarie.

Giacomo Romeo Macquarie Research - Analyst

Most of them are already answered. Just one very quick on chemicals. Just so that volumes are down for the second consecutive quarter, obviously very good margins, but just wondering what's the drivers for second quarter volumes being again down year-on-year, and whether you expect to see a recovery or even a growth year-on-year in the second part of the year?

Miguel Martínez San Martín Repsol, S.A. - CFO

The [indiscernible] was yesterday 2-point-something percent, so it is not that significant. And you have to think that we have a stoppage in our truckers in Cartagena, what you saw in Tarragona. So we have an impact there, but I think that we are going to be at the year-end around the levels of 2016.

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

Our next question comes from Alastair Syme at Citibank.

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

Can I just ask on the some of the assets that are not receiving a lot of capital, I mean, you mentioned the Eagle Ford and the Mid-Con. Is there really no M&A market for these assets or is it just the price differential that's so wide, if this is in your expectations?

Miguel Martínez San Martín Repsol, S.A. - CFO

I think that there is always market for any asset, but it's depending on prices, if results are more or less attractive. So right now, despite the fact that -- it's true that after-tax levels they are not generating profits, they generating cash as of today. So we are not active on any of these 2 assets into the M&A market as of today.

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

And you wouldn't see it is more beneficial, just to take the price on offer and reduce the leverage, improve the credit rating?

Miguel Martínez San Martín Repsol, S.A. - CFO

Well, I think that we have reached a point, if you remember in our strategic plan October '15, we mentioned that we were going to divest something around EUR 6.2 billion till 2020. Right now, we have in the first 18 months or 20 months already, we have divested EUR 5.1 billion. And if you look at the debt figure, we are reaching the level in which we may be at a given moment recognized by Standard & Poor's as BBB. So, really there is no need to [indiscernible] the efforts on the M&A as of today, especially at this price level. It is true that there has been some improvement especially linked to the bubble in the Permian, but even with that, we do prefer to remain where we are in both assets, both in Eagle Ford and in Mid-Continent as of today.

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

Our next question comes from Tristan de Jerphanion at Kepler.

Tristan de Jerphanion Kepler Cheuvreux, Research Division - Oil and Gas Equity Analyst

I think most of my questions have been answered, just maybe a quick one on Venezuela. You mentioned in Q4, I think it was \$600 million to \$650 million of receivables. I wanted to know whether that went in addition to your comment on capital employed and also how much of that is overdue and whether you think we could see maybe some write-downs going forward.

Miguel Martínez San Martín Repsol, S.A. - CFO

Basically, I mean when we talk about receivables in Venezuela, we also have to talk about payables. And my figure shows that the difference between receivables and payables at the year-end was \$259 million, at the end of this quarter, so half of the year. The differential has increased just in \$40 million. So right now this differential is \$299 million. So, basically, I may say that both in Cardon, the system we have agreed with the authorities to monetize our gas, and in Petroquiriquire with (inaudible), both systems are working, not at a perfect level, I may say Quiriquire is doing quite well, and in the case of Cardon, more or less we are recovering about high-50%^s, 57% of our billing. But also it is true that we are delaying also the payables. So all in, we are basically where we are 6 months ago.

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

Our next question comes from Jason Kenney at Santander.

Jason S. Kenney Grupo Santander, Research Division - Head of European Oil and Gas Equity Research

On tax, can you just give me some guidance around the divisional tax rates, and the (inaudible) corporate tax rate expected for the second half? And secondly, just noting reports on Vietnam and drilling in the China Sea, near the Spratly Islands, I think the report mentioned that \$300 million development commitment so far by Repsol Talisman, and obviously a lot of dispute there as to whether you'll see anything for that input so far. Any comments around that would be great.

Miguel Martínez San Martín Repsol, S.A. - CFO

The tax for the whole group at the year-end would be around 35% and the spread between divisions would be 25% for the Downstream division and around 50%, 52% for the Upstream division. So on average with our estimates for the full year would be around 35% for the whole group. And in relation with the Vietnam drilling first, the figure is not the [300], we have already spent \$27 million in the exploration. We are working with the PetroVietnam and with the Vietnamese authorities and the only comment is that right now, operations have been suspended and we will have to see what the output is, but as mentioned \$27 million is what we have spent till now in this well.

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

Our next question comes from Marc Kofler at Jefferies.

Marc B. Kofler *Jefferies LLC, Research Division - Equity Analyst*

Miguel, I just wanted to come back to your words around capital spending for the rest of this year and then I guess 2018 and beyond. Are you able to talk about the flexibility within the budget and I suppose really I was thinking is there any doors that move down further after some of the numbers that you're talking about today.

Miguel Martínez San Martín *Repsol, S.A. - CFO*

Well I mean in this year figure we practically do not have any flexibility, I mean commitments are already there, so not much room and the only deduction that we have been able to negotiate versus the initial budget, most of it has been improvements in efficiency in CapEx. But I mean the EUR 3.2 million, EUR 3.3 million for the whole group at the year-end is where we are going to be.

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

Our next question comes from Sonia Ruiz at GVC.

Sonia Ruiz De Garibay *GVC Gaesco Beka, SV, SA, Research Division - Analyst*

Two quick follow-up questions. One of which -- the first one is regarding dividend because we talked about the possible elimination of the scrip dividend once the BBB stable outlook is achieved. I just wanted to ask Miguel if this comes also with the consideration of a possible change in the quantity of the dividend because obviously, we consider the current number of shares and we multiply by [\$0.80], the amount of cash going out of the company in dividends is increasingly very high compared to the current levels. And the second question is a clarification on the taxation that we talked before. You mentioned if I am correct, that the Upstream business could register between 50% to 52% tax. So I suppose you are not -- you're considering a high increasing taxation in the second half of the year for this business because currently it's around a 36%, 35% just to see if I understand well, the tax issue.

Miguel Martínez San Martín *Repsol, S.A. - CFO*

Thanks Sonia. Well in relation with the dividend, I would like to enhance that at the end of decision would be in the board, so I don't want all of you to claim me once we reach the BBB stable. And then the board says well, still it is not the time, but at least my perception and my opinion is that I'll put that on the table. And in relation with the quantity, well, right now what we pretend is to be in the first quartile both in the oil sector with our peers, in oil and also being in the first quartile in Ibex 35. So this is more or less where we want to be in relation with the quantity. And with the tax rate, on there you have to consider that in the first half there has been some extraordinary items that were not taxable and that's the reason why and the figure for the first quarter looks lower. Basically some of those one-off items have been optimization or if you want synergies with former Talisman. We are not considering it in the figures we provide you about the EUR 2.1 billion of efficiency in synergies because is one-off, but we have been able to obtain some synergies backstocking in some countries linking former Talisman companies with former Repsol companies in order to maximize our fiscal terms. And that's the reason why you have that difference, but for the full year, our estimate today for the whole company is 35% and it's 25% for the Downstream and around 50%, a little higher in the Upstream division. Is that clear Sonia?

Sonia Ruiz De Garibay *GVC Gaesco Beka, SV, SA, Research Division - Analyst*

Yes, thank you very much Miguel.

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

That brings to a close of our question- and- answer session. And I'd like to close this conference call and wish all of you a happy and restful summer break. Thank you.

Operator

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



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