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PRESENTATION

Operator

Hello and welcome to the Repsol second quarter 2014 preliminary results conference call. 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 hand the call over to Mr. Bautista. Sir, you may begin.

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

Good afternoon, ladies and gentlemen, and welcome to Repsol's second-quarter results conference call. I am Angel Bautista, Director of Investor Relations. This presentation will be conducted by Mr. Miguel Martinez, CFO. Other members of the executive committee are joining us as well.

Before we start, I invite you to read our disclaimer note. We may make forward-looking statements, which are identified by the use of words such as will, expect and similar phrases. Actual results may differ materially, depending on a number of factors, as indicated on the slide.

I now hand the conference over to Mr. Martinez.



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

Thank you, Angel, and good afternoon, ladies and gentlemen. In today's conference call we will cover three topics. First, the closing of the agreement for the amicable settlement and compromise of expropriation with the Republic of Argentina in relation to the expropriation and the completion of their disposal of our assets there; second, the operational activity and the main highlights of the quarter; and third, the quarterly results.

On May 8, the Republic of Argentina and Repsol completed the agreement for the amicable settlement and compromise of expropriation in relation to the expropriation of the controlling stake of Repsol Group in YPF S.A. and YPF Gas.

In accordance with the terms of the agreement, the Republic of Argentina delivered a portfolio of Argentine sovereign bonds with a total nominal value of \$5.3 billion.

In view of the favorable perception of the risk of these bonds in the financial market, Repsol decided to sell all the Argentinian sovereign bonds to JPMorgan in three separate transactions. Repsol gained almost \$5 billion in compensation for the expropriation as a result of the sale of the entire holding of Argentinian bonds; close to the maximum amount that Repsol could cash in, in according with the agreement.

Previously, on May 7, we sold an 11.86% stake of YPF to Morgan Stanley. On May 12, we sold an additional 0.48%. And these two transactions amounted to \$1.3 billion and generated a capital gain of EUR287 million after tax.

As of today, Repsol has no exposure to Argentina.

After the monetization of our Argentinian assets, the Board of Directors agreed to distribute an extraordinary dividend of EUR1 per share; returning a significant part of the cash to our shareholders and substantially improving our shareholders' remuneration for this year.

Moreover, the credit rating agencies recognized the improvement in Repsol's financial position. Fitch and Moody's upgraded our long-term rating and Standard & Poor's revised its outlook from stable to positive.

Let's now move to the operational activity, starting with the upstream business.

In exploration, during the second quarter of 2014, six wells have been concluded; two wells with a positive result in Alaska, and three wells with a negative outcome: Mauritania, Kurdistan and Namibia. And one well is currently held under revaluation in Alaska.

In Alaska, the two positive wells were at group five and seven in the North Slope. We are currently in the visualization phase of a development for our discoveries in the area.

Moreover, during the period we have also received positive news from our exploration and appraisal activities in Campos 33 block in Brazil and our Karabashsky venture in Russia.

In Brazil, the Seat-2 well in block Campos 33 found around 300 meters of a continuous column of good-quality hydrocarbon-bearing reservoir. The well reached total depth and the current formation evaluation operations and a future test will add resources to the block and support the development scenarios being evaluated.

In Russia, the winter campaign has allowed to increase the volume of resources in the Karabashsky blocks in West Siberia. As announced in our recent press release, the volumes are in the range of 240 million barrels of oil equivalent, as certified by the Russian Reserve Authority.

We have also successfully tested production with two horizontal wells of over one kilometer in length; significantly de-risking the way towards a future development.

Currently we continue to carry our intense drilling activity in the following areas.

In the US we are drilling our operated exploration well [Leon] and the non-operated second operation well in Buckskin.

In Angola the Ombovo-1 well operated by ENI reached target depth and is currently under evaluation. Our Rowan Renaissance rig is now on location in block 22, where we just spud our first operated exploration well in Angola called [Locosson].

In Liberia and Colombia, we are currently drilling one offshore well in each country.

Moving to production and development activity, during the quarter we reached an average of 338,000 barrels of oil equivalent per day. Excluding the effect of the stoppage in Libya, where we could not produce during the quarter, production could have been 17,000 barrels of oil equivalent per day higher year on year.

The full-year operation and ramp up of our key projects, Sapinhoa in Brazil, mid-continent in the US, SK in Russia, Margarita in Bolivia and Kinteroni in Peru increased our production by more than 30,000 barrels of oil equivalent of average production per day year on year.

This increase was partially offset by stoppages in Trinidad and Tobago due to the drilling work in the Savonette field and maintenance work on train 3 of the Atlantic LNG plant.

In Libya, we have been able to resume production on July 8, where we could not operate during the whole quarter.

With regards to the progress of our development projects in Brazil, the fourth producing well in Sapinhoa started production on July 7. We already have four wells connected, which together are producing about 120,000 barrels of oil per day in gross terms, reaching full capacity of the first FPSO.

The second FPSO, with a capacity of 150,000 barrels of oil per day, is already in Brazil and we're expecting to have first oil before the end of 2014 and reaching big production during the first semester of 2015.

In Lapa, formerly Carioca, the development plan has been presented in June 2014 to E&P. According with our plans, we expect to have first oil before the end of 2016.

In the US, we continue with the development of the fields and associated production ramp up in the Mississippian Lime.

This quarter, in line with the Company's policy of financial prudence, Repsol adjusted the book value of mid-continent with an impairment of EUR142 million after tax, due to the lower activity plan in the extension area.

In Venezuela, Cardon IV continues its development as planned and we are expecting to be in a stream at the turn of the year.

And finally in Algeria, the consortium of Reggane has recently awarded the EPC contract for processing facilities and pipelines, which is the controlling path for the first gas, which is expected during the first half of 2017.

Moving to the downstream division and starting with refining, although margins continue weak in Europe, our margin indicator was \$3.1 per barrel during the quarter; higher than the \$2.6 per barrel reached during the second quarter of 2013.

We have been slightly above breakeven during the first half of the year, thanks to the good behavior of the spreads between light and heavy crude oils compensating the weaker behavior of the spread between middle distillates and Brent.

The distillation utilization rate was 83.5% during the quarter and the conversion capacity reached 106% (sic - see slide 16, "100.6%") of utilization.

In petro chemicals, the improvements implemented on cracker turbines in order to enhance efficiency in our sites, as well as the programs executed in order to focus our production on more available products, has enabled us to reach positive results after several challenging quarters.



Our commercial businesses maintain a healthy level of profitability quarter on quarter and year on year.

I will now explain our second quarter earnings performance.

We had a positive variation in net income, which was EUR520 million; 90% higher than in the second quarter of 2013, due mainly to the capital gains of the YPF share sales.

Adjusted net income stood at EUR390 million, in line with the second quarter of 2013.

On a business-by-business basis starting from the upstream, the adjusted net income was EUR145 million; 49% lower than in the second quarter of 2013.

The basic difference arose mainly from the absence of production in Libya and higher exploration costs. In Libya, production was interrupted during the whole quarter, which resulted in a reduction at the operating and at the net income level of EUR261 million and EUR88 million respectively.

Moving to the rest of the activities, we increased production year on year in Brazil, the US, Russia, Bolivia and Peru, offsetting the lower volumes in the Trinidad and Tobago, which resulted in a positive impact on operating income of EUR73 million.

Higher crude and gas realization prices had a positive impact on operating income of EUR71 million.

Higher depreciation charges due to the increase of production in the United States, Russia, Bolivia and Peru had a negative impact of EUR13 million.

Higher exploration costs led to a decrease in operating income of EUR167 million, mainly due to high amortization of bonds and wells.

In second quarter 2014, we conclude three exploration wells with a negative outcome: Namibia, Mauritania and Kurdistan. Additionally, two more wells have been reclassified as negative: Anchois in Morocco, due to the lack of economic visibility, and Kachemach-1 in Alaska, previously under evaluation.

Lower taxes had a negative impact of EUR5 million, mainly due to the better tax rate mix.

The depreciation of the dollar against the euro lowered the operating result by EUR12 million. Other items, such as the minority interest and equity affiliates and other costs, explain the remaining differences.

Turning to our downstream division, adjusted net income was EUR162 million; 32% higher than in the second quarter of 2013.

The breakdown by businesses. In refining, our margin indicator was \$3.1 per barrel, better than the \$2.6 per barrel achieved during the second quarter of 2013, having a positive impact at the operating level of EUR44 million. The premium margin due to the upgrades reached \$2.2 per barrel.

In the petrochemical businesses, better prices in final products, together with the efficiency programs implemented in our sites, were able to offset higher naphtha price during the quarter, having a positive impact of EUR20 million.

Turning to the commercial businesses, we released a good set of results, having a positive impact at the operating level of EUR62 million.

Moving to gas and power, operating income was a net loss of EUR37 million; EUR62 million less year on year.

In 2013 our results in North America had been positively impacted by compensations received from suppliers from the deviation of cargos to other destinations. Results in trading and other activities explain the remaining difference.



In Gas Nat, the EUR152 million adjusted net income in the second quarter of 2014 was 24% higher year on year. Better results in the gas commercialization business and the sale of the telecommunications business offset lower income from power generation and distribution activities in Spain and Latin America.

Turning now to our financial situation, the Group's net financial debt at the end of the second quarter of 2014 amounted EUR2.4 billion; approximately EUR3 billion lower than at the end of 2013, thanks to the monetization of the Argentinian assets.

Our liquidity position remains healthy at more than EUR11 billion, even after paying a EUR1.3 billion extraordinary dividend and the regular interim dividend to our shareholders.

In conclusion, operationally speaking in upstream we have been able to add more than 30,000 barrels of oil equivalent per day from our key growth projects. Sapinhoa has completed the first phase successfully and we have the second phase on schedule to add more production in the following months.

In downstream, the quality of our assets again showed the capacity of Repsol to weather the current adverse situation and the efficiency and product (inaudible) programs have proven to be successful by turning around our chemical business result.

Our focus is on the development of the 10 key growth projects to reach the 7% compound average production growth rate, together with keeping our exploratory base to ensure future reserve replacement.

At the corporate level, we have completed the agreement for the amicable settlement [and] compromise of expropriation in relation to the expropriation of the controlling stake of Repsol Group and the monetization of the bonds received as compensation, together with the rest of our assets in Argentina.

Before we start the Q&A session, as you already may know, yesterday we reported that we are studying a number of different transactions in the area of exploration and production. No decision has yet been taken in this regard and, as you may understand, we are unable to make further comments on our M&A activities.

Thank you very much for your attention.

QUESTIONS AND ANSWERS

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

Thank you very much. Let's move into the Q&A session. We have enabled a chat in the webcast in order to post questions. Please us it only in the event there are connection problems on the call. (Operator Instructions). We will address these questions at the end. Thank you.

Operator

(Operator Instructions).

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

Irene Himona, Societe Generale.



Irene Himona - *Societe Generale - Analyst*

I wanted to ask firstly a question on Libya. In the first half Libya produced for about 40 days, I believe; so 22% capacity utilization. What do you assume in your budget for the second half of the year, please?

My question is on cash flow. In the first half you show quite a large negative working capital outflow. I was just wondering if you think that might reverse over the rest of the year.

And then finally, Campos 33, which you mentioned, can you just remind us what resources you have found to date? And when would you expect first oil? Thank you.

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

In relation with Libya, it's quite difficult to assess and answer. This quarter we didn't have a single day of production. We started production, as mentioned before, at the beginning of July, I think it was July 8 or July 7, and we were able to ramp it up to the 340,000 barrels we can produce there.

Right now there is a logistic problem and we are only producing 150,000 barrels per day, due to logistics issues. So quite difficult to assess but you're talking -- I would expect a better second half.

I think that basically during the first half of the year we have been one-half of the production. First quarter was okay. Second quarter was a total disaster. So difficult to assess, Irene. You probably can put a figure as good as I can, though I am somehow optimistic.

The data we have today is that there are a lot of problems in Tripoli with basically a complex situation in Tripoli, but in the Sahara our people is working (technical difficulty). So no problems there, so difficult to assess. I can only tell you that I expect a better part in the second half of the year, better results; more than 50%, if you want, of the production.

Moving into the working capital, I think it's partially a one-off and partially it's an increase. It's EUR500 million what we are over and there's basically two reasons.

We had a stoppage in the hydrocrackers in Cartagena during June and that implies that a lot of middle products increased the inventory there. And also, this is, I would say, a one-off.

And then we have a part, which is the trading activity, which is increasing. And at the end of June there was a cargo of Russian fuel that also increased the working capital.

So basically I would say it's unusual and probably we will be able to reduce approximately EUR300 million in the next quarter.

And the final one, talking about resources, we are estimating in Campos 33. We are still estimating those. For sure it will be well above EUR1 billion but still way too early and we don't have a figure about Campos 33 yet.

We have very good results in Seat, but it's still a long way to go because think that it's not only Seat. It's Seat, plus Gavea, plus the main Pan de Azucar, so it's difficult to assess.

Though if -- once we have the assessments we will let you know. Is that okay, Irene?

Irene Himona - *Societe Generale - Analyst*

Thank you very much, Miguel. Thank you.



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

Lydia Rainforth, Barclays.

Lydia Rainforth - Barclays - Analyst

Two questions, if I could. Miguel, in terms of the use of cash, you have previously looked at the EUR500 million share repurchase plan. Can I just ask what your current thoughts are around that?

And then secondly, I know there's a limited amount you want to talk about the M&A side, but in the past you have said that you want oil-biased, OECD-biased assets that offer you cash flow and good value moving forward.

I'm just wondering, are there any of those things that you would be prepared to compromise on if you're not finding the sort of assets that you want? Or would you look at returning that cash to shareholders at some point?

Miguel Martinez - Repsol S.A. - CFO

Lydia, it touches somehow the M&A issue, so I'd rather refer, in one hand, to the press release we had yesterday.

What we look at the end of the road is really to give our shareholders the better return. So, as mentioned in the prior call we had three months ago, we are looking for something that we really believe could generate more value for our shareholders.

At the end of the road, if we don't find this asset, this company, whatever, we'll have to return the cash to the shareholders. That's for sure. But I think we deserve some room, let's say one year, 18 months, to really find out if there is a better solution to return the cash to the shareholders.

It's okay, Lydia?

Lydia Rainforth - Barclays - Analyst

Yes, that's perfect. Thank you. And then just a separate question, if I could. It's just around what are you seeing in terms of operating cost at the moment across the industry and just what sort of trends you're seeing there? Thank you.

Miguel Martinez - Repsol S.A. - CFO

We don't have really an insight there about the general cost because most of it refers to FPSOs, at least in our case, and we have contracts for four or five years. So I don't have a perceived feeling about the operating cost across the whole industry.

What I can tell you is that probably in Brazil, taking out the issue of the FPSOs, probably we have some increases in cost above 5%, 6%. But, other than that, I have not perceived anything that took my attention.

Lydia Rainforth - Barclays - Analyst

That's perfect. Thank you very much, Miguel.

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

Haythem Rashed, Morgan Stanley.

Haythem Rashed - *Morgan Stanley - Analyst*

Two questions from my side, please. Firstly -- they're both on development assets. Firstly on Venezuela and Perla, perhaps if you wouldn't mind giving a more detailed update on the status of that project. In particular, as we approach yearend and the expected startup, how confident you're feeling about start up on schedule, what the critical path items now between now and first oil.

Are there any other non-operational issues like contractual or other sort of issues that might act as a sticking point for startup?

And the second question I have is around the Mississippian Lime and the impairments you took on the assets. If you could just provide a bit of detail on the -- you mentioned a new development plan forecast. If you could provide a bit of detail of what this is and what does it mean, particularly for 2015 production and the growth that we're expecting from the US production side of things. Thank you.

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

In relation with Venezuela, the status is the one we mentioned a time ago. We expect really to end the project by the end of this year. This would be the first phase with 150 million standard cubic feet per day.

Next step probably would be reached in May 2015, doubling that production. And then third and fourth phases probably would be 2017 and 2020, but it's way too early to assess that.

So 150 million standard cubic feet per day by December this year and doubling that, adding 300 million extra standard cubic feet per day by mid-2015.

In relation with the Mississippian Lime and the impairment, I have to say that when we acquired the asset we split the bonus we paid between two areas; the core one and the secondary.

After the reduction we have made in CapEx and, along with it, with the production, we have decided to focus future CapEx in the primary area. And that implies that the secondary area, once you delay future production, shows an impairment and that's the reason why we accrue the figure I mentioned before.

In relation with production, we are now producing something around 9,000 barrels of oil per day and we expect to increase year on year 3,000, 4,000 barrels per annum.

Did I answer you, Haythem?

Haythem Rashed - *Morgan Stanley - Analyst*

Yes, that's very clear. Thanks very much, Miguel.

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

Oswald Clint, Bernstein.



Oswald Clint - *Sanford C. Bernstein - Analyst*

I just wanted to ask a bit more about the impairment on the Mississippian Lime, but really how that makes you think about North American shale in terms of the growth potential from each of these.

Is it the case that your order of preference of the shales has changed? Do you feel you need a certain number of shale plays in the portfolio so that one of them works versus your expectations, just using the results from the Mississippian Lime?

And then the second question, operationally just curious about the Kinteroni ramp up, how that's going in the second quarter, and if the 20,000 barrels per day up to 40,000 barrels per day volume aspirations are still pretty good. Thank you.

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

In relation with our opinion about shale, I think that -- I don't know if probably it has changed or not but one thing is clear. Initially our partner was really a type of business, which is somehow different from the one we are used to, and so geology was not there. It was simply drilling, drilling and drilling being the most efficient one, the one that really gained the game.

I think that the combined efforts we are doing with our partner there, it's improving somehow the results we are obtaining. And it's the way we pretend to go there, which basically has put more geology in the process. To know why one area is a good one and to know why an area is not, not simply obtain this result by drilling.

And I think it's working, probably with lower production figures, but for us it's not the issue here. The issue is the value added and we think we can generate more value added.

In relation to the rest of the shale, I don't have a single opinion. I think it's really dependent on the area on which you are and within the area in the (inaudible) which you are.

And touching in Kinteroni, the agreement we have reached implies that we will be delivering 10,000 barrels of oil equivalent per day 'til the end of 2015. And then we will increase that up to 20,000, doubling the production in 2016.

It's okay, Oswald? For sure, net of us. I'm talking net figures, okay?

Oswald Clint - *Sanford C. Bernstein - Analyst*

That's net. Excellent. Thank you.

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

Flora Trindade, BPI.

Flora Trindade - *BPI - Analyst*

My first question is just a confirmation. I think you mentioned it, but just to confirm, you are maintaining your target for production growth excluding Libya for 2014 at 7%?

And then my second question is basically on some guidance you have given on downstream excluding LNG. I think you had mentioned an EBITDA of EUR1.5 billion for this year. Considering the good results of first half, are you maintaining this? And what's your view for the second half of the year? Thank you.



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

In relation with the target, yes. If we had Libya at plateau in normal conditions we keep at that to our 7% annual growth 'til 2016; from 2012 'til 2016.

And in relation with the EBITDA at the downstream level, we ended up the semester with almost EUR8 billion.

I hope, and I think that, if I exclude the gas and power from this figure, I would be around EUR700 million, a little less than EUR700 million; something like EUR680 million or something like that. I'm talking just on my mind about the figures, so EUR680 million.

This quarter really wasn't that good in refining, so if the second part of the year comes a little better, just a little better, we would be there around the EUR1 billion of EBITDA without the gas and power.

Is that okay, Flora?

Flora Trindade - *BPI - Analyst*

Yes, okay. I would just follow up on the production. In the last quarter presentation you mentioned 7% excluding Libya. So for production target excluding Libya, what's your view for the full year?

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

I mentioned excluding Libya in both years, so in a like-for-like basis. So either I included or excluded, up to you. But if Libya's in normal condition, as it was in 2012, the 7% production increase would be reached. But the 7% was a five-year guidance; it was not a yearly guidance. Okay?

Flora Trindade - *BPI - Analyst*

Okay. Sorry, but if excluding? Because I had the idea you have a target for this year of 7% excluding it. So you are maintaining it?

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

No.

Flora Trindade - *BPI - Analyst*

No?

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

No, no. What I'm maintaining is the 7% continuous annual growth from 2012 to 2016, okay?

Flora Trindade - *BPI - Analyst*

Perfect, thank you, (multiple speakers).

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

And in both cases, in a like-for-like basis. If you want Libya in, it's okay. If you want it out, it's okay. But I mean put it in in similar conditions in 2012 and 2016. Okay?

Flora Trindade - *BPI - Analyst*

Okay. Thank you.

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

Thomas Adolff, Credit Suisse.

Thomas Adolff - *Credit Suisse - Analyst*

I wanted to ask you about Talisman's portfolio, obviously I can't. I'm struggling to see any attraction there, but I guess the industry likes to window shop and the market likes to speculate.

But anyways, just a question, back to Libya. You said there are some logistical issues. I just wanted to ask you whether you can clarify it. Is it related to the need to do maintenance? Is it related to infrastructure itself? In other words, if the above-ground issues were normal, how long will you be restricted at 150 kbd?

The second question is on refining. I look at indicator margins and I see quarterly improvements. Your quarterly refining margin has deteriorated. So I just wanted to have a better understanding what's driving that in your case.

And the final question is on exploration, I guess, on Seat-2. You talked about a decent column there, but I wondered whether you can give a bit more color on the net-to-gross ratio. Thank you.

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

In relation with Libya, the logistic problems is simply sales. We have loaded all the terminals and it's a matter of them selling more. They have been quite slow on selling the products so the whole pipelines are totally blocked. So we will see, we will see.

In relation with the refining, I think that the main difference with probably others is that the spread between heavy and light is what we are taking as a great advantage during the quarter, and probably it's the difference you have there with others. And, at the end of the road, it's to have a first-quartile system in which you can feed the whole system with really heavy stuff.

And final, in relation with Seat, we still have to -- we are waiting for the tests, though initial impressions lead us to think that at least 200 would be -- around 200 would be the net one. Okay?

Thomas Adolff - *Credit Suisse - Analyst*

Okay, thank you very much. Just, can I go back to refining, again? The light/heavy crude spreads were wider in the second quarter than in the first quarter. That's why any indicator margin in the second quarter was higher than the first quarter. Yet your realized refining margin in the first quarter was lower than the second quarter. So your explanation doesn't quite tie in with the evolution in your refining margins.



So I just wanted to ask here again, what's been the driver for the sequential decline?

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

I'll double-check that figure and I'll turn back to you, Thomas.

Thomas Adolff - *Credit Suisse - Analyst*

Okay, thank you.

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

Basically, what I have is the difference between the same quarters so I didn't analyze first versus second, but I will do it and turn back to you. Okay?

Thomas Adolff - *Credit Suisse - Analyst*

Okay, thank you.

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

Filipe Rosa, Banco Espirito Santo.

Filipe Rosa - *Banco Espirito Santo - Analyst*

So two questions, if I may. The first one, just a clarification on the buyback EUR500 million that you said that you were going to do. Just to clarify whether now this is subject to whether you make an acquisition or not. Or you think that, following the payment of the special dividend, it no longer makes sense to make this buyback, which, I believe, was announced to offset dilutive impact from the scrip dividend.

My second question relates to Angola. You are now -- you said that you have just spudded your operator's well in Block 22. Could you provide us some pre-drill estimates for this well? And how long could it take first to have some news from this well?

And finally, in Brazil, you have reached the full capacity at your first FPSO. So I believe now that you should have a pretty good idea what is the CapEx per barrel and the OpEx per barrel that an FPSO, like the one at Sapinhoa, can deliver at cruising speed.

So could you give us some updated numbers for that and, please, on the OpEx, if you could. Say if it includes or excludes special participation tax, that would also be very useful. Thank you very much.

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

In relation with the buyback, what we have is an authorization to go up to buy back EUR500 million. But this is something that, for sure, will be dependent first on the financial situation we have throughout the year.

And so, right now, we're waiting to see how the M&A activity develops, how the financials move and then we'll take a decision. Basically what we have is the possibility to do it but still no decision has been taken.

In Angola, we expect the Renaissance to be there for three, four months and then it will move to the Canary Islands if we obtain the permits to explore in the Canary Islands. So three, four months to go.

And in relation with the CapEx and OpEx in Sapinhoa, we are around \$20 per barrel of OpEx; a little below \$20. I think that the variability there is much depending on the field. For sure, in Carioca it would be a different one and probably would be around the \$30s per barrel. But precisely we're in around \$20 in CapEx per barrel in Sapinhoa.

Filipe Rosa - *Banco Espirito Santo - Analyst*

Sorry, CapEx or OpEx, sorry, just to clarify.

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

Sorry, OpEx.

Filipe Rosa - *Banco Espirito Santo - Analyst*

And in terms of CapEx per barrel for the [first] project?

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

\$30 per barrel, \$32 per barrel, including CapEx and OpEx.

Filipe Rosa - *Banco Espirito Santo - Analyst*

Okay. And, Miguel, sorry just to come back because one of the questions I made regarding Angola was whether you could provide some guidance in terms of pre-drill estimates for this important prospect for Repsol.

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

Can you repeat the question, Filipe?

Filipe Rosa - *Banco Espirito Santo - Analyst*

The pre-drill resource estimate for this well, because it's an important well for you guys, I think. And you are now starting to drill it.

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

No, we never provide that information. Sorry about that, Filipe.

Filipe Rosa - *Banco Espirito Santo - Analyst*

Okay. Thank you.

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

Jason Kenney, Santander.

Jason Kenney - Santander GBM - Analyst

Can you just give us some guidance on the upstream tax charge? Obviously it was low in the second quarter. I'm wondering where that moves to in the third quarter. And then maybe further out what a normal rate could be, just to confirm that.

And then is there any chance to get some indication of the split of operating profit upstream by region? I know you split out the EBITDA and the net income by region. But just looking at operating, even percentage terms.

And then finally, in the downstream business, the commercial businesses plus EUR62 million year on year, I'm assuming that's mostly LPG. And I was wondering how robust you thought that was going forward. Thanks.

Miguel Martinez - Repsol S.A. - CFO

Well in relation with the first one, it's somehow a complex explanation but I will try my best.

Well, the first issue is the mix of income, being Libya out of the equation and having increased results in Bolivia with lower tax rate, is one of the reasons.

The other one refers to Brazil. In second quarter 2013, there was a strong devaluation of the real. And that implies a loss in taxes due to the fiscal assets we have there.

This year it happened just the opposite. The real revaluates, and then we have a gain there when you translate that to euro, due to the increase in the value of the fiscal assets we have in Brazil. To give you an idea, this accounts for more than EUR40 million, which is the other reason why it looks so low this quarter.

If you want to have an indication for the whole year, I would say that, talking about net results, our estimates would be that we would be around 40% for the whole Company. And if we talk about the net adjusted result, it would be around 44% for the whole Company. That in relation with taxes.

The second question refers to the upstream operating profit by region. And I think that Angel will call you afterwards and provide you the detail, if you don't mind.

And in relation with the EUR62 million we have as improvement in the marketing area, there is several factors there.

One is the one you mentioned, which is the LPG, which we have been able to catch up. As you know, it's a regulated sector so we have been able to catch up prices that should have been taken before from our Company. So it's a delay in the way in which the cost of the material goes into the formula. So part is that.

But we also have better results in Portugal. We have better results in our services stations network, better results in direct sales and better results in chemicals. So small figures in all of them, but significant when you add them all. And this is what leads you to the EUR62 million. Okay, Jason?

Jason Kenney - Santander GBM - Analyst

Yes, I was just going to follow up on how robust those commercial businesses are, then, going forward. The (multiple speakers) --



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

I would say that the catch up in the LPG, it's going to be much dependent on the evolution of prices. So I will not count that as a permanent one. And the others, I would say, are more or less replicable in following years, in the following months. So we will see.

There's no -- I couldn't assess more. It's basically gaining margins in all the areas. So hopefully I will expect that at least part of this EUR62 million, let's say one-half of it, remains as a permanent advantage. Okay?

Jason Kenney - *Santander GBM - Analyst*

Thanks very much.

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

Peter Hutton, Royal Bank of Canada.

Peter Hutton - *RBC Capital Markets - Analyst*

You provide the bridge on operating income in both the upstream and the downstream, which I find very, very useful. But, of course, one thing when you add up all the various elements, the start and the finish, there's a difference still to be explained.

And I think in exploration it's quite large and implies that there was some deterioration in trading, perhaps, or increases in underlying costs. I wonder whether you can make any comment on that.

In the downstream, similarly, you say that the remaining difference is from trading and other activities, but mathematically that's best part of EUR50 million. So was there a particularly weak trading environment in the downstream? If there's any comment.

And the last element on trading is on the CO2 emissions, which is explained as the difference of about EUR30 million in the corporate result. Now that, particularly on CO2, that's a very material number and implies a high degree of volatility.

Is that something that we can expect some risk around this number? Is that something which we could see quite easily going the other direction in subsequent quarters? So if you can just comment on those, which may be linked to trading results in each of the divisions.

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

Well let me start with the last one, which perhaps is the most material one.

If you have a pencil by hand, prices of the CO2 ton at the end of March were EUR4.7 per ton. We ended up in June with EUR5.86 per ton. So it's more than EUR1.1 per ton. As we have 16 million tons this year, implies that we have made a comparison to the market with a gain of EUR19 million.

In 2013, the situation was just the opposite. In March, the price was EUR4.80, while in June 2013 was EUR4.20. So this fall of EUR0.60 per ton implies a negative result last year of almost EUR11 million. So when you add up both, minus EUR11 million in 2013 plus EUR19 million this year, you ended up with the figure.

Talking about others, basically it's trading, which is losing EUR19 million in comparison with last year. Reason for that has been, I would say, basically the Russian contract of the fuel, which in the first months we were unable, for differences in quality, to really make a reasonable result. The whole thing has been solved and probably going on, this will disappear.



And also all the fleet we have, especially middle average ships, the prices have gone down dramatically in the Atlantic basin and that's also the other reason why we have been below last quarter in trading. Having say so, trading normally is a very volatile activity so it's not easy to assess from here on how it will be. Is that okay, Peter?

Peter Hutton - RBC Capital Markets - Analyst

It is. That's on the downstream. Is there anything in terms of the delta between the elements that you provide also in the upstream, where there also appears to be something of a shortfall? Is that underlying costs or is some of that trading result in the upstream as well?

Miguel Martinez - Repsol S.A. - CFO

Sorry, I don't understand the question, Peter. Can you repeat it?

Peter Hutton - RBC Capital Markets - Analyst

Yes. You talk about the trading results, some of that -- how does that split between upstream and downstream?

Miguel Martinez - Repsol S.A. - CFO

No, the whole trading activity is in the downstream division. All the activity of trading is in the downstream division. There is no trading in the upstream division.

Peter Hutton - RBC Capital Markets - Analyst

So the difference that we see in the bridge between the elements that you provide and last year's results and this year's results, there's still a fairly material difference on that. Does that suggest that there was increases in underlying costs that we saw in the upstream?

Miguel Martinez - Repsol S.A. - CFO

I think that probably the difference is that we are somehow taking apart Libya as a whole. So excluding in the comparison all the impacts of Libya in prices, volumes, costs and exploration and type of change. So that's the reason why, probably, you are not able to tie in. But Angel will give you a call and we'll help you with the tie.

The main difference, I would say, is that Libya is somehow distorting the rest, probably, of the differences.

Peter Hutton - RBC Capital Markets - Analyst

Perfect. Can I just ask one thing on Libya at that point? I know you've provided an update in terms of the production of the field and logistics. But does logistics also relate to the evacuation of staff as well, which was also reported last week?

Miguel Martinez - Repsol S.A. - CFO

Not in our case. As far as I know, we have all our people in the field working and what we don't have is anyone in Tripoli. So we only have evacuated our people in Tripoli, which doesn't have much to do with the logistic problems.

No, it's simply that the process of selling and the Libyan authorization to sell is quite slow. And the whole logistic facilities are loaded with crude, so there's no possibility to send more crude to the ports. Okay?

Peter Hutton - RBC Capital Markets - Analyst

Perfect. Thanks, Miguel. Appreciate it.

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

Jon Rigby, UBS.

Jon Rigby - UBS - Analyst

Can I just ask, given that you've sold -- the LNG business has now gone, and I guess we can agree that the cash flow generation from the downstream is moving probably at a slightly disappointing rate, given your previous projections, and that's environmental. Do you think that the current capacity of the Company to generate cash is of a level that can sustain your current projections of CapEx and the dividend commitment that you've made?

And I guess there's a part two around that is there's a bleak reference to the reference -- to the conditions around any M&A that you would do. But in general, just as a standalone business, do you think the current cash flow generation, cash in, cash out, are balanced, as you see them?

Miguel Martinez - Repsol S.A. - CFO

As I mentioned before, I think we're going to be short of cash generation in 2014, probably around EUR1 billion, and less than that, approximately EUR600 million, next year. This is my estimate, taking into account Libya working, let's say, at 75%.

As of today, at the end of June 30, we were short in cash. Taking out all the extraordinary items, the extraordinary dividends -- taking the regular or the current Company, we were short in EUR600 million, without Libya, in the second quarter.

So I think that my estimate of EUR1 billion short this year and approximately EUR600 million, EUR700 million next year, that's it.

But, other than that, I think that Brazil, I would expect a very important impact on cash generation there. And I think that, other than that -- we are going to be short 2014/2015, but, other than that, the cash generation is good enough to sustain the CapEx program. At least, those are my numbers.

Jon Rigby - UBS - Analyst

But do you think the trajectory, as you see it, means that you get back to something like a balanced position as and when Brazil reaches its plateau?

Miguel Martinez - Repsol S.A. - CFO

Yes. Once Sapinhoa reaches the 270,000 barrels per day and taking into account, I would say, Libya in normal conditions, yes.

Jon Rigby - UBS - Analyst

And sorry, and the last just a point of clarification. (multiple speakers) I was just going to say, as a point of clarification, that assumes a cash dividend payout similar to that that you've been paying out recently in the dividend, i.e., for the proportion of cash versus scrip?



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

Yes, taking into account the scrip, for sure. And, by the way, in the last one, it was 75% of -- almost 76% of acceptance. So yes, taking into account the scrip.

Jon Rigby - *UBS - Analyst*

Okay. Thank you.

Unidentified Company Representative

Michele della Vigna, GS.

Michele della Vigna - *Goldman Sachs - Analyst*

I just had two quick questions, if I may. The first one relates to your interest expense, which was quite low this quarter. I was wondering if you could give us a guidance in terms of what we should expect in the coming quarters.

And then my second question is on Sapinhoa. The first FPSO has taken about 18 months to ramp up. I think you assume a much faster ramp up for the next FPSO. Could you give us the key reasons why you have higher confidence on that quicker ramp up? Thank you.

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

Well, you have to think that, first we reduced -- it's not only that we have reduced somehow the most -- it's part of the liability management. Really, the interests have gone down. We didn't renew the bond that was due on March. We probably will not renew the one that is due on October. And, in the other hand, we have put also our money to work.

In comparison with last year, though, there are several factors that probably it's important for you to know.

First one, if you remember, last year, in this quarter, we make a gain that was included in the financial line, due to when we canceled the preference shares, okay. The preference shares, we were paying [EUR4] point something. And we canceled those and we took a net gain of EUR75 million.

This year, and also working in that line, we have canceled -- at the end of July 1, in the first day of the second quarter, we have canceled the bond we issued to substitute the preference shares. So we have accounted already I think it's EUR71 million of losses in the quarter in the financial area, due to the cancelation of this bond.

In the other hand, I have EUR1 billion at hand. And part of it, as I mentioned before, was in dollars. So the difference between years, in one hand I have losses from EUR150 million due to the gain last year with the prefs and with the loss this year with the prefs that we have canceled of EUR150 million. But I have made gain on the US dollars of [\$150 million].

So, at the end, this goes one with the other but, basically, we have a lower gross debt and a lower interest rate on average. So I will take what we have today in this quarter as a guidance, because the FX that are one-offs offset one to the other, I mean the exchange rates with the situation of the preference shares. Okay, Michele?



Michele della Vigna - *Goldman Sachs - Analyst*

Clear.

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

And in relation with the FPSO, I think that the second FPSO, it's in the docks in Brazil since November 2014. So we don't see any major problem to have it in the situation, in the dates I provide you. So we expect, by the end of this year, to have it in place and connecting the first well. Okay?

Michele della Vigna - *Goldman Sachs - Analyst*

Thank you.

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

Anish Kapadia, TPH.

Anish Kapadia - *Tudor Pickering - Analyst*

Sorry, I just wanted to clarify the answer to the last question. I think the question was, why does it take only six months to ramp up rather than the 18 months that the first FPSO took to ramp up?

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

The main difference, Anish, is that the wells are already drilled, while in the First one we drilling while connecting them. So probably this is the main difference in timing between the first and the second one.

Anish Kapadia - *Tudor Pickering - Analyst*

Okay, thank you. And another couple of questions. I was just wondering what your thoughts are around deepwater exploration over the next year or so. A number of the other integrated, a number of E&P companies have pulled back from deepwater exploration. It's got a lot more expensive, it seems, to drill some of the wells. I think some of the wells in Angola are costing a couple of hundred million dollars to drill. And then also the developments have got a lot more expensive.

So the economics of deepwater exploration seems to have got worse. Are you looking to change your plans, shift your exploration expenditure in any way as a result of that?

And then my second question was looking at North America. If you were to get into either a shale play or an unconventional shale play in the US or an oil sands play in Canada, do you feel that you've got the capability at present to operate? Or would you only look at that on a non-operated basis? Thank you.

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

Well, in relation with the first question, the answer is no. We have already in perspective in Angola the one we are operating and a second well probably coming by the beginning of next year with, I think it's Conoco. And then we have Colombia, in which we are drilling with Petrobras. And we will keep drilling Campos 33.

So we are not going to modify our way. We feel quite comfortable with the results we have been obtaining there.

And talking about capabilities to operate whether in shale or oil sands, really those are capabilities that are not today in the Company. But this doesn't mean that operation will not be there or it will be there. We will have to see. Right now, there's nothing on the table, so basically what I can tell you is that those capabilities are not in our Company. Is that okay, Anish?

Anish Kapadia - *Tudor Pickering - Analyst*

Yes that's great, thank you.

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

Matt Lofting, Nomura.

Matt Lofting - *Nomura - Analyst*

Just one remaining question, please, if you could talk a little bit about current thoughts in Alaska and the economic viability of the discoveries there over the last couple of years, I guess, having worked through some of the data from the drilling program at the start of this year and then also I think having written down one of the prospects from 2012. Thanks.

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

Basically, our people are working now hard to develop the project. So it's way too early to give you any guidance.

But what we know is that we are in the phase of visualization and conceptualization of the development, so I cannot add more than what you know.

But I don't know, probably being optimistic, 2019, the end of, could be a year in which we can start first oil. But this is a long shot on my side. So I'll answer that once our people finish their visualization works. Is that okay, Matt?

Matt Lofting - *Nomura - Analyst*

Yes, fair enough. Thanks very much.

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

Richard Griffith, Canaccord.

Richard Griffith - *Canaccord Genuity - Analyst*

I just wanted to ask you a question about Canaport and an update, really, on where Spectra are in terms of reversing some of their pipelines from north to south to south to north. And, in that context, where would Canaport fit in your strategic thinking vis North America and, obviously, the news flow that we saw yesterday?



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

I think that it's way too early to think of it. I don't see easy really to obtain this reversing of the pipelines. And, on top of that, there are more questions, like the license to export LNG. At the end, you will end up with a huge question mark in the table whether or not the US is going to allow massive LNG exports or not.

So right now, there's nothing there and we are not thinking in reversing pipelines. Is that okay, Richard?

Richard Griffith - *Canaccord Genuity - Analyst*

Yes, it was really about the strategic fit. Yes, that's great. Thank you.

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

Bertrand Hodee, Raymond James.

Bertrand Hodee - *Raymond James - Analyst*

I have a follow-up question on the BMC-33. Can you -- in the best case scenario, when do you think you will be able to take a final investment decision? I know it is early stage, but I would say is it 2015 can be a target for final investment decision? Or you think it will be after that, probably 2016 at the earliest? Thank you.

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

Well, Bertrand, I think it's way too early because, basically, what we have is massive projects there. We are talking probably something between \$15 billion and \$25 billion. So it's way too early.

The result of Seat, the important thing is that, being liquid, what has shown us is that probably it would be most profitable to start the whole development by Seat, which contains a lot of liquids. And it would be easier to start with Seat and then move into Pan de Azucar and Gavea. But, as mentioned before, it's way, way too early. Is that okay, Bertrand?

Bertrand Hodee - *Raymond James - Analyst*

Yes. And if I may, can I have a follow up? So when you're talking about developing Seat first and then Gavea and Pan de Azucar afterwards, do you think this project can hold one or two FPSOs? Or do you see that as one FPSO and then different wells and tie backs?

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

I think that for the first phase it would be one, but probably then a second one will be totally necessary, minimum.

Bertrand Hodee - *Raymond James - Analyst*

Okay, perfect. Thank you.



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

We have, finally, a couple of questions from a fixed income analyst regarding how we see regarding our rating, how much we can expand about in order to protect our rating or not and we'll answer that immediately.

Miguel Martinez - Repsol S.A. - CFO

Well, in relation with the rating, I think that we have proven the last two years our commitment to really keep the investment grade.

After the expropriation of YPF, really all our ratios fell well below and we took a lot of financial measures to keep the investment grade, which we did and we even improved it. So we are totally committed to maintain our investment grade. For us, it's a must and I think that's my answer.

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

Okay, thank you very much. With this last question regarding our commitment with investment grade, we've finished the second-quarter results. Thank you very much. You know that any further queries you may have the IR team is entirely at your service. And thank you very much. Have a nice day. Cheers.

Operator

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

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