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PRESENTATION

Operator

Hello, and welcome to the Repsol fourth-quarter 2015 and full-year 2015 results conference call. Today's conference will be conducted by Mr. Josu Jon Imaz, CEO. A brief introduction will be given by Mr. Bautista, Head of Investor Relations. I would now like to hand the call over to Mr. Bautista. Sir, you may begin.

Angel Bautista - Repsol SA - Director, IR

Hello. Thank you for attending our fourth-quarter and full-year 2015 results conference call. Good day, ladies and gentlemen. I am Angel Bautista, Head of Investor Relations at Repsol.

On behalf of our Company, I would like you -- to thank you for taking the time to attend the conference call, as said before. This presentation will be conducted by Mr. Josu Jon Imaz, our Chief Executive Officer. Other members of the Executive Committee will be joining us as well.



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

Josu Jon Imaz - Repsol SA - CEO

Thank you, Angel. Good day, and thank you for attending this conference on the fourth-quarter and full-year 2015 results. Let me start saying that this year's adjusted net income was EUR461m, and EUR1.86b for the quarter and the full-year 2015, respectively.

Net income was minus EUR2.1b and minus EUR1.2b for the quarter and the full-year 2015, respectively, impacted, of course, by extraordinary impairments, mainly applied to align the book value of some of our upstream assets to the current price environment.

In today's call, we will address four main topics.

First, our review of the main events of 2015. Second, the progress of our strategic plan. Third, we will provide some information, some guidelines, about our main activity forecast for 2016. And last, the quarterly and full-year results and the main operational highlights.

Let's start with the main events of the year. You can see on our first slide a summary of the key achievements of Repsol during the year 2015. Even in such an adverse macro environment we can say that 2015 was a successful and transformational year for the Company. On May 8, 2015, we complete the acquisition of Talisman Energy, a transaction aligned with the key targets laid out in our previous strategic plan for 2012 to 2016.

The incorporation of Talisman's balance to the Company's portfolio has been mainly strong, and at the same time, we were achieving global scale and diversification. Over the course of this year, 2015, we achieved the successful integration of the two companies, and we identified the potential synergies between both organizations deploying a new organizational structure to include all the combined assets and operation of both companies.

This integration of Talisman was, let me say, complete under an increasingly difficult and volatile macro scenario, as you can see on these slides, with the drop of oil and gas prices. And once the integration was complete, we released our new strategic plan, whose main objective is to provide value and to provide resilience under any price scenario.

Portfolio management and efficiency, together with the strength of our integrated model and all the operational improvements already implemented in previous years, allowed us to provide value even in this low-price environment. And as you can see in this slide that you have now in front of you, with Brent being down by almost \$50 per barrel in 2015, we have been able to keep our EBITDA at CCS at a similar level to the previous year.

In hard and challenging scenarios like the one our industry experiencing today, it's very important to protect the cash flow balance of the Company. In Repsol, we are managing our business under this principle.

You can see that we have been able to generate cash to reduce our debt by more than EUR1b, excluding the effect of the payment of the Talisman acquisition. That means that our cash neutrality breakeven has been well below \$50 per barrel in 2015, with just a limited amount of divestments.

Repsol is able to achieve all that thanks to our tier 1 downstream division and the right balance of downstream versus upstream in our portfolio. As you can see on this slide, Repsol is a company in which a profitable downstream division contributes most to the reduction of the Company's global breakeven.

The weight of our downstream business in relation to our upstream overall and liquids production, as you can see in this slide, is the highest within our peer group.

Our upstream division has also made this contribution to cash neutrality in 2015, and in that year marked by the Talisman acquisition and price turmoil, compared to 2014, and considering Talisman for the full year, our upstream has reduced CapEx by more than 50% and OpEx by 12%, or by 13% if we take a per-barrel basis.



And, at this point, let me discuss our strategic plan in more depth. In our projections, we used two sets of planning assumptions, as you could remember, because we had the opportunity to explain all that in October and to see most of you in the roadshow that followed that presentation. We used to set planning assumptions, and our base case and stress case reflected the metrics of the plan under a \$50 flat scenario.

But considering the continuing price weakness, we have carried out an exercise to review the projections of our base and stress cases, revisiting them under an even lower oil and gas prices scenario. Our revised base case starts with a Brent price of \$50 in 2016, \$55, \$65, \$75, and ramps up to \$85 by 2020. Our updated stress case goes down to \$40 in 2016, \$40 in 2017, and remains flat at \$50 for the rest of the period.

With regard to gas prices, our revised base case starts with a Henry Hub of \$2.60, and our updated stress case is reduced to \$2.60 per million of BTUs in 2016 and 2017, while remaining flat at \$3.50 for the rest of the period.

We keep our refining margin assumptions in line with our strategic projections. And as you could see, we are adapting and adjusting quickly, but of course maintaining our strategic drivers untouched.

Our CapEx for 2016 is reduced to EUR3.9b.

We are also anticipating achievement of our efficiency objective. Our target is to capture EUR1.1b for an efficiencies plus synergies in 2016, and this figure, as you could remember, is more than half of our objective in the strategic plan period. We expect to maintain this effort in 2017, keeping our investment at the same level as in 2016.

Overall, we are reducing the Group's cumulative investment for 2016 and 2017 by around EUR1.1b, of which EUR300m correspond to efficiency measures.

You may see that the economics of the strategic plan remain resilient and broadly unchanged even under our revisited stress case. That, as I said before, is \$40 per barrel in 2016 and 2017 and \$50 per barrel for the rest of the period. Sorry.

All in all, in 2016 -- I'm sorry, I forgot it. You could also find in the previous slide our sensitivities to change in the macro assumptions.

So all in all, in 2016, we are anticipating the delivery of our key strategic targets and materially reducing our breakevens.

We expect to achieve at \$40 Brent per barrel cash neutrality in the next two years, after paying our dividends and our interest. To achieve this figure, we are only including the downstream cash in coming from the announced pipe LPG sale. But we are not including any of the divestments that are going to be made or done in the period of 2016-2017.

This objective will be achieved through CapEx optimization and implementation of our efficiency measures. Most of this optimization in CapEx comes from our upstream where we expect to invest around EUR3b in 2016, excluding these figures G&G and G&A.

The reduction arises from a combination of lower exploration, our efficiency program, with the OpEx and CapEx optimization associated to this efficiency program, annual inflation capture, as well as deferring non-critical investments in development and producing assets, while keeping at the same time our production level at around 700,000 barrels per day.

Our exploration CapEx for 2016, including G&G and G&A expenses, falls to just around \$800m versus our previous guidance of \$1b. The greatest effort will be made in our North American operations where we are postponing development and exploration activity, as you know, in Alaska in some areas.

And moreover, we are reducing our development CapEx in Colombia and Brazil while reducing exploration activity in Angola. As indicated before, our CapEx optimization will have no impact on our production profile, because we are benefitting from the end of the previous investment cycle from Repsol's legacy assets. And at the same time, we are also benefitting from a strong performance of legacy Talisman assets.



Regarding our efficiency plan, we are targeting EUR2.1b of CapEx plus OpEx per tax cash savings by 2018, of which, as I mentioned before, we expect to capture more than a half at around EUR1.1b this year, in 2016. With regard to efficiencies, we have identified hundreds of initiatives in a strong bottom-up approach, and let me say that the bonus payments of every manager of the Company, including of course mine, will depend to a great extent on the achievement of this target.

More than 50% of the efficiency plus synergies target in 2018, as I said before, will be achieved in 2016. And all in all, we will reduce our upstream OpEx in per barrel terms by more than 13% in 2016, comparing this figure with the cost with the OpEx in 2015.

Turning now to synergies that are an important part of our efficiency target. We have identified over \$400m per year of recurrent synergies coming from the Talisman integration, and we have already implemented more than 50% of them. That means that today are entering in our P&L in the bottom line.

This target is above the \$350m that we included on delivering the strategic plan and compares to the \$220m that we assumed, as you remember initially, when the acquisition of Talisman was announced. This improvement comes mostly from the repurchase of Talisman bonds that was executed in December. That is going to reduce our annual interest payments by \$60m.

And this, together with additional smaller transactions that we executed in January, have allowed us to repurchase a total of \$1.7b of Talisman bonds, generating capital gains of more than \$240m before taxes. And on top of that, we are also capturing significant synergies in areas like people, organization, IT, from the high grading of our exploration portfolio, combining synergy from both companies, and also in other areas, like, for example, our corporate insurance program.

And at this point, let me update you on the progress of our divestment program, since aside from the mentioned repurchase of Talisman bonds, we have closed a significant of transactions that materially improve our free cash flow generation in the short and in the medium-term. And this is as a result of the additional optionality we have thanks to the portfolio management we could in some way do thanks to the acquisition of Talisman.

First, I am glad that this morning -- let me say that was this morning, because we closed the deal last night. We announced the sale of our offshore wind power business in the UK for around EUR240m. This is a new milestone in the progress of our divestment program and is another example of the hidden value that we could crystalize within Repsol's portfolio.

We sold, as you know, our stake in CLH for EUR325m back in October, generating around EUR300m in capital gains.

We sold most of our piped LPG business in Spain for around EUR800m, with a very significant pre-tax capital gain of around EUR470m. And you know that the proceeds and the corresponding capital gain will be cash in and accounted mostly in 2016.

We also reached an agreement with Armstrong, our partner in the Alaska project, to dilute our position in the North Slope, generating a positive impact on our cash flow of around EUR700m, as we are avoiding carrying Armstrong for that amount.

And I think that this point is important, because I'd like to underline that this is a good example of win-win transactions that we can undertake to optimize our E&P portfolio, even under the current low price scenario.

And another example of this capacity we could have to deliver this kind of operations in our M&A, even in this low price scenario, is the agreement with Statoil to divest a part of our interest in Eagle Ford to acquire a stake in Norway's producing Gudrun field, generating a significant improvement in the cash flow generation in the period 2015 to 2017.

And this transaction will, on top of that, benefit our Eagle Ford operations through the nomination of a single operator that no doubt is going to optimize the current joint venture performance.



Also in Norway, we have divested our 15% participation in the [Bayhill] field, and we also signed an agreement to transfer our stake in the Yme field to the local player OKEA with potential savings of EUR200m in the commissioning cost in the 2016-2020 period if the deal is closed by year end.

So, you can see that we are actively working on a broad pipeline of further potential transactions under the principles that we outlined in our strategic plan presentation. And obviously, I am not going to make any further comments on this matter in the Q&A session. But let me say that we are working hard to deliver what we announced in our strategic plan.

Let's speak briefly about our projects for 2016. On the development side, the ramp up of the second FPSO in Sapinhoa North in Brazil -- in Brazil, sorry -- will be complete in March, with our production in Brazil thus reaching around 40,000, 45,000 barrels of oil equivalent per day net to Repsol.

Also, in Block BMS-9, in the Santos area, the development of [La Pais] progression on schedule and the FPSO Cidade de Caraguatatuba is expected to be in location by mid-year, with first oil planned for the fourth quarter.

In 2016, we have scheduled the following selective development milestones. Significant activity firstly in Southeast Asia in projects with moderate CapEx and relatively short-term delivery, progressing on the development of the Kinabalu and Bunga Pakma projects in Malaysia and the final investment decision expected for the CRD project, also known as Red Emperor, in Vietnam.

In the UK, we will continue advancing with redevelopment of Mon-Arb and Flyndre Cawdor, with advances to accelerate first oil expected early in 2017. And, at the same time, we are going to go on reducing CapEx in order to have a further improving in per barrel performance in our North Sea assets.

In Peru, the Sagari project received the environmental approval, and development work continues as planned for first gas in 2018.

In Colombia, we will continue with appraisal campaign in Akacias.

In Algeria, the execution of Reganne progresses with first gas maintained for 2017, while the conceptualization of Sud-Est-Illizi continues in parallel with a successful appraisal phase, which is leading to a very material resource base.

In North American conventionals, development CapEx will be, of course, contained in these hard times, driven by short-term cash preservation and valuable land retention objectives.

On the exploration side, our program for 2016 will focus mainly on prices and lower risk prospects, with wells in Southeast Asia, Gulf of Mexico, Brazil, Algeria and Colombia, among others.

And with regard to our downstream business -- downstream businesses, as I said, this year, we expect to further improve the resilience of our margins through this battery of measures.

First, our reduction in losses, consumptions and CO2 emissions in our refineries and in our crackers, coupled with additional efficiency measures. At the same time, we are going to enhance and to increase the reliability of our plants in order to increase utilization of the conversion capacity of our refineries.

And we are going to boost the improvement of our differentiation program in our chemical business, thanks to our metallocene plant in Tarragona.

And finally, the revamp of our La Pampilla refinery in Peru is progressing as scheduled.

Now, let's move on to the fourth-quarter and full-year results and the main operational highlights.



Fourth quarter CCS adjusted net income was EUR461m, 25% higher compared with the same period of last year and 189% higher than in the third quarter. Full-year 2015 CCS adjusted net income was EUR1.86b, a 9% increase compared with full-year 2014 results.

These results were impacted by low oil and gas prices in the upstream, and all that was offset by a very strong downstream performance, especially in refining and chemicals.

Despite the challenging and difficult context we are living, the strength of our downstream has more than offset the continuous decrease in crude oil and gas prices.

As you may see in our slide, this resilience of our results is quite exceptional within our peer group. The Repsol Group's cash flow from operations amounted to EUR5.4b in 2015, of course. I'd like to stress the fact that the outstanding performance of our downstream division that contributed more than EUR4b to this figure.

Looking at the results by division, starting with the upstream business. Adjusted net income for the fourth quarter was minus EUR276m, EUR280m lower than in the same period of 2014. All in all, the upstream results were mainly impacted by lower realization prices with a bigger E&P asset base, partially offset by lower exploration and other costs.

Production reached an average of 697,000 barrels per day in oil equivalent terms in the quarter, higher than in the third quarter thanks to the ramps ups in Sapinhoa in Brazil, in Cardon in Venezuela and the production increase in the UK, where you know that we are reversing the decline.

Current production is over 700,000 barrels of oil equivalent per day, and the reserve replacement ratio for 2015 has been 500%, of course, taking into account the inorganic part of this ratio. Excluding the acquisition of Talisman and other inorganic transactions, our organic reserve replacement ratio was 159%, ending the year with EUR2.4b of proved reserves.

This rate is impacted by increase in our stake in Venezuela, as well as from reserve increases in Trinidad and Tobago, North America and Bolivia.

Year-on-year performance, excluding the contributions of Libya and Talisman, is explained as follows. Lower crude oil and gas realization prices, as you know, and all of that has had a negative impact at the operating level of EUR307m.

Lower exploration expenses led to an increase in the operating income of EUR89m.

Lower depreciation and amortization charges increased the operating income by EUR52m as a consequence of lower amortizations in the US and Russia and lower production in Trinidad and Tobago, partially compensated by the increase in production in Brazil and Venezuela, higher production result and a positive impact on the operating income of EUR11m.

Taxes, on the other hand, had a positive impact of EUR132m due to the lower results, and there are other minor effects that could explain the remaining difference.

The impact of the disruption in Libya was minus EUR76m, and minus EUR24m in the operating and net adjusted income, respectively.

Operating income of Talisman's assets was minus EUR208m. We had the most positive results in Indonesia that were offset by negative results in North America and Norway mainly, and the contribution to the adjusted net income has been minus EUR115m.

I'd like now to go briefly on a slide that shows examples of how we are progressing on improving the performance of some of the recently acquired assets. The UK, the area with the most let me say significant challenges we could have in our hands, or the Marcellus, where are continually reducing costs and leveraging on our infrastructure position to reduce breakevens and remain free cash flow positive even in this challenging price scenario.

Finally, I'd like to mention that in the current environment of low crude oil and gas prices, the Board of Directors of Repsol has agreed in application of the most rigorous and pertinent financial criteria to apply extraordinary impairments totaling approximately EUR2.9b to its 2015 earnings, of



which EUR2.4b have been booked in the fourth quarter of 2015. These provisions can be, of course, reversed in future accounts when the price outlook changes.

Turning to our downstream division, CCS adjusted net income in the quarter was EUR495m, significantly higher than the EUR370m of the fourth quarter of 2014. Full-year adjusted net income was EUR2.2b, 113% higher year on year, and this improvement is mainly driven by better refining and chemical margins and enhanced performance in the trading business, partially offset by lower results in gas and power and LPG.

Quarterly performance was underpinned by very strong chemicals results that, let me say, that continue in the first quarter of 2016, and I hope that all the same thing could happen over the whole year.

The refining margin indicator was down quarter on quarter, but still average at a healthy \$7.30 per barrel, 33% higher than in the same period of 2014.

We have entered 2016 with our robust refinancing margin, averaging around above \$7 per barrel, thanks to strong gasoline spreads, offset in some way by the weaker diesel spreads due to the mild winter. We continue to see heavy-light spreads structurally strong looking forward.

And drilling down into the quarterly results, in refining, higher utilization rates and improved refining margins produce a positive impact on operating income of EUR69m, compared with the fourth quarter of 2014.

In chemicals, the enhanced efficiency as a result of operational improvements in our petrochemical side and, at the same time, as a result of higher sales volumes and improved margins helped, of course, by a better international environment, generated a positive effect on the operating income of EUR65m.

In the commercial businesses, operating income was EUR29m lower year on year, mainly due to lower LPG margins in Spain.

Moving to gas and power and trading, the operating income was EUR8m lower than that of the fourth quarter of 2014. But nevertheless, and even in this mild winter, we had positive results in our gas and power American business, which is always good news.

The exchange rate and other effects year on year was EUR27m.

Results from equity affiliates and non-controlling interests and taxes and so on explain the remaining difference.

With regard to Gas Natural Fenosa, adjusted net income in the fourth quarter of 2015 amounted to EUR123m, 84% higher than that of the same quarter of 2014, mainly due to the contribution of the CGE Chile and the impairment booked last year in Fenosa gas plant in Egypt in the fourth quarter of 2014.

Let's move now to the financial aspects. Our fourth quarter financial result was nil, which compares to a net financial expense of EUR85m in the same period of last year, 2014, mainly due to the higher positive results associated to exchange rate positions that were offset by higher net interest because of the acquisition of Talisman.

The Group's net financial debt at the end of the fourth quarter of 2015 amounted to EUR11.9b, a decrease of more than EUR1b compared with the end of the third quarter of 2015. And, as I explained before, under this macro environment, it's a real priority to preserve the cash flow balance of the Company. And this reduction in our net debt underlines Repsol's focus on maximizing cash from our operations and the protection of our balance sheet.

The Board of Directors of Repsol approved yesterday to propose a dividend of EUR0.30 per share with a scrip option, which represents a 40% reduction in the complementary dividend to be paid in June/July. And as you are probably aware, we met with the rating agencies some days ago, and we showed them the plan and measures we have established to preserve our rating and investment grade.



And let me underline that following our strict and prudent financial policy, we maintain a solid liquidity position above EUR9b, which covers our short-term maturities by more than 2 times.

To conclude, I'd like to say that I am satisfied with what Repsol has achieved in 2015.

Despite the challenges the industry is facing, we have been able to successfully integrate Talisman, to generate adjusted results that are higher than in 2014 and to achieve cash neutrality below \$40 Brent per barrel, thus reducing our debt by more than EUR1b in 2015.

Thanks to the acquisition of Talisman, based on a broader portfolio and with our unconventional resources, Repsol faces the current low price environment with enhanced flexibility to optimize capital allocation and just as importantly, the ability to increase efficiency through the adoption of the best practices from both former companies, from both teams.

Our new strategic plan lays out the well-established and tested grounds for our improved resilience and value delivery under any scenario, thanks to the current and right integration of our upstream and downstream businesses.

We are already delivering synergy and the efficiency program, and of course, the good and balanced selective divestment package. For 2016, we will firstly further optimize our CapEx, focusing only on the most valuable products in our portfolio, because we want to protect our balance sheet.

We are going to anticipate our efficiency targets under our objective of becoming a leaner company. As a result, having already one of the lowest cash breakevens among our peers, if not the lowest, we will reduce this breakeven even more down to the \$40 area. We will progress with our divestment program, but always with the principle of protecting the value of every asset of this Company.

Value and resilience are the two concepts to remember. Thank you very much, and I will answer to any question you may have in the Q&A.

QUESTIONS AND ANSWERS

Angel Bautista - Repsol SA - Director, IR

Thank you very much. Let's go into the Q&A session. We are having some problems, some technical problems, with the conference call system, but we hope to have them solved without major problems.

In any case, if you run into technical problems for the connection, please address any incident to our email, investorrelations@repsol.com, and we'll try to contact you immediately.

Again, well, let's go. We have a first Filipe Rosa from Haitong. So, Filipe, [spoken in Spanish], go ahead with your question.

Filipe Rosa - Haitong - Analyst

Hi. Hi. Good morning, everyone. So thank you for the presentation. Three questions for me, if I may. The first one relates to the dividend cut. So the Board was going to propose a 40% dividend cut for the final part of the dividend for 2015. My question is whether we should assume that this should be the new level, 0.6 annualized, that we should have, for instance, in 2016 and 2017, or this will be managed on a case-by-case basis? That's my first question.

My second question relates to your strong liquidity position and the fact that your hybrid bonds, they are trading at quite high yield. I know that probably this is not the best time, but historically, you have compared the yield of your Gas Natural investment with the cost of debt. Now, you have quite expensive debt that you could rebuy -- you could buy again, buy back, with selling your Gas Natural stake. Could you just elaborate a little bit on how you are seeing your cost of debt and whether you could have some further measures to optimize at that level?



And also related with this, of course, you said -- the third question, okay? You are meeting with rating agencies. Could you give us some idea on whether the announcements that you made so far in terms of CapEx cuts, OpEx savings, cut in the dividend, they will be enough to guarantee that you will remain investment grade, or have you had to commit to any further measures that were not announced today to be able to avoid a downgrade to junk? Thank you very much.

Josu Jon Imaz - *Repsol SA - CEO*

Thank you, Filipe. I have announced a dividend cut of 40% only for the interim dividend to be paid in July 2016. The gross dividend in June/July to be paid will be EUR0.30 per share.

We also maintained a scrip option, and let me say and let me elaborate a bit more. I believe that the dividend policy of a company must be dynamic, and this dividend policy has to be approved and developed in accordance with both factors.

First of all, the macro context we are living now. Secondly, the results of the Company, and taking into account today these both factors -- the macro environment we are experiencing at the same time the results of the Company I am presenting today, our Board took yesterday a prudent measure to adapt this July's dividend to these current circumstances.

But let me say, that is a decision taken for this interim dividend, and the Board we analyze in the future, case-by-case, taking into account the macro environment and the situation of the Company and the sector in the future. So this decision, one short decision, taken for June/July dividend.

Related to your second question, I have in mind, and of course, Angel could perhaps later to confirm this figure, that the average cost of our current debt, hybrid included, is at around 3.5%, 3.6%. That is our current debt cost, so we are in a quite optimum situation.

And related with our meetings and our understanding about the credit rating agencies, yes, I could confirm that we have met the credit rating agencies recently, last week, a part of them. And as you know that's not new. I mean we met them -- we meet them in a very recurrent, quite often, in a fluent and transparent manner. We did the same thing last year after announcing the acquisition of Talisman.

We met them again with the presentation of our strategic plan 2016-2020, and we discussed with them what is Repsol? Repsol is a company that even in this tough price scenario is maintaining, even increasing its EBITDA. Repsol, it's able to maintain and even reduce our current debt level at current prices.

We are delivering all the M&A measures we have in our hands, and we are overcoming every day this figure, and the battery of measures presented to the agencies should be enough to maintain the investment grade of this company. And I hope that you may understand that I'm not going to comment on the measures discussed. But please keep in mind that we have a track record of delivery in front of the credit rating agency.

We did that, and let me remind you, in adverse circumstance. That wasn't a circumstance for the whole sector. That was a single problem for Repsol after the confiscation of YPF. We have a track record of delivery.

We are executing more than EUR3b either of divestment or CapEx reduction that are linked to M&A operations, and we have developed this effort in four months. We have, of course, overcome that objective we have of EUR1b agreed previously with the credit rating agencies.

We are going to go on delivery -- delivering, and I think that all that should be enough to maintain the investment grade. I know what we have to do, but let me say that I am not going to deliver any additional specific measures. Thank you, Filipe.

Filipe Rosa - *Haitong - Analyst*

Okay. Thank you very much. Thank you very much.

Angel Bautista - Repsol SA - Director, IR

(Spoken in Spanish), Felipe. Thank you very much for your questions, Felipe. Now, we're moving. We're moving to Irene Himona. It's always very nice to speak with you, from Societe Generale. Go ahead, please, Irene.

Irene Himona - Societe Generale - Analyst

Thank you, Angel. Good morning. I had two questions, please. Firstly, on downstream, which was obviously the star of last year, can you please talk about what is happening to margins so far this year, your outlook for 2016, on average, and if you can perhaps guide us on the other components of downstream marketing, LPG, chemicals and so on? So basically what you anticipate in terms of 2016 downstream EBITDA or earnings.

And my second question, in the October strategy plan for 2016 to 2020, apart from OpEx, CapEx, etc., you had included a EUR6b asset disposal plan. Today, you adjusted the CapEx, OpEx and dividend, but you have made no reference to what asset disposals are still required to deliver the plan and protect the investment grade, so I wonder if you can clarify do you need more than the EUR6b?

And in a context in light of the \$30 oil and your adjusted stress case, how is the Board thinking about the Gas Natural holding? Thank you.

Josu Jon Imaz - Repsol SA - CEO

Thank you, Irene. Related to our downstream businesses, it's going to be easier to talk about the past because I know the past, but I only could forecast the future, so that is a more difficult task. But let me say that from January 1 to today, the refining margin we have captured in our system -- in our system has been, as average, \$7.30 per barrel. That is the delivery from January 1 to today.

I'm not going to hide you that we are out of the driving season, that the winter has been quite mild, not only in Europe, until two weeks ago even in the American East Coast, and that is the fact. The future, the future is always more difficult to forecast, but going to the fundamentals, demand is growing due to the current GDP growth in Europe and in North America. And, at the same time, at these low prices, demand is going to grow.

Demand is growing. You could see the forecast of demand growth for the year could be 1.1m, 1.2m, 1.3m barrels per day. At the same time, you know that due to this deep financial crisis in many companies, many companies have deferred new projects for the future.

You also know that last year, due to the high margins, many European refiners deferred some maintenance shutdowns and so on to 2016. So, going to the fundamentals, we are quite comfortable regarding what could happen in 2016 related to our refining margins. But, of course, as I said, that is a forecast, but I prefer to stop my position saying -- looking at the facts, \$7.30 per barrel until today.

Chemical. I am quite convinced. I think that we are going to repeat in 2016 a year quite similar in qualitative terms to 2015 year. Why? First of all, because demand is growing in polymers, cars and many products in Europe that are associated to the polymer consumption.

We can forget the Spanish economy, and I want to underline this fact today, has one of the highest growth, or perhaps the highest growth in Europe today, and all that is going to have consequences, of course, in our industrial activities.

At the same time, at these oil low prices, and I am assuming in this \$40 per barrel scenario that we are going to go in this scenario over the year, the competition of the chemicals based in the American ethane is over for our system. Our competitive position is better, and let me also say, and it could be a quite -- that we are in some way capturing the strong efficiency measures we put in place two years, three years ago in our petrochemical businesses.

Marketing. I don't know about taking into account the current growth in Spanish market and so on. I can't see clouds in our marketing business, and related to our -- you said, and of course the rest of businesses, trading, quite stable.



OpEx, CapEx, you said that I delivered the figures. But disposals. I mean disposals, I want to stress the fact that we have been able to dispose almost EUR2b in four months, and you know that we had a commitment with our own strategic plan of disposing EUR3.1b in the first part of the period, 2016-2017. And before, let me say starting the game, we have delivered two-thirds of this objective.

So I can't forget that we have to fulfill all the commitments of our strategic plan, EUR6b. We have four and a half years in front of us. That means that we have a basket of EUR40b, EUR42b, EUR43b in assets. And we have shown last time, this morning, our capability to crystalize hidden value from many businesses that, let me say, the market is not, in my opinion, perhaps sufficiently taking into account.

We have outside our E&P business many assets that are not related to the oil prices, oil and gas prices, and we could extract and capture this hidden value, Irene.

Irene Himona - *Societe Generale - Analyst*

Thank you.

Josu Jon Imaz - *Repsol SA - CEO*

Others. Gas Nat, no, that there was any kind of decision in our Board related to this issue. And let me say, we are not putting any focus in any specific asset. We have EUR42b, EUR43b in assets. Don't forget that 25% of these assets are downstream assets. That given the E&P, we have been able -- we have shown over the last four months that we are able to deliver disposals in this tough scenario and that we could have 30% of our upstream assets that are not directly related to the commodity prices, either because they have fixed price contracts or because they are [BSE] contracts and so on.

So we have enough basket of assets to take this kind of decisions, and let me say that we are going to prioritize every time the protection of the value of this Company.

Angel Bautista - *Repsol SA - Director, IR*

Thank you very much, Irene. Well, moving on, Jason Kenney from Santander. How are you, Jason? Go ahead.

Jason Kenney - *Santander - Analyst*

Yes, thanks. Thanks for the question. I've got to say that I'm just a little confused by how quickly the message has changed from Repsol. I noted in your opening commentary about adjusting and adapting and trying to be quick and dynamic with your strategy.

But it was only in October that you presented a five-year strategy plan update, and it seems almost weekly you're changing the CapEx number of 2016. It was EUR4b on the trading statement. It is EUR3.9b to 2016. Today, you've put a 2017 number in play. We're only four or five months on since October. I know this is good progress, but how realistic were those original targets in October? And at the end of this year, will that EUR3.9b CapEx actually be EUR3.5b CapEx?

And I think you need to have a stability in the message that you're giving across to investors, because remodeling Repsol is challenging in the best of times, but the messages are smacking of an inability to understand exactly what it is that we can really squeeze out of this business. And on the back of that, I think that the dividend cut today also indicates some confusion in the cash management objectives.

I don't really see -- on a post-scrip basis, I don't really see the materiality of the cash saving from the dividend cut that you've announced on a one-off interim basis. I could understand it if it was going to be a consistent cut going forward. But on a one-off, interim basis, the amount of cash being saved by that 40% cut in the second-half interim payment is not that relevant compared to the big ticket items of disinvestment, divestments,

asset sales, the CapEx savings and the synergy targets, and I don't really understand where it all fits in. Maybe you can relate some of that together and give me a comment.

And then secondly, I've just got a question on the press coverage of Repsol. How is it that we constantly get so many quotes from people that are apparently in quotes close to the Board on very key decisions and insights about strategy two days, three days ahead of big investor commentary like this?

There must be some sort of controls within Repsol that's got to stop the kind of leakage and discussion about things that these guys don't necessarily know a lot about, and ultimately for investors to have a consistent approach, only the messages from you and the management should be the ones that should be listened to. That's just my view.

Josu Jon Imaz - Repsol SA - CEO

Thank you, Jason. Be sure that we try to be coherent, even in these tough times. But remember, Jason, because I remember that when we had many one to ones with many analysts and investors in October, when we deliver the figure of CapEx of 2016, the question that everybody put on the table was, yes, but what is the flexibility you have for 2016 related to this CapEx?

I am sure that many of you remember that question, and my answer those days was that we could have 20%, 25% of flexibility. That is not going to be easy to be achieved, but we are going to try it. And I presume that many people were quite skeptic, and I could understand. Perhaps, my position would be quite similar being on the other side of the table after a statement like that, that someone after reducing 38%, I think, I remember the figure, the CapEx from 2015 to 2016, was announcing that they could have an additional 20%, 25% flexibility to cut our CapEx.

That is the proof we had that flexibility, Jason, and we have been able over the last four months to deliver this figure. How? I could put many examples on the table. The DLS Corporation was a way to defer CapEx commitments and CapEx in 2016. The Eagle Ford/Gudrun swap was a way to reduce the CapEx reduction for 2016. The Yme operation was another way to reduce this CapEx.

To work every day with our people in North America, in Marcellus and in the [Great Tetons], mainly trying to optimize in cash flow terms the CapEx we are consuming, at the same time, maintaining the production at these tough times, is another way. Deferring some other projects that are not going to be key in this price scenario is another way.

Increasing our efficiencies in CapEx that in \$250m, \$280m, is another way. And let me say, I am giving you a guideline that from this afternoon on, with Luis Cabra, our Managing Director of Upstream, I am going to go on trying to reduce the CapEx figure. Now I'm giving you as a guideline for this year.

And let me say, we are not going to affect the 700,000 barrels per day of production as average this year. We are not going to affect the production for the coming two or three years of the Company. We are going to maintain the objectives of production we have for the whole strategic plan, and I am going to be very clear, transparent and frank.

We are going to reduce more or less the reserves replacement ratio this year, in a 9% or 10% due to this CapEx deferred -- deferral, sorry. But in this oil and gas price scenario, my duty is to preserve the value of the Company, and I think that this reduction of 9, 8, 10 points in the reserves replacement ratio, mainly when you could see we have an organic replacement to 159 last year, and taken in organic terms 500 growth -- I mean, a growth figure.

So that is the real reason of this coherency, Jason, in delivering our strategic plan. We are maintaining the same main targets, but our duty, because this scenario is different -- we are not at \$50 per barrel. So I can't maintain. I can't put on the table the same kind of measures we had when we were at a \$50 per barrel scenario. And that goes to the average in 2015.

Now, I'd like to be tougher, and that is my duty, to adapt, maintaining the main objectives and targets, but adapting the measures I have to decide I have to take.



The dividend. It's true when you say that that is not a big saving to reduce to EUR0.30 per share the complementary dividend for July.

It's true. If you take the scrip basis acceptance and you calculate the figure, it's not a big figure. But let me say, it's a signal. It's a signal that our Board is concerned, because the macro scenario, and we are adapting the message we are taking to the situation we are living. And I think that that is also consistency.

Consistency is to be able to weather a company in tough times, maintaining the main axis, but at the same time, taking different decisions.

I respect a lot the work of the media, and perhaps sometimes the media has to analyze and to speculate about some kind of things. But there is no quote coming from Repsol in any -- in any of this information you were saying. So that is not a leakage, and they are not information coming from Repsol.

Are in the free -- in a society that respects the free opinion and the free speech, are analyses that free media deliver.

Jason Kenney - Santander - Analyst

I hear your points, and I take onboard the positive progress of being more adaptive and more tough, as you say. But on slide 11, you still only got the EUR10b of cash for dividend and debt. You've not changed that number, and yet you feel free to change the makeup of your cash management.

Josu Jon Imaz - Repsol SA - CEO

Repeat your question?

Jason Kenney - Santander - Analyst

I take your points, and I realize that you want to be tough, and I appreciate that you have to be tough in this kind of environment, and I think it is positive that you're being tough. But if you want to compare yourself to other oil companies with reasonably stable strategic objectives, but also want to be adaptive, then you should be adapting all of your metrics.

And on that slide 11, you've still only got EUR10b of cash for dividend and debt, which is, in my view, mainly back loaded. You've not changed the investment number in that makeup there. And I think there's just a disconnect between some of the things that you want to do versus the things that you are doing and the objectives that are still out there from last October. And that can confuse the investment case in many ways, I think.

Josu Jon Imaz - Repsol SA - CEO

Thank you, Jason, but you are right. We are maintaining our main priority. That is that after paying the dividend of Repsol, reducing our debt, and this figure is representing what you are saying. And to achieve and to deliver this figure, we are going to increase the efficiencies, the OpEx reduction, the CapEx reduction we have in our hands, and we are going to be active trying to capture value from our M&A operation. Thank you, Jason.

Angel Bautista - Repsol SA - Director, IR

Thank you, Jason. Now, we're moving on, moving on in our Q&A session. Now, we have Nomura, Matt Lofting. Good to speak with you again today, Matt. Let's go ahead.

Matt Lofting - *Nomura - Analyst*

Thanks, Angel. Two questions, if I could. Firstly, just coming back to the dividend, obviously, the cash saving from lowering the headline payment for the second half of 2015 is small. Can I just ask, is a dividend reduction something that the credit agencies pushed for when you met with them recently or is it something that's been led by the Board decision? Also, do you expect any or forecast any impact on the scrip take up from lowering the headline dividend? What scrip percentage are you now assuming?

I'm just wondering from a policy perspective, the industry has tended to emphasize the importance of dividend stability through the cycle, and the message today is now more around adopting a dynamic approach. Do you think that's reflective of something that Repsol and the industry needs to move towards on a medium-term basis, not just for the short-term?

Secondly, just on CapEx, can I ask, you referred to the lower reserve replacement opportunity as a function of reducing CapEx and exploration spend. What is the production implications from a medium-term perspective? Is the range that you gave in October still valid, or do you now see production for 2016-2017 lower than that range? Thank you.

Josu Jon Imaz - *Repsol SA - CEO*

Thank you, Matt. I'm going to be very clear. The decision of our Board is a free decision of our Board, not related and nothing to do with any kind of commitment with the rating agencies. Stability is very important, Matt, and I agree with that, and we try to change things in a quite smooth way.

But we can't close our eyes seeing what is happening in the macro environment, in the sector. And protecting the balance sheet of this Company is always to be an issue, a target, for Repsol. So our Board took this decision related and focused on the dividend that is going to be paid in July 2016. I'm sure that our Board will take the right decisions in the future. But, be sure that the decisions are always to be in some way influenced by the macro environment we are living and also the results of the Company.

So the dynamic approach, you are right. But let me in some way put this dynamism in the framework of something more stable, smoother changes that we are maintaining over the last year.

What are the production implications, you said, of this CapEx reduction? Zero. Zero in next two, three, four years, because we are always talking about projects that they were not going to see their first oil -- either first oil or first gas -- before 2020. So now it's zero. At the same time, you know that we have the ramp up coming from former projects. I remind you that in March we are going to achieve the plateau in Sapinhoa. At the end of the year, we are going to achieve to see the first oil in Lapa in Brazil. We are also increasing some productions in Malaysia. We have increased our production in Norway, thanks to the Gudrun swap. Cardon and the ramp up is also there, and so on.

So I presume that the total production this year is going to be an average of 700,000 barrels per day, and the impact in the period of the strategic plan of these measures is going to be almost zero. And when you said the range in October, is it still valid or lower, we are working in this scenario of having at the end of the period, in the absence of disposals in our E&P, a production that could be perhaps closer to \$850, \$90,000 dollars (sic) per barrel at the end of the period, done 700,000 barrels per day.

But do remember the reflection -- reflected in our strategic plan, related to the disposals and M&A, a more active position managing our portfolio in the upstream. But it's true that now is not the best time to be quite active in these disposals. Thank you, Matt.

Angel Bautista - *Repsol SA - Director, IR*

That was Matt Lofting from Nomura, and now we're moving on. Haythem Rashed from Morgan Stanley. Hi, Haythem. Good to speak with you as always. Please, your questions.

Haythem Rashed - *Morgan Stanley - Analyst*

Thank you, Angel. Thank you, Josu Jon. Good afternoon to you all. Two questions from my side, please. Firstly, just on La Pampilla and just thinking about your comments earlier about these kind of transactions where you reduce exposure to CapEx and also monetize assets. It seems at this point in the cycle, where downstream assets are probably a lot more coveted than others at the moment given the CapEx commitments you have around the upgrade. Is it something that you have looked at and just haven't found buyers for, or actually, is this something you would rather not sell and you see it as more core than that, just in terms of an additional disposal candidate?

And the second question I have was just with regards to timeframe of delivery, when you talked about earlier your conversations with the credit rating agencies. It would be really helpful just to understand the sense you're getting in terms of what sort of timeframe we're talking about. I remember at the time of the closing of the Talisman deal, I remember comments about 18 months to deliver some of the debt reduction measures that had been discussed before, such as the hybrid and others.

But considering where we are now and if that is still the timeframe we're talking about, then we're talking another six, nine months, etc. Is that something that is still the case, or do you feel you have into 2017 to be able to deliver some of these things, given that these disposals might take a bit longer? Thank you.

Josu Jon Imaz - *Repsol SA - CEO*

Thank you, Haythem. First of all, related to La Pampilla, I'm not going to put of course any name to any asset, as I said before. But our commitment with La Pampilla is this year, by July, more or less, to fulfill the metal distillates, hydroseparation period to adapt ourselves to the new regulation in Peru.

At the same time, of course, we are also revisiting every downstream business and every downstream asset also in terms of efficiency. We are now making a lot of money in our downstream businesses, but it's always time to try to be more efficient. And, as you could see in our strategic plan, we are going to reduce our cost in our downstream businesses in a figure above EUR200m this year, 2016, thanks to the addition of all these efficiency measures.

Related to the agencies, let me say that we have an open dialogue with them. The dialogue with them is open. Of course, we are going to guide their analysis, and a battery of measures that we discuss with them, I think that should be enough to maintain the investment grade of the Company. Thank you.

Haythem Rashed - *Morgan Stanley - Analyst*

Thanks.

Angel Bautista - *Repsol SA - Director, IR*

Thank you, Haythem. Thank you for your questions. Now, let's move on to Flora Trindade from BPI. Hello, Flora. Go ahead, please.

Flora Trindade - *BPI - Analyst*

Yes, hello. Good afternoon. Very quickly, just trying to explore a bit on the rating agencies. I know that you have been answering several questions on this. But just wondering if you could share with us if there are any measures that you completely discard at this stage so that wouldn't be in your mindset, because the price in Spain has been advancing several scenarios, including the sale of the whole stake in Gas Nat, including a potential capital increase. So is there anything that you believe is completely out of reach for now with the data that you have?

And then, secondly, just trying to see if you could give us a sense of what could be the level of free cash flow you expect this year, considering the current oil price scenario and the adjustments you have given in terms of CapEx and efficiencies, with and without the divestments you have in the meantime announced. Thank you.

Josu Jon Imaz - *Repsol SA - CEO*

Thank you, Flora. Let me underline again, related to the rating agencies. We have EUR43b of assets in our hands. A relevant part of them are not related to the oil price, so we are going to take advantage of this basket, to play, to increase the value for the Company. And we are not going to deliver any specific measure.

I know what I have to do. But my duty is to stay here, of course, and not to follow giving any kind of more information related to the assets of the Company.

2016, our aim, our target this year, is to reduce the debt level of the Company, even at these oil prices. And, as you know, we are taking a deck for this year of \$40 per barrel Brent and \$2.60 per million of BTUs in Henry Hub price. Even in this scenario, our target is to reduce in a quite significant way the debt level of the Company.

Angel Bautista - *Repsol SA - Director, IR*

Thank you. Yes, yes, Flora? Yes, go ahead.

Flora Trindade - *BPI - Analyst*

Sorry. Just a follow-up, because I believe that the debt reduction has a relevant contribution from divestments. So I don't know if you could give us the underlying, excluding these divestments, please. Thank you.

Josu Jon Imaz - *Repsol SA - CEO*

Let me stress the fact that to reduce our debt this year, the first way we have is the free cash flow generated by our businesses, even in this tough scenario, with a complement coming from the CapEx reduction I expressed before, and the efficiency measures that, let me say, we are increasing these measures every day. And it's not wishful thinking.

I have a commitment with you, and the commitment is that every quarter I'm going to deliver to the market, so to you, what is the fulfillment level of the efficiency measures in OpEx, in a corporate level, in OpEx for our E&P business and the OpEx of our downstream businesses. And I'm going to do that the day I will present the results of the first quarter of the year.

So free cash flow is the main way and the main tool to reduce the debt level this year, and I can't forget that. You can't forget that you have some other additional measures or tools. The first one is the cash in that is going to come from the piped LPG that, as you know, those operations were closed in 2015. But they are going to be in our pocket, in our P&L, in 2016.

And, secondly, we are going to go on trying to extract, capture value for the Company through our M&A. We have a basket of assets that are hidden in some way, and I am sure we are going to be able to crystalize them, as we were able yesterday, closing the disposal of the wind farms in the North Sea. Thank you.



Angel Bautista - Repsol SA - Director, IR

Thank you, Flora. Now, we are moving to Hamish Clegg from Bank -- sorry, Hamish, Bank of America Merrill Lynch. Hi, Hamish. Go ahead with your question.

Hamish Clegg - BofA-Merrill Lynch - Analyst

Hi. Thanks very much.

Josu Jon Imaz - Repsol SA - CEO

Hi, Hamish.

Hamish Clegg - BofA-Merrill Lynch - Analyst

Hi, there. Congratulations on the salary increase, but more so on the CapEx reduction that you managed to put through. I wondered if we could just first maybe hear what some of your assumptions on volumes are beyond 2020. Could you maybe comment on your assumptions on declines in the existing asset base?

Second thing, relating to the same sort of thing, really, CapEx. Could you give us a split between upstream and downstream following the recent reductions? Is most of that in the upstream or the downstream? It'd be quite useful to know.

And then moving on to your synergies, you mentioned having done half of your synergies in 2015. Can you explain if I heard this right? You said that you took a EUR240m capital gain from the refinancing of the Talisman debt. That's obviously not recurring, or do you expect to make a similar sort of gain every year, and should we think of these as totally recurring?

And then just finally, I know you're sick of hearing about the agencies, but could you tell us a little bit about the options you have? So number one, just confirm that you are committed to investment grade. Secondly, there's a lot of talk about Gas Natural. But could you confirm that actually you get a one-notch modifier for owning Gas Natural anyway, and therefore it wouldn't make sense to sell it because it does contribute very, very stable cash flow?

And finally, why would you not do an exchangeable bond ahead of selling a brilliant asset like Gas Natural?

Josu Jon Imaz - Repsol SA - CEO

Thank you, Hamish. First of all, let me say that when we present the strategic plan, I had hidden a slide that Angel told me that it was better hidden, because in some way it could be interpreted as a guideline for coming years. But with the contingent resources we have, we could maintain this production level, extrapolating, until 2025 with no more new projects in our hands, only with the continued resources we have now in our hands.

And we are going to be able to reverse the decline from now to the 2025 year. And let me say, and let me stress the fact that when we bought Talisman, we were buying 2P reserves at \$10 per barrel price, and that is a fantastic base for the future development of the Company.

CapEx. Upstream versus downstream. More or less I have the figures in mind. You could perhaps check these figures with Angel, but we are talking about EUR2.9b in CapEx in the upstream, EUR850m, EUR900m in downstream and EUR30m, EUR40m in the corporate level, nothing relevant.

So in the downstream business, as you know, we are putting all our effort in two kinds of projects. First of all, guaranteeing the reliability and the correct and right maintenance of our plants. And, secondly, all the efficiency programs we are boosting in our industrial plants, and on top of that, of course, we can't forget the hydroseparation project in La Pampilla, as I mentioned before.



Synergies, Talisman bonds. There is not only -- the only recovering impact is the money we are saving in financial cost, EUR60m per year. That is the cost we are saving, because we have now a lower financial cost, and of course, this figure, EUR60m per year, is the figure that is included as synergy.

Of course, there are some other one-shot non-recurring impacts, not recurring at all. And you know that we have a one-off cost, non-recurrent in the last quarter, in the last quarter of the year, the capital gain, because the cost we were paying for this bond and the cost of this -- the price in the book and this figure was at around \$240m. But that is a non-recurrent cost. The only recurring cost we put in our P&L is the savings, of course, in our interest rates that could account at around EUR60m per year.

Regarding the credit rating agencies, let me repeat that taking into account the EBITDA improvement in the Company, the cash flow generation and the debt reduction, even in this scenario, the delivery in our M&A operation and the battery of measures we could put on the table any time, we think that should be enough to maintain the investment grade. Thank you, Hamish.

Angel Bautista - Repsol SA - Director, IR

Thank you very much, Hamish. Now, Lydia Rainforth from Barclays. Good to speak with you again. Hope you are having a nice day. Go ahead with your question.

Lydia Rainforth - Barclays - Analyst

Thanks, Angel. It's always nice talking to you. I'm going to ask three questions, if I could.

Firstly, coming back to the rating agencies and the credit side, I understand what you're saying about protecting the balance sheet is priority. But in the worst case scenario where it does get downgraded, what actually happens in that case, and what is the financial impact that you're actually facing at that point?

The second one is actually just a -- I guess it's a clarifying question around cash operating costs. So Total was saying last week that they were cash up, cash positive above \$10 a barrel. I just wonder if you can give us a comparable figure for that one.

And then the third one, just to take it away from the credit metrics was coming back to the refining on the downstream side, there does seem to be a longer-term shift away from diesel and towards gasoline. And I'm just wondering in terms of we spend a lot of time thinking about the future of the upstream, but around that future of the downstream business within Spain, how you look at, again, moving back towards a more gasoline-biased model within that? Thank you.

Josu Jon Imaz - Repsol SA - CEO

Thank you. First of all, Lydia, thank you for your questions. Related to the rating agencies, you are going to allow me, I'm sure, not to discuss this hypothesis because I'm convinced that taking into account our current scenario, plus the battery of measures we have on the table, we are going to be able to maintain the investment grade.

Anyway, I can't forget, and I'm going to link of course with your concerns or your questions, that we have now in our hands, Angel, EUR9b, EUR9.5b of liquidity, and that could be 2.3 times the cash we need to cover the whole maturities of the Company. We could achieve the year 2020 with no cash needs. Anyway, that is not going to be the case.

Cash operating cost. I presume, Lydia, that we were talking about the upstream. In 2014, we had an operating cost and OpEx cost per barrel of \$21.50 per barrel. We reduced this figure to \$18.70 per barrel in 2015. It's an important decrease, mainly due to the OpEx cash plus -- cuts, sorry, plus the production growth. And our guideline, our target for this year, 2016, is to reduce a 16% further our OpEx per barrel to \$15.70 per barrel. That means it's a huge effort.



We are reducing from \$21.50 in 2014 to \$15.70 per barrel in 2016. And let me say these figures are in any case affected by the high cost of our North Sea operations that I'm not going to hide this fact. And without these figures, we could be at around \$12, \$12.50 per barrel. But the reality, the average, the target, for our upstream business for this year is \$15.70 per barrel.

Future of downstream. Let me say, we are in a strong importer diesel market. At the same time, we are exporting gasolines every day. A third, 35%, 40%, depending on the seasons, of our gasolines are exported mainly to North America and Latin America, but mainly North America. Any shift -- any shifting from diesel to gasoline that could happen, I presume that in a moderate way, because we can't forget that the inertia of the market is very high, we will be able to maintain our position as diesel producer in a strong diesel importer market.

Let me underline that the figure of the imports in Europe could be at around 50m tonnes of diesel per year, and at the same time, we could reduce our gasoline exports to North America, and that would be good news. Anyway, we have a flexibility in our operations without any, any, any investment that is higher -- that is higher, that shifts I suppose could half the market. We could change.

A 5% of our full operation increase in our naphtha and gasoline production that could be at around 18% of our refineries to a 23%, and we are doing that, for instance, in January, trying to capture the higher spreads in gasoline without any investment. We have flexible refineries.

Thank you, Lydia.

Lydia Rainforth - Barclays - Analyst

That's really helpful. Thank you.

Angel Bautista - Repsol SA - Director, IR

And thank you very much, Lydia. Moving to Biraj Borkhataria from RBC Canada. Go head, Biraj. Go ahead with your questions.

Biraj Borkhataria - RBC Securities - Analyst

Hi. Thanks for taking my question. I just had one. Going back to the dividend, and you touched on it a couple of times, but I just wanted to clarify. In terms of modeling this going forward and looking at 2016, 2017, what we've seen from some other cyclical subsectors is they're moving from a progressive dividend to a payout ratio. Could you confirm whether this is something you are considering? Thanks.

Josu Jon Imaz - Repsol SA - CEO

I'm sorry, but I'm not going to deliver any model for next year. Let me remind and stress that our Board yesterday took the decision of reducing our 40% interim dividend to be paid in July. So to EUR0.30 per share, and that was decided because the current price scenario and so on. So be assured that, I suppose, that our Board will be able to take the right decision depending on the circumstances next year. Thank you.

Angel Bautista - Repsol SA - Director, IR

Thank you, Biraj. Thank you for your question. Moving to Brendan Warn of Bank of Montreal, BMO Capital. Go ahead, Brendan. How are you?

Brendan Warn - BMO Capital Markets - Analyst

Yes, good. Thank you. It's Brendan Warn from BMO Capital Markets. I guess I'm going to circle back around on a few of -- a number of the questions already. Just firstly, on flexibility. Could you just perhaps quantify, even just even for the second half 2016 and then into 2017, just your capital or

CapEx flexibility? And you can just talk, say, percent of committed CapEx. For example, Total have 60% committed CapEx for, let's say, into 2017. So if you can just give us a better understanding of the flexibility around CapEx.

Just secondly, I guess following up on Hamish's question. Could you talk through, you must have a plan B if the rating agencies cut you to junk, just what reactions you can take in the short run to appease, or what is your plan if you go to junk, and just what it actually means?

And then just a third question. I guess since, what's it been, about 10 months since you've had the full assets of Talisman under your belt now, and you spent about \$8.8b last year on those assets. Can you just give us some insights on what you see in terms of your return on that investment under your current scenario, or under your current stress scenario, please?

Josu Jon Imaz - *Repsol SA - CEO*

Thank you, Brendan. I said to you, to the market in October, that I had at that -- I supposed at that time that we could have a flexibility of a 20%, 25% in our CapEx. We are today in some way confirming and delivering what could be at that time only an expectation.

I have to realize that today it could be some way more difficult. I am sure that we could have some additional flexibility coming mainly if we -- let's say in this low oil price scenario let me say of \$30 per barrel, I presume that the deflation of cost could be higher than we are forecasting now in our Company -- in the sector, sorry.

Perhaps if we go on and we stay at \$30 per barrel in six, seven, eight months, perhaps we could have some FID decisions that we could take or perhaps to defer. That could be an option. Today, we are thinking about the possibility to take, because it's a way to create value for the Company in coming years.

But let me say, if we are in a \$30 per barrel scenario in one year from on, perhaps we could change our mind. We have the whole Company involved in a bottom-up analysis, analyzing every single contract, every single cost, every single supplier, every -- the whole supply chain, trying to analyze if we need every step we have in this chain.

So there is room for that, yes. But I have to realize that the flexibility is going to be lower we had in October related to the CapEx we are committing now.

The second question was related to a plan B. I said before that my perception is that all the coverage situation, plus the measures presented, has to be enough to maintain the investment grade. Anyway, my duty is not to put my shoulders in this kind of hypothesis, but to manage the Company with responsibility.

And we have a position of over -- above EUR9b of liquidity at the end of the year. And over the last three weeks, we have increased this position with EUR2b from banking loans. So today, our liquidity position is even higher than we deliver at the end of the year. Thank you.

Brendan Warn - *BMO Capital Markets - Analyst*

Can I just have one follow-up question? Just obviously you didn't have a --

Josu Jon Imaz - *Repsol SA - CEO*

Excuse me, I want to -- I have a note here. The question about Talisman.



Brendan Warn - *BMO Capital Markets - Analyst*

Oh, thank you.

Josu Jon Imaz - *Repsol SA - CEO*

Under current scenario, first of all, I said before, we bought Talisman at \$10 per barrel in our 2P reserves account.

Secondly, that is an investment for 20, 25 years. It's not an investment for one year.

Thirdly, it's clear that at this price deck we have now, many of the assets of Talisman, they have a lower value they had six months ago because we have to adapt the real value of these assets to the current price deck.

Fourthly, of course, due to this adaptation of the value, let me say more or less a half of the impairments we took of 40% in the last quarter comes from the Talisman assets, from almost all of them. Because if we valued these assets in May at a former price deck, if we take every asset a new price deck, the value is going to be reduced almost in every asset.

But, at the same time, I want only to stress two facts. First, we are increasing the synergies identified are captured in Talisman. So we are adding value to the value we saw in these assets. And that goes, the first fact, and the second fact is that in technical terms, of course, you could have some assets that could be a bit worse than expected and some others that are better than expected.

But if we take the whole basket of Talisman assets today, the perception of our E&P business is that the average of these baskets is better than we expected in May. Thank you.

Angel Bautista - *Repsol SA - Director, IR*

Thank you very much. Now, we're moving on to Alastair Syme from Citi. Hi, Alastair. Go ahead with your question.

Alastair Syme - *Citigroup - Analyst*

Thanks, Angel. A couple of quick questions. When you made the Talisman acquisition, under the purchase price accounting, you signed a decommissioning liability. I just wonder, given the impairments you've taken, whether you've made any changes in that decommissioning assumption, given the low oil prices?

And, secondly, can you just talk about the investment decisions you are making? I was particularly thinking about Red Emperor and Akacias in Colombia. Can you talk about what sort of oil prices you require to meet hurdle rates in those investments? Thank you.

Josu Jon Imaz - *Repsol SA - CEO*

Thank you. There is no. At the moment, the information I have now in my hands, no relevant change related to the commissioning liabilities in the North Sea. But there are quite relevant operational OpEx cuts, CapEx cut, and the -- we are reversing at the same time the decline in oil production, increasing the oil production in 2015.

Related to Red Emperor and Akacias. At the current price deck we have in our hands for coming years, we think that Red Emperor and Akacias are going to create value for this Company. Anyway, if in some months from now on, we are in a different situation, we'll have and we will take the right decision for the Company, taking into account that the objective has to be always to create value for Repsol, even if we have to reduce our CapEx level in a different circumstance. Thank you.



Alastair Syme - Citigroup - Analyst

So can I just clarify, on the price deck? Is that the base case price deck you presented, or the stress scenario?

Josu Jon Imaz - Repsol SA - CEO

Yes, when we are taking -- let me say I have more or less the figures in my mind, so perhaps you could check these figures with Angel later. But I think that Red Emperor at \$40 per barrel could be a profitable project. Akacias, at \$50 per barrel more or less could be profitable. But let me say, I have to see these projects that could have the first oil in 2017 or 2018 in a quite broad perspective.

I can't see only prices in 2016 to take these kind of positions, because in that case, my risk -- I have the risk of having or taking the wrong decisions. Wrong decisions could be avoid any kind of concern about the current oil price we are living today, but at the same time, I have also to maintain some kind of light over the future of the oil prices.

I think that two projects that could be profitable at \$40 or even \$50 per barrel, we have to consider them and take the right decision. Thank you.

Alastair Syme - Citigroup - Analyst

Thank you.

Angel Bautista - Repsol SA - Director, IR

Thank you very much. That was Alastair Syme from Citibank. And now, Jon Rigby from UBS. Good to speak with you again. Go ahead, Jon.

Jon Rigby - UBS - Analyst

Thank you, Angel. Two questions. Can you first help me and disaggregate a little bit the impairment charges that you've taken, give some color on where you've taken them and also talk a little bit about the assumptions that you've made that drove those impairments? And maybe as an aside, I noticed that actually your goodwill, which was generated from the Talisman transaction, hasn't fallen very much. In fact, it's higher than it was in the first quarter. So any comments you can make about the accounting structure of those impairment charges would be interesting.

And then just second question, just for one final point of clarification I hope, is in your stress scenario or something like that, is a disposal or a sale of Gas Natural credit positive or credit negative, do you think? Thanks.

Josu Jon Imaz - Repsol SA - CEO

Thank you, Jon. First of all, I'm sad that I think that I'm not going to be able to give you many light regarding the disclosure of the impairments. I could say that there are 60% -- 55%, 60% comes from assets from the legacy Repsol, and we are here including some bonus and exploration assets that they were, of course, positive. But at current prices, at current price deck, we could have a strong doubt about the commerciality of these exploration assets.

So we prefer to be realistic and to impair them, and at 40% -- 40%, 45% -- I think that is closer to 40% than to 45% figure -- I have in mind comes from a very broad basket of Talisman assets.

The goodwill. I think that the goodwill is at around \$2.8b, a figure a bit lower than the figure we had when we delivered the previous -- the acquisition in May that I think at that time was at around \$3b.

And in accounting terms, we have to support this goodwill delivery, the synergies coming from the acquisition of Talisman. If we are not able to deliver the synergies, in that case, we'll have to impair this goodwill. But let me say that taking into account the previous figures we have either from synergies and goodwill and the current figures we have in both of them, a growing synergy and a decreasing goodwill, I suppose that is not going to be the case.

And the stress scenario, Jon, be sure we are going to put all our assets in the basket, EUR42b, EUR43b in assets, and we are going to take if we need to dispose something, to put on the table the asset that could be more valuable for Repsol in terms of value creation. Thank you.

Angel Bautista - Repsol SA - Director, IR

That was Jon Rigby from UBS. Now, let's move to Tudor Pickering Holt, Anish Kapadia. Go ahead. Sorry?

Anish Kapadia - Tudor Pickering Holt - Analyst

Good afternoon. A couple of questions for me. Just given the CapEx cut that we've seen, just wondering how do you see your North American production trending over the next few years, given you've got quite high decline assets offshore and onshore with Shenzi?

And then the second one was just questions around your cash flow. You generated about EUR4b of cash flow in the downstream in 2015. I think there was some contribution from working capital benefits within that.

In your base case scenario for 2016, what would you say the cash flow generation will be from the downstream, and how low could that get in a stress case scenario?

And then finally, on the cash flow. Just wanted to get an idea of how you see your upstream cash flow trending over the next few years if you assume a flat oil price scenario? So just really trying to get an idea of how your cash margins evolve in the upstream over the next few years if you take commodity prices out of the equation. Thank you.

Josu Jon Imaz - Repsol SA - CEO

Thank you, Anish. CapEx, it's true. But if we look at our North American assets today after reducing our CapEx in Marcellus, for instance, we are only operating with one rig now, we are maintaining a quite flat gas production operation of around 400m -- 500m, better said, million of cubic meters per day. I see at these CapEx levels, this production stable in coming two years.

The same thing in the Greater Edson in Canada. Perhaps you could have a reduction of 3% or something like that over these two years if we maintain the current CapEx because our aim is not to maintain the production, but to optimize the free cash flow after CapEx in the operation.

In Eagle Ford, we have had a reduction because the disposal of 12% of Eagle Ford in the swap with Statoil. But, let me say that there is plenty of room in Eagle Ford to reduce costs because the new joint operation that is going to be developed between now we have a partner, Statoil, and I think that Duvernay could be a small growth. But let me say that at these price scenarios, we are going to be prudent, and we are going mainly to try to derisk the area and to maintain the land. So I see a flat production in North America in coming two years.

In 2016, the free cash flow for our downstream business could be at around EUR3b more or less. And I presume that in the upstream business, the free cash flow is going to be negative of \$40 per barrel in EUR1b swap more perhaps, but around EUR1b. That is my forecast for this stressed scenario in 2016.

And how will the cash flow upstream trending over next years? We are making a big effort, as you know, to reduce the free cash flow coming from our upstream business. And, let me say, since we presented our strategic plan in October, I think that we have reduced our free cash flow for our upstream business until a figure close to \$80 per barrel to \$65, \$64 per barrel for our own single upstream business.



That means that we are delivering a capacity to reduce the cost and the OpEx and the CapEx of this business, and we are going to go further in this effort. But it is clear that \$40 per barrel is negative, and for that reason, the cash flow is going to be negative in EUR1b this year, in 2016, in our upstream business. Thank you.

Angel Bautista - Repsol SA - Director, IR

Okay. Thank you very much, Anish. Now, let's move to Jefferies, Marc Kofler. Marc, how are you today? Please, what are your questions?

Marc Kofler - Jefferies - Analyst

Thanks very much for taking my questions. There's just really a couple to circle back on, mainly clarifications, I guess. I appreciate the comments around net debt coming down. Apologies if I missed this, but did you talk about net debt, EBITDA, and the multiple there?

I remember when you announced Talisman, that was quite a critical consideration, and I suppose what I'm really thinking is have you now put in place enough in terms of the planned divestment that that net debt to EBITDA multiple may now be peaking and coming down from the current levels?

And then secondly, the question around the convertible bonds in Gas Nat. Again, I think I might have missed this. Is that something that you would consider? Thanks very much.

Josu Jon Imaz - Repsol SA - CEO

Thank you, Marc. If we take the figures at the end of 2015, our net debt is EUR11.9b, and you could add, because in accounting terms it's not a debt, it will be EUR12.9b. But in accounting terms, it's EUR11.9b.

That is a figure that if we take our EBITDA CCS at around EUR5b at the end of the year, it could be at around 2.4 times the EBITDA. But we have to take into account that we have taken the whole debt coming from the acquisition of Talisman, but we are not taking these figures, the EBITDA of the first five months of the year from the former Talisman.

We are going to capture also these EBITDAs over this year, 2016. So if we are able to go on in this path of increasing the EBITDA of the Company and at the same time we are able to deliver this debt reduction we target for 2016, be sure that changing both figures, we are going to be able to reduce in a clear way this figure I said before. Thank you.

And as I said before, we have considered and we have analyzed a battery of measures. A lot of measures are included. We'll take in our opinion the right decisions, and of course without announcing them before, as we did this morning with the wind offshore project. Thank you.

Angel Bautista - Repsol SA - Director, IR

Well, that was Marc Kofler. Now we're moving to our first fixed income analyst coming today onto the conference call. [Roy Banerjee] from Barclays. Hi. How are you? Go ahead with your question.

Roy Banerjee - Barclays - Analyst

Hi. Thank you for taking my question. So I won't ask about the rating agencies. I think we've covered that quite a few times over the call.

In terms of hybrid issuance, do you still intend to issue EUR3b of hybrids, given current market conditions, and what are your thoughts on the hybrids you have issued but don't receive equity credit for from S&P?

And then secondly, are you able to give an indicative pro forma number for Talisman, including the five months of the year not included as an EBITDA? Thanks.

Josu Jon Imaz - *Repsol SA - CEO*

Thank you. Thank you. It's clear, and clearly speaking, today, the market is not open to hybrid issuance. That is clear. But anyway, we are going to go on tracking the market, and if over the year we have an opportunity to issue a new hybrid at reasonable cost, we'll do it.

But anyway, we could achieve the same effect and metrics thanks to some other kind of measures like a CapEx reduction, as I said before, or additional disposals.

The EBITDA of Talisman, the additional EBITDA of the first five months, in not a very orthodox way I could include in the EBITDA figures at the end of 2015 in terms of calculating the debt/EBITDA ratio will be at around EUR400m, EUR500m. EUR100m per month, more or less, at current prices.

Roy Banerjee - *Barclays - Analyst*

Great. Thank you very much. And just in terms of the --

Josu Jon Imaz - *Repsol SA - CEO*

Sorry, I forgot a part of the hybrid. Yes, we are going to receive the equity credit from Standard & Poor's. Thank you.

Roy Banerjee - *Barclays - Analyst*

Thank you.

Josu Jon Imaz - *Repsol SA - CEO*

Related to the hybrid issuance, I mean.

Roy Banerjee - *Barclays - Analyst*

Yes. Thank you.

Angel Bautista - *Repsol SA - Director, IR*

Okay, now moving to Bernstein, Oswald. How are you? Oswald Clint from Bernstein, go ahead with your question.

Oswald Clint - *Bernstein - Analyst*

Hi. Thank you very much. If I think about the Talisman and negative EUR200m contribution last year, and I think about the Statoil joint venture, the operatorship of Statoil, the reduction in Marcellus costs, the kind of OpEx reduction in North America, but also your reduction in your gas price and your oil price, does that number materially change as we think about 2016? Net-net, is it going to be the same, or should it worsen under the scenario you're kind of talking about today?

And then secondly, just quickly, maybe just an update on Libya, the status of your operations there and if anything is included in 2016 or 2017 from that country. Thank you.

Josu Jon Imaz - *Repsol SA - CEO*

Thank you. Let me say that I think that perhaps today is the last day I'm going to talk about Talisman assets because from now on, there are no legacy Repsol assets or legacy Talisman assets.

Every people from this team, and I'm looking at the table where I am now, and I only see people from Repsol. Some of them come from Talisman, and some of them come from the legacy Repsol. But from now on, everything, every person, every people, every asset is from Repsol. So we are not going to give any guidance about what is going to happen with former Talisman assets in 2016. We will have the E&P assets of the Company.

Related to Libya, I prefer to be very prudent. Any relevant income from Libya is included in our figures and guidances for 2016. The situation in Libya is very complex. It could be complex for Repsol, but it's not only complex for Repsol. I think the Libya is in geopolitical terms a problem for the whole Europe. The risk to have a failed state in our borders and to have a net position for a terrorist group is a high risk for the whole Europe. So I think that it's urgent to come to a political solution in the country, and Europe and the international community must take responsibility in that matter.

Of course, for security reasons, we are not operating there now because our first duty is to protect our own people. But I think that the political solution for the country could be on the track. And let me say, the day after, I think that the main priority is going to be the reconstruction and rebuilding in Libya, and Libya will need the oil sector to work properly in order to be able to have revenues to recover the country.

And for that reason, we are fully prepared to restart our operation in a very, very short term. In 48 hours today, we will be able to take, or to retake, the operations that in technical terms are well maintained. But unfortunately, that is not the case today. Thank you.

Angel Bautista - *Repsol SA - Director, IR*

Well, Oswald, it's been a pleasure, like always, to speak with you. Moving again to fixed income analysts, from Bank of America Merrill Lynch, [Manuel Ousu]. Hi, [Manuel]. Go ahead with your question.

Manuel Ousu - *BofA-Merrill Lynch - Analyst*

Hi. Thanks for taking my questions. I've got four. I know you mentioned that you weren't planning to do hybrid bonds. But have you considered doing mandatory converted ones of Repsol shares, which is effectively a delayed capital increase?

Secondly, you mentioned that you've raised EUR2b in bank loans. Are these subject to covenants?

Thirdly, there was some press reports about Repsol perhaps using conserving lines of banks to finance its payables, which is shown in the other payables line in your -- sorry, in your balance sheet -- as opposed to in financial debt. Can you confirm whether that's the case or not?

And fourth and finally, on your actual credit rating, I know we've discussed this several times, is the expectation that in a month's time, when S&P and Moody's conclude their reviews, that you'll be rated investment grade by both of those agencies? So is that what they've communicated to you, or is that Repsol's own view?

And just an add on is where do you expect your FFO to debt ratio to be at the end of this year? Thanks.

Josu Jon Imaz - Repsol SA - CEO

Thank you. Related to your first question, I said before, we are going to put our focus on all the alternatives we have for disposing our current assets, and we are going to have, looking at these assets, the best decision we are going to have, we could have every time. So that is the decision level we have in this moment. Any covenant to the bank loan, so there is no covenant or these bank loans are not subject to covenants.

Related to the credit agencies, of course, what I'm saying here, I'm telling you it's our own perception. But this is done to give their opinion, and you perfectly know that the relevant opinion is going to be the opinion coming from the agencies. Anyway, I think that the current situation on the battery of measures we have in our hands should be enough, in my opinion, to maintain the investment grade.

That's my view. Thank you.

Angel Bautista - Repsol SA - Director, IR

Thank you. Thank you, Manuel, and now continuing with fixed income, [Raul Randuil] from RBS. Go ahead with your question.

Raul Randuil - RBS - Analyst

Yes. I'm not going to -- thanks for taking my question. I'm not going to beat again the question on ratings and so on. We all know this is basically in the hands of the agencies. But my point is, if you get downgraded to non-investment grade, and plenty of companies live in the high BB segment of the market, sometimes with spreads even tighter than Repsol's current spreads, but where would you draw the line as in what is unacceptable to the Company? Let's you slide to non-IG, one notch or BB+? Is it where you will stick, or will you let the ratings go down further?

Josu Jon Imaz - Repsol SA - CEO

First of all, let me say that I think that this is not going to be the scenario. We will do whatever is reasonable. We have a lot of tools in our hands, and if we needed and they are reasonable, we are going to use these tools. But we feel confident that we have committed more than enough to keep this investment grade. So I presume that this is not going to be the scenario. Thank you.

Raul Randuil - RBS - Analyst

Okay, thank you very much.

Josu Jon Imaz - Repsol SA - CEO

But in any case, when I say, and I am going to stress this word, whatever is reasonable, I'm saying that we are not going -- in any case, we are not going to destroy value for the Company. Thank you.

Raul Randuil - RBS - Analyst

Okay, thanks for that. And just as a side comment, and my clues here, the reason I'm saying this is because recent rating actions in the natural resources sector have been particularly extreme. That's why I wanted to --

Josu Jon Imaz - *Repsol SA - CEO*

Yes, yes. Your point is a good point. But respecting the work of everything and of course respecting the work and the job of the rating agencies, because they have to protect their technical targets and ends, but let me say that our position as a Company is also quite different from a mining or a pure extractive oil and gas company.

It's not usual in our sector, or in the extractive sector, let me say, to see a company able to maintain the EBITDA in 2015 with these low commodity prices, at the same time, being able to reduce the debt in our hands. I mean that we are -- between our peers, we are quite a unique, let me say, company. Perhaps we could have one of the most -- lowest, perhaps the lowest -- free cash flow breakeven after paying our dividends among our peers. And our case could be quite different anyway. We assume that perhaps we have to take additional measures. We are ready to do that. We have assets in our hands to go on further, and as I said before, we are going to take reasonable decisions, not destroying the value of the Company.

Raul Randuil - *RBS - Analyst*

Makes sense. Thank you.

Angel Bautista - *Repsol SA - Director, IR*

Okay, now, if I am correct, and as I told you before, we have sometimes some problems with our system, we have the last questions from Giacomo Romeo from Macquarie. Hi. How are you, Giacomo? Go ahead.

Giacomo Romeo - *Macquarie - Analyst*

Hi. Thanks, Angel. Very good, thanks. Three questions for me. The first one on Talisman bonds. Just wondering if you will consider buying back more of those bonds in a similar transaction as you have done in 4Q, and whether you think there is more room to do that?

The other two are more on downstream. The first one, I was wondering, when you think about your refinery crude diet, just wondering how much is the role of certain South American crude in keeping your refining margins higher, and whether you're starting to see crude from Iran and what's the role in sustaining your refining margin this could have in the coming quarters.

And finally, I was just wondering if you can recap, perhaps, your planned maintenance and turnarounds and what's the potential impact on the refining margins for 2016?

Josu Jon Imaz - *Repsol SA - CEO*

Thank you, Giacomo [Spoken in Spanish]. The decision related to the repatriation of Talisman bonds will be taken by our CFO and his team, depending on the situation in the market at every moment. We are open to consider this buyback, but it's going to depend of course of the window we could have over this year in the market.

I think that there is more room to do that, but it's going to depend on two things. First of all, the savings in financial cost terms we could capture, and secondly, the impact on our P&L due to the price of these bonds in the market. But our financial team will take, I presume, the right decisions over this year.

Related to our downstream, and let me -- you know that I managed for five years the refining business of this Company, and my main -- I have two main targets, flexibility and efficiency. Efficiency, of course, because we were experiencing a very deep crisis in the refining, European refining, and also in the petrochemical European sector that I was also leading in the Company.

And to cut costs and to be efficient was an issue, and now, we are trying to do the same thing in the whole Company, including the E&P business, and let me say that Repsol has a strong experience weathering the Company or weathering businesses in very tough times, being efficient and cutting costs. But at the same time, flexibility was also a must.

That means that we could operate the refineries with a supply basket from a 30% to heavy oils to 50%, depending of the market circumstances and the relative spread of medium oil like Ural and so on, and heavy oils that in a relevant part could come from Latin America, like the Mexican Mayan or retail from Venezuela or Castilla from Colombia, or even heavy oils coming from Canada.

Remember that we have been the first European company processing Canadian heavy oils in our refineries. So we could reply with these differential margins, and when you were talking about Iran, we can't forget that the cold Iran heavy oil that is a medium oil that is competing with Ural could be also a catalyst to increase the spread of the medium oils in the market. So it could be an advantage for the basket of Repsol.

So in structural terms, I see a broad spread for heavy oils in the future, going to the market fundamentals, but anyway, you have the flexibility to moderate our basket.

And about the maintenance, I have -- first of all, let me say that the first part was done. That was the maintenance of the hydrocracker of Cartagena, because we had to change the catalyst. So when I said that we have captured \$7.30 per barrel over the last 50 years, I was including there the maintenance of our hydrocracker in Cartagena. So one step is done.

And we have in the second quarter the coker of Cartagena and the hydrocracker of Tarragona and diesel machine Tarragona, and I think that in the third or fourth quarter, Angel could perhaps give you the -- but I think that this is the first one. We have the multi-annual stop or shutdown of Petronor, only in the part associated with the coker, because the rest of the refinery was shut down one half year ago.

So let me summarize. We have the coker of Cartagena second quarter, coker [will be] fourth quarter, and hydrocracker and (inaudible) of Tarragona third quarter -- or second quarter. And we have passed the first step that was the hydrocracker of Cartagena.

So thank you, everybody, and have a nice day. And thank you for your interest and for your questions.

Angel Bautista - Repsol SA - Director, IR

With these last words from Josu Jon, we finished our Q&A session. You know that any further queries, details or clarifications you may need, the IR team is entirely at your service, and have a nice day. [Spoken in Spanish].

Operator

Thank you. Ladies and gentlemen, that will conclude today's conference call. Thank you of your participation. You may now disconnect.

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