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PRESENTATION

Operator

Good day and welcome to the Repsol first-quarter 2015 results conference call. For your information, this conference is being recorded. Today's conference will be conducted by Mr. Miguel Martinez, CFO. A brief introduction will be given by Mr. Angel Bautista, Head of Investor Relations. I would now like to turn the conference over to Mr. Bautista. Please go ahead, sir.

Angel Bautista - Repsol SA - Head 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 first-quarter 2015 results. This presentation will be conducted by Mr. Miguel Martinez, our Chief Financial Officer. Other members of the Executive Committee will be joining us as well.

Before we start, I invite you to read our disclaimer notes. We may make forward-looking statements which are identified by the use of words such as will, expect or similar phrases. Recent results may differ materially depending on a number of factors as indicated on the slide. And I now hand the conference over to Mr. Miguel Martinez.

Miguel Martinez - Repsol SA - CFO

Thanks, Ange and thank you all for attending this conference on first quarter 2015 results. CCS adjusted net income of the quarter was EUR928m, 74% higher compared with the same period of last year.



Before going into detail with the results, let's review the structure of the conference. Today we will address three topics. First, an update on the acquisition of Talisman. Second, the market environment for the quarter together with the main operational highlights. And finally, the quarter results.

We needed the year 2014 with the announcement of the agreement with Talisman's Board of Directors to acquire the company. In order to consolidate our strategic objective of growing in our upstream division, we decided to enter into this transformational transaction. During these months, many people from both organizations have been devoting great efforts within the scope of the arrangement agreement in order to successfully close this transaction and achieve a smooth integration. As was already announced in our Annual General Meeting held on April 30, the closing of the transaction will take place tomorrow. Therefore, from tomorrow on, Talisman assets will be a part of Repsol and will consolidate within the upstream division.

Repsol enters into this new phase with almost no debt and the integration will take us to a pro forma net debt to capital employed ratio of 27%. After the closing, our pro forma consolidated liquidity will remain strong at more than \$8b, representing 2.7 times the short-term debt.

We will present information on that and the 2015 combined figures during the second quarter results presentation once we have signed, every asset its corresponding acquisition value.

Additionally, the Repsol Group will present a new strategic plan by the end of the year that will lay out the foundations for the expanded Group's activity with a very special focus on value creation. With our boarder portfolio, better opportunities will be created in order to unlock the value through portfolio management, a streamlining CapEx and through the allocation of capital to the most valuable projects and assets.

I'm sure you understand that we are unable to make any comments regarding Talisman assets or results until after the closing.

Let me now give you an update on the market environment and the operational activity of the quarter. Starting with the macroeconomic environment, during the first quarter of the year, the weakness in oil price continues, counterweighted by a strong US dollar. Brent crude prices after a month of January in which a minimum of \$45 per barrel was recorded, showed a small upward rally ending the period at the same level with which 2014 closed, around \$54 per barrel.

After the end of the quarter, we continue observing a certain upward trend in oil prices which supports our medium-term view of higher prices necessary to achieve the right balance between demand and supply. This scenario has occurred within a context of higher volatility which we believe will still be the case in the short term. However, thanks to the various correlation between oil prices and the US dollar, our earnings are somehow hedged, given that we generate our earnings in US dollars while a significant part of our expenses are euro denominated.

Nevertheless, what is more important is that our integrated model allows us to remain resilient even in a low-crude-oil price scenario. Sustained higher refining margins are protecting us in the short term from this situation. Additionally, the significant portion of our gas production not linked to oil price provides further stability. And on top of that, we have the likelihood of the dividend flow on results of our affiliate Gas Natural Fenosa, a stake that provides further optionality to protect the Company against any possible scenario.

Let me now address the operational activity of the quarter. Starting with the upstream business, in exploration, in this first quarter, six wells, five exploratory and one appraisal were concluded. One exploratory well with a positive result in Russia and one positive appraisal in Bolivia. The other four wells had a negative outcome. In April, we concluded two additional exploratory wells in Algeria and in Alaska, both with positive results.

Let me highlight the find in Algeria where continuing with the successful exploratory campaign, a new gas discovery was made, the TESO-2 well. It's the third one in the Illizi Block, a high-potential area in southeast Algeria. Repsol is the operator of the block with a 52.5% stake.

Additionally, in April, we conclude two appraisal wells with positive results in Alaska. The ongoing exploratory and appraisal campaigns in Alaska, Russia and Brazil continued advancing with good expectations on the results already obtained.



In Alaska, where we have already accomplished all the drilling goals in the limited period of time available, the production tests were positive. In Russia, a new discovery well in Block A1 will have contingent resources. And in Brazil, the Pao de Acucar appraisal 1 well, consolidated [considerable] volumes of resources in Campos 33.

Let me highlight also our activity in the prolific Caitipendi area in Bolivia where new discoveries in wells Margarita 7 and 8 with a 5m cubic meters per day production capacity will add reserves and bolster Repsol gas production in the country.

At April, 30, 12 exploratory and appraisal wells were ongoing out of which, seven are exploratory in Angola, Brazil, Peru, Norway and Romania. And five are appraisals, Brazil, Russia, Bolivia and the US.

Tnking about -- talking about our development projects, it's worth highlighting the progress in Sapinhua in Brazil. In Sapinhua North, the well was connected to our second FPSO in place, Cidade de Ilhabela, in November 2014. During the first quarter of 2015, a second well producing 40,000 barrels per day gross was connected. The quality of the reservoir is excellent and the economics per barrel will improve further with the opening of new wells.

At the end of 2015, peak production is expected to be reached in this second FPSO, which has a gross capacity of 150,000 barrels per day. Together with the first FPSO, the field will reach a plateau of 270,000 barrels per day.

In Venezuela, first gas from Cardon is planned for mid 2015. This first phase of the development will produce 150m standard cubic feet per day and we maintain the original date for the other phases.

Let me also give you another update on the situation in Libya. Unfortunately our production in the country continues to be interrupted and we have no visibility on when the situation may change. International efforts are concentrated on resolving the Libyan conflict and we will be ready to resume operations once the situation is normalized, since our facilities have remained in good shape throughout the conflict.

Turning to production, the average production for the quarter stood at 355,000 barrels of oil equivalent per day. The production was 4% higher year on year and 10% if Libya is stripped out from both years. The main factors behind the increase are the ramp up of Sapinhua and midcontinent and the start up in March 2014 of Kinteroni, all partially offset by the suspension of activity in Libya.

Compared to last quarter, production of 371,000 barrels of oil equivalent per day, the decrease is mainly attributable to the effect of the total interruption of production in Libya during this quarter that compares to 15,000 barrels of oil equivalent per day produced in the fourth quarter 2014 and other minor decreases in Kinteroni, and Trinidad and Tobago.

In relation with costs, Repsol has always, especially in the current situation, has applied strict cost efficiency culture. Several cost reduction-initiatives are already in place and are starting to deliver with regards to high-impact drilling and logistic costs. Others are also being identified to be implemented in the near term.

This quarter, we already had a 5.7% year-on-year decrease of upstream operating costs on a homogeneous basis.

Moving now to the operational highlights of the downstream division. And with regards to the refining environment, we have average record margins during the quarter thanks to the strengthening of the spreads of products link and modeling to oil prices, together with lower energy costs. We were able to further capture the benefits of this advantageous situation due to the complexity of our refining system reached after the strategic investments carried on out in our refining system between 2007 and 2011 and the self-consumption efficiency program, addressed under the CO2 emission reduction program. In 2014, these energy savings rendered an extra premium of \$1 per barrel compared to 2011 when this program was put in place.

Our refining margin indicator in the quarter was \$8.7 per barrel, higher than the \$3.9 per barrel reached during the first quarter of 2014. The distillation utilization rate was 82% during the quarter, while conversion capacity reached 99% of utilization.

During the beginning of the second quarter, we continue enjoying solid refining margins.

In petrochemicals, the competitiveness program that we put in place some quarters ago allows us to increase efficiency, creating operational improvements in our sites. This, together with higher sales and improved margins, allows us to enhance the positive results achieved in previous quarters.

In the commercial business, marketing and LPG, we had higher volumes. Let me emphasize that in the first quarter of 2015, sales in our marketing division in the Iberian Peninsula and the market in general continued the growth trends seen in 2014.

In gas and power, while sales increased, the price environment in North America was tougher. Price fell around 40% year on year and the gas price reference, [Algonquin], lost almost \$9 per 1m BTU. Despite these factors, our result was above breakeven.

Let me now move to the first quarter 2014 -- 2015 earnings performance. First quarter 2015, CCS adjusted net income was EUR928m, 74% higher compared with the same period of last year. The good results in the downstream business and the one-off gains coming from the exchange rate positions due to the net -- dollar position held for the acquisition of Talisman more than compensated the lower results coming from the upstream business.

It's worth noting that even in this challenging scenario, the Company has been free cash flow positive during the quarter.

Starting with the upstream business, adjusted net income for the first quarter was minus EUR190m. The result has been affected by the lower oil prices; the suspension of our Libyan operations that had an impact of EUR148m on the operating income and EUR51m at the net income level, the exploration costs, the unusual FX related to the depreciation of the real against the dollar in Brazil in an amount of EUR69m, and the one-off adjustments in Venezuela carried from 2014 coming from the operator in an amount of EUR50m.

The year-on-year performance excluding Libya is explained as follows. Lower crude and gas realization prices had a negative impact at the operating level of EUR349m. Higher production, thanks to the ramp up of Sapinhoa, midcontinent, and the start up production in Kinteroni in March 2014 resulted in a positive impact of EUR76m.

Higher exploration costs led to a decrease in the operating income of EUR75m. The increased costs were mainly due to higher amortization of wells, among which it's worth highlighting, Aster in Canada, Key Largo in Gulf of Mexico and [Amoshi] in Angola. Higher depreciation charges due to higher production had a negative impact of EUR22m.

Taxes had a positive impact of EUR42m; however, the overall tax expense should have been much lower in this quarter, given that the upstream division had a negative operating income during the quarter. The higher tax expense was largely driven by the effects related to the depreciation of the local currency against the dollar in Brazil. Income of equity affiliates and non-controlling interests, the exchange rate effects and others explain the remaining differences.

Turning to our downstream division, CCS adjusted net income in the quarter was EUR534m, which comes with the EUR290m of first quarter 2014.

Drilling down into the quarterly results, in refining, we saw a year-on-year increase in margins per barrel due to a generalized strengthening of the product spread and to lower energy costs derived from the efforts in efficiency undertaken in the past years. These higher margins and also a higher utilization rate had a positive impact at the operating level of EUR295m.

It's worth noting that EUR23m of the increase in operating income corresponds to the improvement of the refining activity in Peru.

In the petrochemical business, wider margins and higher volumes allow us to improve the operating income by EUR97m. This improvement is due to the competitiveness programs implemented together with a better market environment.

In the commercial division the LPG was the main driver of the EUR74m increase in the operating income.

Moving to gas and power, the operating income of this division was positive during the quarter. However -- sorry, higher volumes were commercialized; however, there as a year-on-year decrease of EUR210m that is explained by, on the one hand, the outstanding results of Q1 2014 and, on the other, the lower commercialization prices in North America.

Finally, trading results, the exchange rate effect and others explain the remaining differences.

In Gas Natural Fenosa, the EUR122m adjusted net income in the first quarter of 2015 was flat year on year. The contribution from the Chilean affiliate was offset by higher financial expenses and minority interests.

In the quarter, it's worth highlighting the remarkable performance of the financial results which registered a positive amount of EUR655m. Since we monetize our Argentinean assets, we held a net long-cash position in dollars. In December 2014, this dollar position was further lengthened when Repsol agreed to acquisition of Talisman, in order to pay the transaction and because our macroeconomic analysis forecasted strong signs of a dollar appreciation in the period to come. Let me explain the reasons behind our forecast, based on the emerging Eurozone and US economic and monetary policies.

After the IMF increased the probability of a Eurozone recession in October 2014, it had been clear that the euro would weaken substantially against the dollar. However, the trigger for our view for a further weakening of the euro and a strengthening of the dollar was the ECB announcement of a EUR1 trillion increase in its balance sheet. This announcement occurred just as the US Fed finished the tapering of its own period of quantitative easing. These two actions, in effect, were a reversion of the previous two years of ECB contraction and Fed expansion and provided a clear indication of a change in relationship between the dollar and the euro. The results achieved have confirmed our view to be correct, and during the first quarter we have registered a significant and positive result in the context of the dollar appreciation.

From March onwards, with the likelihood of closing of the Talisman acquisition, this dollar position has become an accounting hedge with zero impact on the Company's P&L.

To finalize, I may say that this quarter -- in this quarter we have delivered a solid set of results with improved performance of our downstream business and the results obtained in financials that offset the lower results in the upstream division.

2015 is the year in which Repsol will consolidate the transformation that began last year with the definite exit from Argentina and the acquisition of Talisman. During this quarter, we have taken the steps in order to achieve this transformation and we have been able to demonstrate that our integrated model is resilient even in this low-price oil scenario.

We are now focusing on a smooth integration of Talisman, which is already a reality, and thereafter on establishing the strategy of Repsol. Thank you very much and we will be pleased to answer any questions you may wish to ask.

QUESTIONS AND ANSWERS

Angel Bautista - Repsol SA - Head of IR

Thank you very much. We are now -- yes?

Operator

(Operator Instructions).



Angel Bautista - Repsol SA - Head of IR

Thank you. Let's move into the Q&A session. We'll address your questions in principle only by phone but we'll also enable a chat just in case we have any connection problems, but please only use it in case we actually have these connection problems. Now let's start. Filipe Rosa, Espirito Santo Investment.

Filipe Rosa - Espirito Santo Investment - Analyst

Hi. Good morning. Good morning, to you all. Three questions from me. The first one, I would like to know whether, at this stage, with the strong results that you delivered in the -- in downstream and the fact that refining margins, according to your presentation, remain quite strong in Q2, are you willing to raise your guidance for downstream EBITDA from current -- I think that currently it's EUR2.5b. Would you, at this stage, the fact that you've already delivered close to 40% of that amount in Q1, would you be willing to raise your guidance and to what level? That's my first question.

My second question, just to follow up on the financial impact from the FX. I don't know if I understood it correctly but you booked in the Q1 an impact of EUR655m. I don't know whether this is in terms of net income or in terms of financial income. But my question is, just trying to understand, the fact that the euro-dollar has now moved to 1.13, would this have any impact on your P&L? Or -- because you say that your dollar position will become an accounting hedge, so no impact on P&L. I'm just trying to understand, on a full-year basis, okay, for 2015, what will be the impact we should expect? Just to Q1 or you will not account any impact at all?

And my third question relates to the fact that you have booked tax revenues in your cash flow statement. So instead of paying taxes you have received taxes. And in your P&L you have taxes that you're supposed to pay, so there is a gap between the -- your cash taxes and your P&L taxes. So I would just like to understand what was the main driver for this and what should we expect over the next quarters? Should there be a difference between your -- any major difference between your P&L taxes and your cash taxes? Thank you very much.

Miguel Martinez - Repsol SA - CFO

Thanks, Filipe. Starting with the second question, the accounting rules shows you that you have to be really confident so that the probability of the transaction was clear before hedging it. So what we have done, and we have done that since May last year, was to be long in dollars through swaps. We increased that position in December, in January and in February. And if you remember, the first signals that we received that the transaction had good possibilities came after the general assembly of Talisman was held on February 18. And then we have by the beginning of March also good input from the authorities that we really can generate the precedent conditions like in [investment] Canada. So at this moment in which the probability was clear, we hedge.

So answering your question, no impact on the dollar would affect P&L in the following quarter due to the fact that we have hedged our position in the first part of March.

In relation to the guidance for downstream EBITDA, it's true that the results are much, much better than we initially estimate. And I have to say that in the other side upstream was a little lower. So in global terms, and it shows the resilience, we are more or less where we should be. But I agree with you, it looks like it's going to be higher, let's say between EUR2.8b and EUR3b at CCS. I think that the EBITDA would be there.

And in relation with the last one, it's simply a cash situation. We have banked cash before to the authorities here in Spain basically, and at the yearend they have to turn it back to us. So it's just, I would say, a timing difference between the accounting and the cash situation.

Filipe Rosa - Espirito Santo Investment - Analyst

Okay. Thank you very much.



Miguel Martinez - *Repsol SA - CFO*

(multiple speakers) for the future. You're welcome, Filipe.

Filipe Rosa - *Espirito Santo Investment - Analyst*

Okay. Thank you.

Angel Bautista - *Repsol SA - Head of IR*

Gracias, Filipe. Brendan Warn, Bank of Montreal.

Brendan Warn - *Bank of Montreal - Analyst*

Yes, thank you and good afternoon, gentlemen. It's Brendan Warn from BMO Capital Markets. I just want to ask a couple of questions focused on the upstream and just focused on a comment -- if you could expand on a comment you made in your statement today just that your operating income of the upstream division would have been positive excluding exploration costs in light of no contributions from Libya.

And could you just expand on, if I correctly -- if I've caught it correctly, that you've achieved 5.7% operating costs reductions year on year in the upstream, just what you believe will be achievable and what will remain sticky in terms of cost saving?

And could you just further expand that in terms of the net CapEx expenditure in the upstream? If you could just split out or talk about what was expansion or development CapEx versus maintenance?

And, again, just what sort of structural maintenance CapEx cost savings do you believe you've been able to achieve and will see throughout this year? Thank you.

Miguel Martinez - *Repsol SA - CFO*

Thanks, Brendan. In relation with the first one, in a like-for-like basis, we obtained a reduction of 5.7%. Looking forward, our objective is to cut \$5 per barrel and gain \$5 per barrel. On those, one will be main efficiency, two of them will come from a lower exploration costs, I mean things that we are moving our CapEx comparison with last year from \$1.9b down to \$1.3b. So \$2 would be saved in exploration.

And finally, the entrance of Cardon and Sapinhoa, which will reduce the breakeven point, so in comparison with this quarter, we expect a cost reduction of \$5 per barrel on average.

In relation with the net CapEx, we keep with the -- in the upstream division, we keep with the 27% reduction in comparison with last year in dollar terms, so that implies that from a \$3.8b we invested last year, we are cutting it down to \$2.7b. I don't have the split with me of between maintenance and development. But through our IR people, we'll send you the split of the \$2.7b between development and maintenance. Okay?

Brendan Warn - *Bank of Montreal - Analyst*

Okay, thanks, Miguel.

Miguel Martinez - *Repsol SA - CFO*

You're welcome, Brendan.

Angel Bautista - *Repsol SA - Head of IR*

Thank you Brendan. Haythem Rashed, Morgan Stanley.

Haythem Rashed - *Morgan Stanley - Analyst*

Thank you, Angel. Good afternoon, gentlemen. Just two questions from my side, please. Perhaps if I could just pick up on the CapEx question or the discussion around CapEx in the last question? Perhaps just, Miguel, if you could talk a little bit about the phasing for the rest of the year. So you mentioned obviously you maintained the 27% cut in dollar terms. So when I look at Q1, it looks like we haven't seen much of a decrease, at least in euro terms. So just to be clear, the 27% cut, does that incorporate a fairly substantial assumption around just FX and the tailwind around FX moves? Or is that a sort of underlying 27% cut ex the ex-dollar euro moves?

Second question that I had was just relating to the Mississippi lime. You talked about that being a contributor to growth year on year. Looking for the rest of this year, perhaps you could talk a little bit about how you think that will play out in the current oil price environment in terms of activity levels? But also, last week we saw one of your peers take some substantial impairments in the US on conventional upstream. I just wondered where you were at with your -- what you have on the balance sheet for the Mississippi line play? Whether that's something that you need to revisit or whether you're comfortable with where it is today? Thank you.

Miguel Martinez - *Repsol SA - CFO*

Thanks, Haythem. Starting with the first one, I would say that the 27% in dollars refers to a 12% in euro terms. So with that I think that you have the data.

Also it may sound that the first -- the figure of the first quarter in CapEx was a little higher, but you have to take into account that in Cardon we're waiting for the entrance of PDVSA which will take -- will reduce our percent stake down to a 32.5%. Right now, Eni and ourselves are holding the whole CapEx of Cardon.

So we expect to be aligned with the strategic budget, with the budget that is -- shows the figure that I told you, \$2.7b with a reduction of 27% in dollar terms and EUR2.5b, which is a 12% reduction in euro terms.

In relation with the Mississippi line, first I have to say that last year we took an impairment of approximately \$300m. And all impairments are analyzed in a long-term view. So difficult to assess as of today whether or not there will be an extra impairment there.

What I can tell you is that we have already paid all the carry of this investment and we are working now with eight rigs along with the operator. And the idea at least in this first quarter, the production has been flat and we are only operating with eight rigs. So looking more for value than for growth.

I think that I answered your two questions?

Haythem Rashed - *Morgan Stanley - Analyst*

Yes, thank you Miguel, that's very helpful. Thanks.



Angel Bautista - Repsol SA - Head of IR

Thank you, Haythem, as always. Now let's move to Thomas Adolff from Credit Suisse. Hi, Thomas, good to speak again with you today. Go ahead with your questions.

Thomas Adolff - Credit Suisse - Analyst

Thanks Angel, hi Miguel. Two questions please. One on just free cash flow since Miguel's such a good forecaster. Presumably you have no visibility on Libya and let's say there's no production in Libya for 2015. The US is the US, SandRidge and Eagle Ford from Talisman, debatable. Canada, potentially new taxes. The UK is the UK and will be tough. So if we take that into account with your revised view on downstream and say \$65 Brent on average for 2015, where do you think free cash flow will be assuming a 60% scrip take up?

Second question is on BMS 9. I probably know the answer but I still want to ask you. You obviously have the first right of refusal and I wondered whether you will be interested in it? Thank you.

Miguel Martinez - Repsol SA - CFO

Thanks, Thomas. In relation -- well, first thanks for the comment on my capability of prediction. I am not that sure of it.

But in recurrent basis, we ended up the first quarter even and a little above -- and taking only the recurring factors. Taking out the financial gains. I expect the second -- the nine months that we have in front to be a little better than the one we had this quarter for several reasons. First, we believe that the price deck for the rest of the year would be better than the \$54 on average we have had in the first quarter.

Second, we have some, I would say, issues in the upstream division like the EUR70m of penalty in Brazil -- which doesn't imply cash but it's a penalty on the taxation due to the relation between the real and the dollar.

And also I think that the rest of the year would be less risky in exploration terms. We have more appraisals in front of us. So basically with this 60% scrip which has already been included in the figures that I provide you about free cash in the first quarter, we paid the dividend in January. So the quarter is affected by -- and penalized by the dividends we paid.

So I'm a little more optimistic than the neutral free cash we obtained in the first quarter. The relation -- in relation with the BMS 9, we don't have the first right of refusal.

Thomas Adolff - Credit Suisse - Analyst

It's Petrobas?

Miguel Martinez - Repsol SA - CFO

Normally these rights of refusal refers to a percentage of a global transaction. And BMS 9 in comparison with the whole transaction is -- and doesn't reach the limit. So we don't have any right of refusal there. Okay?

Thomas Adolff - Credit Suisse - Analyst

Thank you. Just a follow up on the first question, when you say free cash flow neutrality of 60% scrip take up, that also includes your view on the Talisman assets, as and when you integrate them from tomorrow?



Miguel Martinez - *Repsol SA - CFO*

For sure it doesn't.

Thomas Adolff - *Credit Suisse - Analyst*

It doesn't, okay, got it.

Miguel Martinez - *Repsol SA - CFO*

It doesn't. Just Repsol in a standalone basis.

Thomas Adolff - *Credit Suisse - Analyst*

Okay.

Miguel Martinez - *Repsol SA - CFO*

Okay?

Thomas Adolff - *Credit Suisse - Analyst*

Thank you very much.

Miguel Martinez - *Repsol SA - CFO*

You're welcome, Thomas.

Angel Bautista - *Repsol SA - Head of IR*

Thank you, Thomas. Now let's move to Biraj Borkhataria from Royal Bank of Canada. Go ahead with your question, Biraj.

Biraj Borkhataria - *RBC Securities - Analyst*

Hi, Angel and Miguel, thanks for taking my question. I had a couple on Sapinhua in Brazil, if I may. You mentioned the 40,000-barrels-a-day flow rate for the second well. I was wondering if you could comment on what you were seeing currently on the first well of the second FPSO? Is that number close to 40,000?

And also could you comment on when you expect the next wells there to be hooked up? Thanks.

Miguel Martinez - *Repsol SA - CFO*

In relation with the first one, they are telling me that yes. The first tie in well was approximately giving the same result as the one I mentioned in my speech. And it has been typical for all the wells we have been tying in in Sapinhua. In the first -- if you remember, in the first FPSO initially our



plan was to tie in five wells. But due to the productivity of those, simply with nine wells we were able to really do all the job there. So the answer is yes.

And in relation with the schedule, I would say that it would be progressive. And the last one would be connected by the end of the year. So if you split between now and December the three other wells will be connected in more or less -- with the same path, okay?

Biraj Borkhataria - *RBC Securities - Analyst*

That's very helpful, thanks.

Miguel Martinez - *Repsol SA - CFO*

You're welcome.

Angel Bautista - *Repsol SA - Head of IR*

Okay, thank you, Biraj, as always. Well, Matt -- Matt Lofting from Nomura, hello, how are you? Please go ahead.

Matt Lofting - *Nomura - Analyst*

Hey, thanks, Angel. Two questions if I could. Firstly just, Miguel, I think on a gearing perspective you talked about 27% net debt to capital employed on the closure of the transaction. If you could just, as a point of clarification, flag what -- how much equity treatment on the hybrid issue you're assuming in that?

And then secondly on hedging, I know at this point you can't discuss Talisman's assets but I just wondered if you could discuss the prevailing hedges they've had on the North American business and whether Repsol at this point would think about looking to continue running them or whether you think about monetizing them upfront and then taking the full spot exposure going forward into the second half of the year? Thanks.

Miguel Martinez - *Repsol SA - CFO*

Thanks, Matt. The gearing that we provide was linked to the accounting system. So we are considering \$1b out of the \$2b as equity. And the other one as debt, okay?

And in relation with hedges in North America, we are going to monetize it and we don't hedge our production. So we will keep ahead with our policy.

Matt Lofting - *Nomura - Analyst*

Great, very clear, thanks a lot.

Miguel Martinez - *Repsol SA - CFO*

You're welcome, Matt.



Angel Bautista - *Repsol SA - Head of IR*

Thanks, Matt, and now Nitin Sharma from JPMorgan. Hi Nitin, go ahead with your question.

Nitin Sharma - *JPMorgan Cazenove - Analyst*

Thanks, afternoon, gentlemen. Two questions from me, please. The first one on shareholder structure. And Miguel, I know that it's limited what you can say on this, but recent press reports have suggested that one of your -- or rather your biggest shareholder Caixabank may be looking at partial sale of stake. So could you share some thoughts on the subject please?

And second one, coming back to the issue of impairments, and this time on Libya, ongoing instability, shut production and the story has been same for some time in the region. When do you start looking at these assets in terms of impairing them? I ask this question because one of your peers has impaired all of their onshore Libyan assets. So I'm just wondering if some of your partners are thinking about those assets in these terms? Would that force Repsol also to reassess the carrying value of these assets? Thanks.

Miguel Martinez - *Repsol SA - CFO*

Thanks, Nitin. In relation with the first one, the Chairman of Caixabank told us I think it was last week -- yes, it was last week -- that his idea is simply to allocate our shares in Criteria instead of the bank. So there's not any sale process. It's simply a restructuring of their portfolio. And these were his words.

And in relation with the impairment in Libya, I think that Total impaired, didn't write off -- didn't make any write off in the reserves, at least they didn't announce it.

We have, if I'm not wrong, till 2035, contract in our fields in Libya, 2035. So in our opinion it's a little too early to start with impairment. We have to see how the political situation evolves. And on top of that, no other operator as far as I know impaired their assets in Libya. So as of today, we keep attached to our way of thinking. And we will see, hopefully the future will be better for the country. Because I think it's totally needed for the people of Libya and for Europe to solve this situation ASAP.

Nitin Sharma - *JPMorgan Cazenove - Analyst*

Thanks, Miguel, very clear, thank you.

Miguel Martinez - *Repsol SA - CFO*

Thanks, Nitin.

Angel Bautista - *Repsol SA - Head of IR*

Thank you very much as always, Nitin. Hamish Clegg, go ahead with your question from Bank of America Merrill Lynch.

Hamish Clegg - *BofA Merrill Lynch - Analyst*

Good afternoon, gentlemen. Just with would echo Thomas's compliments on your predicting ability. I'm sure many hedge funds would be envious.

I wondered if you could expand on the underlying position you took in the euro-dollar. If I'm not mistaken it's around EUR8b. And given the gain you made, it implies you may have made slightly more than the 6.2% move between the currency. Could you give us a bit more detail on that?

And also, can you tell me if I'm right in thinking about this as more of a zero sum gain because the effective price you'd be paying for Talisman is higher because of this move in the exchange rate? Would this reverse in the second quarter following closure of the deal?

My second question is still on your predicting ability. Given refining margins are so strong right now and there's some skepticism in the market, would you consider hedging and locking in some of these high margins? Those are my two questions.

Miguel Martinez - Repsol SA - CFO

The second one is easier, and we don't hedge refining margin either. So we will keep attached to our policy and we will see. So there would be no hedges there.

And in relation with the first one, it's true that afterwards in euro terms the transaction will have a higher price. The only thing is that the only way that accounting you can hedge the position is when you have certainty of the transaction to happen. So the only -- we have two options. Either don't do anything or really did what we did, which was take long positions in dollars. And at the moment in which the certainty of the transaction was there we hedged.

Having said so, fiscally will not be a major damage because cash [stocking] we have shields that we can take in advance. So I would say it's no major impact other than the -- that we took the position upfront. If we hadn't done it, we would be paying the transaction higher and we would not have made the EUR700m we made with the dollar-euro game, okay?

Hamish Clegg - BofA Merrill Lynch - Analyst

So what was the underlying investment? I know you said it was through swaps?

Miguel Martinez - Repsol SA - CFO

Yes, it was through -- all of them were through swaps. Buying, selling, basically during December -- well, during January, February and the first week of March when the real rally between dollar and euro happened.

Hamish Clegg - BofA Merrill Lynch - Analyst

Okay.

Miguel Martinez - Repsol SA - CFO

Okay, thank you, Hamish.

Hamish Clegg - BofA Merrill Lynch - Analyst

Thank you, thanks a lot guys.

Angel Bautista - Repsol SA - Head of IR

Thank you, Hamish. And now Irene Himona from Societe General. Hi Irene, good to speak with you again. Go ahead with your questions.



Irene Himona - *Societe General - Analyst*

Hello, hello, good afternoon. I had two questions, please. So firstly a question on the downstream. Miguel, if you could possibly talk about the drivers behind the near 10% year-on-year increase in your oil product sales? There was a 13% increase in petrochemical sales. Is it demand-related, is it sustainable? What does the rest of the year look like?

And within the downstream, LPG, year on year the EBIT nearly doubled. Again, can you talk about the drivers and the sustainability into the rest of 2015?

My second question, you indicated that by year end, November perhaps, you will be announcing the new strategic plan for the enlarged Repsol plus Talisman unit. The deal was obviously agreed in December last year, you had originally approached them in July. Why does the market have to wait nearly a year to get more visibility on this -- on the new Repsol? Thank you.

Miguel Martinez - *Repsol SA - CFO*

Okay, starting with the second one that is easier. First, legally I cannot have all the information till I close the deal. First comment.

Second, you have to think that we have to restate all the balance sheet of Talisman because we have to allocate the price to the -- the purchase price to the different assets. So once we have had some hands on in the company is when we can really start working. Having said so, our idea is to be within two weeks with a group of analysts in London just to establish a work plan to help you with the -- to see how can we help you with the modelling of the new company. And we will have to restate all the figures with the new balance sheet for 2014 in order for you to have a better comparison next -- in the next quarters.

But it's the way it is. Legally, today we do not own Talisman and we don't have the access to all the data that is required.

In relation with the downstream, I have to say that the strong results in LPG also refers to the delay on the formula. We are taking advantage of a -- the formula refers to a longer period in the past. So there's an advantage that we have taken because the price formula refers to LPG prices with six months of differences, more or less. The advantage is that most of the consumption comes during the winter. So we have taken most of the volumes in the moment in which the margins were higher.

And in relation with chemicals, I would say that the national market is moving up. We are seeing real improvements in almost all the lines and the activity in Spain is growing. Probably would be this year well above 3% in GDP. And what is important also, related to our business is that the construction, which is a high consumer, is starting to move up by 2%.

So all things are moving in the right direction. So sales are looking in the right direction. Okay, Irene?

Irene Himona - *Societe General - Analyst*

Thanks very much, thank you, Miguel.

Angel Bautista - *Repsol SA - Head of IR*

Thank you very much, Irene. Now, let's move to Jon Rigby from UBS. Hi, Jon, how are you? Go ahead with your questions please.

Jon Rigby - UBS - Analyst

Hi, guys, yes, I'm well thank you. Thanks, I've got two and a half questions, I guess. The first is just on tax rates. Obviously it's a weird quarter this quarter in the upstream. I notice there's a tick-down a little bit in the downstream tax rates as well. So can you just run through what your expectation is the segmental tax rates on a go-forward basis, around assumptions, I guess? The Libya assumption is key in the upstream.

The second is just on the couple of the -- dry hole costs and their tax effects. Is it possible that some of those, I guess, tax credits can come back at some point or other, thinking Canada and the US, once you start bringing in some more North American income with Talisman?

And then the other big main question is, just on Angola, can you just run through for me what further commitments you have in Angola and what the carrying value of Angola is on your balance sheet please? Thanks.

Miguel Martinez - Repsol SA - CFO

Thanks, Jon, for the two and a half questions. Starting with tax rates, it's going to depend much on prices, it's going to depend as you mentioned in Libya. As of today, if I have to make another assumption or to predict, I will grab to something like 41% on the upstream level and 28% at the downstream level. In relation with Angola, we have already committed with all the conditions of the authorities.

Having said so, we still have one extra well that has been agreed with our partners. So after we finish the ongoing drilling, we'll have still one well to go, but it's not mandatory, it's just because we have decided to go for it.

And in relation with dry holes and tax effects in the US and Canada, I will have to give it a second thought. In the US basically we are making money so we are discounting the dry holes there. The situation in Canada, it's something I may analyze. I'm not able to provide you an answer -- right answer right now. Okay, Jon?

Jon Rigby - UBS - Analyst

Yes, and just on Angola, have you got residual signature bonuses and things like in addition to the wealth commitment? Is there a trigger point of a final well is drilled and not found to be commercial, that there's going to be a point at which you then have to look at the carrying value?

Miguel Martinez - Repsol SA - CFO

Okay, the whole thing that we have put in it has been \$400m, as of today. Around \$400m, okay?

Jon Rigby - UBS - Analyst

Super, thank you.

Miguel Martinez - Repsol SA - CFO

You're welcome, Jon.

Angel Bautista - Repsol SA - Head of IR

Thank you very much, Jon. Now let's move to Lydia Rainforth from Barclays. Hi Lydia, good to speak with you. Go ahead with your questions.

Lydia Rainforth - Barclays - Analyst

Thanks, Miguel, and good afternoon. A couple of questions if I could. Firstly on Talisman, and I appreciate there isn't a huge amount you can say at the moment. But how long do you think it will be before you're able to make changes to that business? So effectively that integration process, is it a case of once the deal closes tomorrow, it's then just going to take time before you can do -- make any changes? Or are there things that you can do within the North Sea and the US particularly, that you can do much more quickly?

And then the second one was just on the financing and we've done EUR3b of the hybrid already. I know the plan was up to EUR5b, I just wanted to check that was still the case? Thank you.

Miguel Martinez - Repsol SA - CFO

Well in relation with the first one, I will say that we would be in the driving seat next year and probably to really obtain the full integration will take a little longer. But this year, basically, all the commitments were taken. So we cannot do much on 2015. Though I think that 2016 would be the first year in which we would be able to handle the combined entity in the direction we wanted.

In relation with the issuance of hybrids, the answer is yes. And probably in the second part of the year, we'll be issuing the other up to EUR3b extra in hybrids. This is a condition that we agreed with the agencies in December and we will deliver on it.

Lydia Rainforth - Barclays - Analyst

Okay.

Miguel Martinez - Repsol SA - CFO

Okay, Lydia?

Lydia Rainforth - Barclays - Analyst

Thank you, and just as a very quick follow up, just giving the forecasting side, do you have an indication of where do you -- where you think the pro-forma gearing will end the year at?

Miguel Martinez - Repsol SA - CFO

No idea at the present time, Lydia.

Lydia Rainforth - Barclays - Analyst

Okay, thanks, it was (multiple speakers).

Miguel Martinez - Repsol SA - CFO

Yes, I refer to the combined entity. We have to look at it but it shouldn't -- I don't expect that the combined entity will be really free cash negative massively.

So if we start up with a 27, probably it will increase a little. But we have to wait. I don't have the figures. I don't even have the new accounts that we have to generate. So it's quite difficult to assess any comment because the first move has to be to assess our purchase price into the different assets of Talisman based on our evaluation. So the whole accounting will change dramatically, I suspect.

And in relation with the hybrids, it's going also to depend on whether or not we issue it perpetual or not. So also a little early. So I cannot give you much input at the present time. Sorry about that, Lydia.

Lydia Rainforth - *Barclays - Analyst*

No, that's still hugely helpful, thank you.

Miguel Martinez - *Repsol SA - CFO*

Bye.

Angel Bautista - *Repsol SA - Head of IR*

Thank you very much, Lydia. And now let's move to Anish Kapadia from TPH, Tudor Pickering Holt. Go ahead Anish, go ahead with your questions.

Anish Kapadia - *Tudor Pickering Holt - Analyst*

Yes, thanks very much. I have three questions if possible. Firstly just going back to Talisman again, in their end of year reserve result I think their proven reserves fell almost 20% in 2014 versus 2013. I was just wondering if that was something that you were expecting at the time when you did the deal or if that came as a surprise to you.

And then second question was on the US. SandRidge has announced a pretty large cut to the number of rigs running in the Mississippi lime. I was wondering if you can outline what the means for production over the next 12 months or so? But also in terms of cash flow, CapEx for that JV?

And then the final question was just to get your view on North American gas prices. Clearly you're increasing your exposure into the North American gas prices and also quite importantly your view on the differentials in Canada and the Northeast. We saw Canadian gas prices averaging around \$2 per MCF and -- so far this year. So just wanted to get an idea of where you see gas prices going in terms of the Henry Hub, but also the differentials in the key areas of Marcellus and Canada. Thank you.

Miguel Martinez - *Repsol SA - CFO*

Thanks, Anish. In [relates] with the results you mentioned, no surprises. And I think that part of it related to the sale of Mottney that were sold in 2014. But no surprises in our side.

In relation with SandRidge, as mentioned, we are reducing the number of rigs we're using there. And the basic idea is to play for value growth not for -- not for production. So CapEx will shrink approximately to a 50% this year in comparison with the last one.

And finally in relation with North America gas prices, I don't have any personal view of any comment we may make. But at the end, if you cut the number of rigs that are producing the gas associate with the liquid will imply that will have less gas in the offer side. So probably a figure a little higher than \$3 which would be higher than the one we have, the \$2.5 we have this year.

Probably -- I may think optimistically because in the other side with this lower side, demand will go up. So the logic shows us that demand will grow while at the same time the offer will shrink. So I'm optimistic today. So I may say that \$3 is a figure that may be reachable.



Did I answer you, Anish?

Anish Kapadia - *Tudor Pickering Holt - Analyst*

Yes, no, I suppose just in follow up to that, just get an idea of the cuts that you're making with SandRidge, just wondering what that implies potentially for Talisman? Are those cuts because SandRidge can't afford the CapEx or are they because you think it's a prudent move in a lower oil and gas price environment? Obviously you've got the -- you've got to take a decision on Talisman whether you cut back the number of rigs that they're running. Just wondering why you made that decision with SandRidge?

Miguel Martinez - *Repsol SA - CFO*

Well, I refer to my previous answer. We are cutting CapEx by half and basically we expect the production flat. I don't see the relation -- the direct relation with Marcellus or with Eagle Ford or with Duvernay. We'll have to see which is the most efficient plan once we take control of the company. But right now that we have only -- no capability, it's quite difficult for me to assess any comment in relation with Talisman assets, whether in Canada or in the US. Okay, Anish?

Anish Kapadia - *Tudor Pickering Holt - Analyst*

Okay, sure, no that's great, thank you.

Miguel Martinez - *Repsol SA - CFO*

Thanks, Anish.

Angel Bautista - *Repsol SA - Head of IR*

Okay, thank you very much, Anish. And now we have Jason Kenney from Santander -- Banco Santander. Hi, Jason, go ahead with your question.

Jason Kenney - *Santander - Analyst*

Hi there. So I'm just looking at the Sinopec relationship. Obviously Repsol's strong with Sinopec in Brazil and Talisman involved with Sinopec in the North Sea. And I was wondering about the potential for further strengthening of activity between Repsol and Sinopec going forward?

Miguel Martinez - *Repsol SA - CFO*

Thanks, Jason. I would say since day one I think it was three and a half years ago that we have the first agreement with Sinopec. We have been looking forward to have more relations with them going forward and look for opportunities. So yes, the answer is yes. We are permanently looking for doing more things with Sinopec. It's something we look forward. Okay, Jason?

Jason Kenney - *Santander - Analyst*

Perfect, thanks.

Angel Bautista - Repsol SA - Head of IR

Well, with Jason we finish this conference call of the first result of Repsol -- first quarter result of 2015. Thank you very much for attending it. You know that the IR area of Repsol is at your entire service for any further queries or clarifications you may need. And have a nice day. Thank you very much. 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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