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Q1 2022 Repsol SA Earnings Call

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## PRESENTATION

### Operator

Hello, and welcome to the Repsol's First Quarter 2022 Results Conference Call. Today's conference will be conducted by Mr. Josu Jon Imaz, CEO; and a brief introduction will be given by Mr. Ramon Alvarez-Pedrosa, Head of Investor Relations.

I would now like to hand the call over to Mr. Alvarez-Pedrosa. Sir, you may begin.

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### Ramón Álvarez-Pedrosa *Repsol, S.A. - Head of IR*

Thank you very much, operator. Good afternoon, and welcome to Repsol's First Quarter 2021 Results Conference Call. Today's call will be hosted by Josu Jon Imaz, our Chief Executive Officer, with other members of the executive team joining us as well.

Before we start, I'd like you to read our disclaimer. During this presentation, we may make forward-looking statements based on estimates. Actual results may differ materially depending on a number of factors as indicated in the disclaimer.

I will now hand the call over to Josu Jon.

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### Josu Jon Imaz San Miguel *Repsol, S.A. - CEO & Executive Director*

Thank you, Ramon, and thanks to everyone joining us today. I hope that all of you are well. In today's call, I'd like to cover the following main topics: firstly, the key messages. Secondly, the performance of our businesses. Thirdly, a brief summary of the financial results. And finally, our revised outlook for 2022. At the end of the presentation, we'll be available to answer your questions as always, as usual.

To begin with, let me take you through the key messages. Repsol's first quarter results have provided a solid start to 2022. The world has become an increasingly complex, volatile environment. Earnings were positively impacted by a higher commodity price scenario, allowing us to deliver an adjusted net income of more than EUR 1 billion, EUR 585 million increase year-over-year and 21% higher than in the last quarter of 2021. The international exploration and production activity was the main driver of the improvement of our results. The impact of the commodities price increase in our inventories resulted in a significant working capital holding back the cash generated in the period. Cash flow from operations stood at EUR 1.1 billion, 6% higher than in the same quarter a year ago.

Looking forward, as long as crude price stay at current levels, we don't expect working capital to increase materially to year-end. Excluding working capital movements, the cash flow from operations stood at EUR 3.1 billion, EUR 1 billion higher than in the fourth quarter of 2021. The working capital buildup had a negative impact in net debt, which increased marginally by EUR 138 million in the quarter. Gearing ratio remained under control at 19.5%, slightly below December. January, and most of February, maintained the positive momentum achieved in the last part of 2021 as the economy stayed on this path of recovery as we left the pandemic behind. But since March, as you will know, the profound changes in the geopolitical landscape threatens to reshape the energy paradigm, putting security of supply as one of the critical priorities, along with the decarbonization challenge with growing concern on the impact of higher energy

cost to the end consumers.

In this situation, Repsol is playing a key role in delivering products and services that are essential to industries and people's daily lives, all while boosting the energy transition as an opportunity to diversify into less carbon-intensive and profitable businesses. The strength of Repsol's integrated model allows us to capture the commodity price scenario across the entire value chain, generating more cash to accelerate our transformation and increase the remuneration to our shareholders through flexible distribution schemes.

We will continue working towards these long-term strategic objectives, maximizing value and developing our operating and corporate model through the appropriate partnerships.

Let me briefly look into the main macroeconomic indicators of the quarter, starting with oil. Brent crude averaged \$102 per barrel, a \$22 increase compared to the previous quarter and \$41 higher than a year ago, driven by higher demand and concerns on short-term supply, worse by the effect of war and Russian sanctions. The Henry Hub averaged \$5 per million Btus, 14% lower than in the fourth quarter of 2021 but 85% higher year-over-year. In Europe, the TTF reference remained at record levels, averaging \$30 per million Btu in the quarter with uncertainty around risk of potential supply disruptions. Repsol's Refining Margin Indicator increased throughout the quarter to an average of \$6.8 per barrel, \$2.4 higher than in the previous quarter and \$6.6 higher than a year ago. Remember that a year ago, the indicator was close to 0 in the first quarter of 2021.

Moving on now to the performance of our businesses. Starting with the Upstream. The adjusted net income was EUR 731 million, an increase of EUR 404 million year-on-year, mainly driven by higher realization prices and partially offset by a lower production. Compared to the last quarter of 2021, the result was 17% higher, reflecting the sharp increase in oil price. Net production averaged 558,000 barrels of oil equivalent per day, 13% lower than a year ago and in line with the previous quarter.

Year-over-year, the higher production in Venezuela and Peru and the contribution of the assets acquired from Rockdale in the Marcellus did not compensate the impact of disposals, the negative PSC effect, the outages in Libya and the natural decline of fields. Production in Libya was interrupted for 10 days in January and 6 days in March. Operations were interrupted again by mid-April following the declaration on force-majeure in El Sharara.

I mean, today, we are producing, roughly speaking, in gross terms 70,000 barrels per day, more or less 25% of the field. Development activity remains focused on increasing efficiency and high grading the portfolio, prioritizing value over volume and intensifying investments in the more flexible assets to benefit from the current price scenario.

In Eagle Ford and Marcellus, we currently have 2 rigs running in each asset and expect to bring (inaudible) to Eagle Ford earlier than planned without any substantial impact to our CapEx plan.

As announced in our February call, last quarter, we completed the divestment of our producing positions in Russia, Malaysia and Ecuador and exit our offshore exploratory interest in rigs. Other portfolio actions in the quarter include the disposal of the Brage license and the ceasing of production of [Veslefrikk], both in Norway. After these transactions, we have a more focused and value-oriented portfolio.

Finally, after quarter end, we have been making progress already in the 14 key projects included in our strategic plan. And we are prepared, it seems to me, that shortly we are going to take the final investment decision for the development of the Leon/Castile discovery in the Gulf of Mexico.

In the Industrial division, the adjusted net income was EUR 236 million, EUR 163 million higher than a year ago and EUR 31 million below the previous quarter. Year-over-year, the strong performance of refining and the higher results in trading were partially offset by lower results in chemicals and wholesale and gas trading.

In Refining, the margin indicator soared in March to double digits due to the strength of middle distillate spreads and the widening of heavy to light crude differentials. The utilization of the distillation capacity was 83%, and the utilization of the conversion units averaged

80%, impacted by the (inaudible) plant turnaround of Bilbao, one of the largest refineries in our system. The average premium achieved in our CCS margin was \$0.3. In April, once we have normalized operations after maintenance, we have been able to fully capture the higher margins in our results.

Despite the well-known challenges to replace Russian crude, the flexibility of our system and a wide slate of crudes are allowing us to mitigate this impact. Repsol evaluates more than 40 crudes every year, and we are already incorporating new varieties. And we are rebalancing production, maximizing the output of middle distillates in these current times in our refining system.

Looking ahead, the planned maintenance of Tarragona in the last quarter will complete our schedule of major turnarounds for 2022. Compared to the first quarter, the lower maintenance activity expected for the remainder of the year will allow us to increase utilization levels.

In Chemicals, international margins were on average below the last quarter of 2021 as product prices didn't compensate, mainly in March, the strong increase of the raw material cost. Feedstock flexibility will be key for competitiveness in a high naphtha price scenario, favoring those players that are capable to feed more LPG, as is the case of Repsol. The flexibility of our crackers allow us to increase the share of LPG in our feedstock to 26% in the first quarter compared to the 9% used in the fourth quarter of 2021.

Remember that we have the capacity to increase this figure to 40%, 45% of the total feedstock. In April, margins have recovered significantly as a healthy demand/supply balance has facilitated market prices to reflect the rapid increase in costs of previous months, an increase that hasn't been passed through yet.

Moreover, under this volatile scenario, the transformation of our industrial sites continue, aligned with our ambitions in circular economy and low carbon fields. In our, what is called the C43 project in Cartagena, the first advanced biofuels plant in Spain, civil works began after having completed the dismantling of the previous facilities to house the new units, keeping our target start-up in the second quarter of 2023.

In circularity after quarter end, Repsol acquired a minority stake in the Canadian company, Enkema. This agreement will allow us to step up the development of decarbonization projects. We'll do it, deploying Enkema's leading technology for the production of renewable fuels and chemical products through gasification and nonrecyclable waste. Repsol and Enkema are today already partners in the Ecoplanta plant or projects in Tarragona which, remember, received financial support from the European Commission's Innovation Fund. The plant will be capable of processing nonrecyclable local solid waste to produce methanol. This methanol will be used as raw material to produce circular materials for advanced biofuels.

Finally, in renewable hydrogen, a consortium of 33 entities led by Repsol presented in January at the Spanish Hydrogen Network, what is called the acronym SHYNE. The launch in April of the Ebro Hydrogen Corridor is a good example, the commitment of its members to develop projects across the entire renewable hydrogen value chain. As part of this consortium, Repsol is progressing with engineering of electrolyzers in 3 of our refineries.

Turning now to the Commercial and Renewables division. The adjusted net income was EUR 117 million, EUR 16 million higher than in the same period of 2021 and EUR 28 million lower than the previous quarter. Year-over-year, the better results in mobility, LPG and low carbon generation more than offset lower results in lubricants and retail, electricity and gas.

In Mobility, sales in our service stations in Spain were 13% below the fourth quarter of 2021. Volumes were negatively affected in January by Omicron and in March by the transport sector strike in Spain. Retail prices of transport fuels reached very high levels after the start of the war in Ukraine due to the sharp increase in international commodity prices. By mid-March, aware of the social impact of these increases and seeking to alleviate the burden on its customers, Repsol anticipated with competitors in Spain by voluntarily lowering the price of all its fuels to those clients using our Waylet mobility app. Furthermore, following the approval by the Spanish government of a package of state subsidies to be applied between April and June, Repsol implemented additional discounts to our service station clients and especially for Waylet users.

As a result of these initiatives, our app became the most download free application in Spain, adding more than 20,000 new users per day in April. This has allowed us to reach more than 4 million digital clients, halfway to our strategic target to 2025, a growth of more than 1 million clients since December and accelerating the deployment of our loyalty schemes. The Spanish power market, the average pool price came to EUR 228 per megawatt hour in the quarter, 8% higher than in the fourth quarter of 2021, and its highest level on historical record due to the high prices of gas and carbon dioxide.

Low carbon power generation spend reached 1.9 terawatt hour in the quarter, 77% higher than a year ago. The exposure of part of the generation business to market prices more than compensated in the integrated result, the negative impact of these prices in retail electricity and gas.

In Renewables, we complete our second asset rotation with incorporation of TRIG as a 49% partner in the Valdesolar plant in the southwest part of Spain in the region of Extremadura. This transaction supports our strategic objective of ensuring a double-digit return in our investments in renewables. The development of our project pipeline in Spain continue with the startup of 2 wind farms in Delta 2, Delta 2 in Aragon in the northeast part of Spain. Internationally, our first solar plant in the U.S., the Jicarilla-2 project in New Mexico is generating already, which materialized the agreement signed last year to acquire a 40% stake of Hecate Energy. We are currently starting construction of another solar plant in the same location, Jicarilla-1, that also includes batteries and have taken the final investment decision for the construction of a 600-megawatt solar project in Texas, Repsol's largest photovoltaic project to date.

Finally, after quarter end, we reached an agreement with Ørsted, the global leader in offshore wind, to identify and jointly develop floating offshore wind projects in Spain by combining the complementary strengths of both companies.

Here, in this slide, you may find a summary of the financial results of the first quarter that we have discussed before when reviewing the performance of the different businesses. For further detail, I encourage you to refer to the complete documents that were released this morning.

Let me now review our updated outlook for the year. Starting with Upstream, our full year production forecast sits now at 585,000 barrels per day, around 15,000 barrels below previous guidance due to the interruptions in Libya, a lower performance in the commissioning process in Norway and the impact of higher commodity prices in PSCs. In Refining, enhanced scenario in which first quarter margins remain until year-end. The EBITDA at CCS of this business would increase in more than EUR 700 million in 2022 compared to our original budget.

So taking the real margin we have had over the first quarter of the year and translating this margin as a hypothesis to the whole year. CapEx remains mostly unchanged, and we expect to recover the pre-pandemic level of investment, leading our peer group by investing around 30% of our CapEx in low carbon. The guidance of EUR 5.8 billion of cash flow from operations discussed in February was built, as you know, assuming \$70 Brent and \$3.7 Henry Hub. Considering all the volatility and uncertainties, we are not yet updating our target for 2022, but you may use the sensibilities of our strategic plan to estimate the impact of a higher commodity price scenario.

With regards to shareholder remuneration, we maintain our objective to distribute between 25% to 30% of our cash flow from operations in the year, all while keeping our gearing ratio at around current level. We are completing the acquisition of 75 million shares previously committed, around 5% of our share capital that will be canceled just after receiving the approval of the Annual General Meeting next week. And at this point, we are increasingly confident that the additional buyback of 50 million shares announced in February, subject to the materialization of the price scenario assuming our budget will be executed this year in 2022. With this, shareholder remuneration will surpass EUR 1 per share, anticipating to the first part of our strategic plan, the objective set to 2025.

Finally, let me highlight that we are proposing to the AGM other solution that will provide more flexibility when implementing share buybacks and redemptions.

To conclude, Repsol has been able to quickly adapt to the abrupt changes in the energy sector. In this environment, the strength of our integrated model and solid investment proposition is allowing us to progress towards our long-term goal of becoming a more sustainable, balanced and profitable company. But let me underline that there cannot be energy transition without security of supply. As

Repsol, we are committed to guaranteeing the proper level of supply of our products. And in this situation, in this complex situation, the challenge for our businesses is to find alternatives in the market that can mitigate the increase of feedstock prices and energy costs, and so far, I think we have been successful in doing it.

Now it's a turn for companies at Repsol to reinforce our commitment with society adjusting prices and commercial margins to support growth and the competitiveness of local economies. Moreover, in this complex situation as a company centered on the client, we have been able to leverage on our digital tools to quickly implement measures that soften the impact of higher fuel prices to our clients. These measures will penalize our profitability in the short term, mainly in the commercial businesses, but will strengthen the relationship with our customers and reinforce their loyalty.

For the remaining -- the remainder of better share of the year, we will maintain a prudent financial policy considering all uncertainties and volatility in the macro environment. As we have done in the past, we reiterate we underline our approach of allocating any extra cash as we generated aligned with the priorities set in our strategy. Of course, we will monitor any profitable opportunities that allow us to accelerate our ambitions towards achieving net zero in 2050, and of course, improve distribution to our shareholders. Thank you.

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**Ramón Álvarez-Pedrosa Repsol, S.A. - Head of IR**

Thank you very much, Josu Jon. In case you run into technical problems, please contact us through our e-mail address, [investor.relations@repsol.com](mailto:investor.relations@repsol.com), and we will contact you immediately to try to solve it. Before moving on to the Q&A session, I would like the operator to remind us of the process to ask a question. Please, operator, go ahead.

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**QUESTIONS AND ANSWERS**

**Operator**

(Operator Instructions)

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**Ramón Álvarez-Pedrosa Repsol, S.A. - Head of IR**

Thank you, operator. Let me now move to the Q&A session. Our first question comes from Sasikanth Chilukuru at Morgan Stanley.

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**Sasikanth Chilukuru Morgan Stanley, Research Division - Research Associate**

I had 3, please. The first one -- the first 2 are interrelated. I was just wondering, on refining, if you could -- if it was possible to comment on the current indicator refining margins that you're witnessing. I was just trying to see if it was higher than the double-digit margins that you've kind of highlighted for March.

The second question was slightly related to this. Can you please comment on the utilization rates of the refineries that you are observing right now? You highlighted no turnaround activity in 2Q. I was just wondering if there is any potential for Repsol to increase its refining throughput from current levels? Or are they running at full capacity? And if you could comment what you are kind of observing in the European market at large, if there's any capacity for the refineries to increase their refining throughput from current levels that you're seeing in April?

My final question was regarding the shareholder remuneration. You have retained your target to distribute 25% to 30% of CFFO. I was just wondering, does this include the working capital changes? Or is the CFFO ex working capital changes?

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**Josu Jon Imaz San Miguel Repsol, S.A. - CEO & Executive Director**

So thank you, Sasikanth. So starting by the -- your question, the refining margin, please let me say that the Refining Margin Indicator in April is, as you mentioned, in the -- in a double-digit number. This double digit, let me say, that is closer to the 20s, not to the 10s. And in terms of the capacity of capturing this refining margin, I mean, the average -- I'm checking the figures, excuse me, Sasikanth, but the average of our distillation capacity in April as of today has been at 94%. The figure of the use, the utilization of the conversion rate in April is going to be an 86%.

And today, because I mean, we start in April from lower figures, today, the distillation capacity of the system, the utilization rate is at

around 96%, and the utilization of the conversion rate is at 98% today. So that means that at the end -- at the beginning of April, we still have the tails of the turnarounds of March. But now, I mean, you could see taking the averages of April and current figures, that the figures have improved over the whole month. We don't expect any relevant or significant turnaround, no in this quarter and no in the third one. I mean, until the end of the third one and the beginning of the fourth quarter when we are going to start producing in -- the turnaround of Tarragona.

Going to your question about the Europe increased output, I mean, we are producing mainly for the European -- Spanish markets. We are able to fulfill the needs of diesel in the Spanish market. And on top of that, we are starting to export also some diesel to some other markets that are -- I mean, in our natural hinterland, French market, for instance. And you know that they have a strong shortage in diesel terms. I mean, what is happening now in terms of diesel shortage in Europe is going to be a challenging task for the global refining system. You know that, additionally, a lack of alternatives to secondary feedstock from Russia such in naphtha, vacuum gas oil, some residuals will constrain refineries in Europe.

And all that is going to exacerbate and increase the market tightness. So this unique situation, in some way, is going to increase in a significant way refining margins in Europe. It seems to me that, that is going to last some months and probably over the whole year. And I mean, assuming returning normal conditions by 2023, I mean we are confident that, first of all, we are going to be able to capture these current margins. And thanks to our competitiveness and strong performing assets, supported by increased demand and competitiveness initiatives we have enforced in our refineries, we are going to be able to capture quite positive margins over the whole year.

Going to your question related to the operational cash flow from operations in terms of including or excluding the working capital in this calculation about the shareholder remuneration. I mean, it's included. But let me say, at these prices, we are going to see a significant increase of cash flow from operations over the whole year, and we are not going to see any kind of change in terms of working capital because the working capital of this month has been related to the increase of prices. I mean if we take this figure of EUR 1.9 billion of working capital, let me say that to operate in a normal way our refineries and our chemical plants, we have more or less a stock of 35 million barrels.

If you take the difference between the mid-December and mid-March that is, I mean, in terms of calculation of the figures we take to calculate this working capital and you multiply. But this EUR 42, that is the difference of prices between both references. I mean, EUR 1.4 billion directly come from this price increase. On top of that, we have EUR 200 million more because the volume related to the turnaround we had in March, and that is going to be released in coming weeks. And on top of that, we have EUR 200 million that is the price related to the receivables that they have increased their volume in price terms.

So at these prices, that is not going to be increased, of course, over the whole year, and you have to add, as we have had over the last quarters, EUR 100 million more or less coming from the noncore elections from PDVSA from Venezuela. So you could imagine that taking this guidance at these prices, we are not going to see any kind of additional working capital increase over the whole year. Thank you, Sasikanth.

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**Ramón Álvarez-Pedrosa Repsol, S.A. - Head of IR**

Thank you, Sasi. Next question comes from Pablo Cuadrado at Kepler Cheuvreux.

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**Pablo Cuadrado Kepler Cheuvreux, Research Division - Equity Research Analyst**

Just 2 quick ones, please. The first one is focus on the liquid spread realizations in Upstream. We saw this morning that, clearly, the discount has widened during Q1 to more than \$10 per barrel when we look to the brand. I guess, clearly part of it should be expected or explained by [PSS] effects there. But I was wondering if you can probably detail us if that discount is what you will expect to be maintained during the course of the year, particularly if Brent remains, let's say, above \$100 per barrel.

And the second question, I was wondering whether you can update us a little bit on the process and the negotiations that you have been keeping on the minority disposal on the renewable subsidiary. I think it was back in November 2020 when you highlighted that you were keen to try to promote either an IPO or a minority disposal. It has been a long period of negotiations. I think we are getting closer to the deadline that you set up to take a final decision. So just a little bit of visibility on the process will be welcome, if you can.



**Josu Jon Imaz San Miguel Repsol, S.A. - CEO & Executive Director**

(foreign language) Going to your question, I mean, it seems to me that this difference of a cured realization price is related to the mix of production. So you know that every crude oil has a different price. And perhaps in the case of the light Libyan oil, you know that we have had some outages in Libya in this quarter. Perhaps all that is impacting in an additional discount in terms of Brent -- of crude price.

I think that some slight increase perhaps in (inaudible) where you know that the price is also related in some way to West Texas and so on could also have an impact on this discount. And on top of that, you have the PSC effect. So all in all, let me say that there is nothing different. There is nothing significant or material here, and we are mainly impacted by the mix of production depending on where this production comes.

Going to the renewable dual track way, I mean, as you perfectly know, when we launched Repsol's strategic plan in November 2020, we said ourselves, I mentioned in that conference call, a period of 18 months to analyze the possibility of incorporating a partner. I mean, nowadays, this process is in an advanced stage and we expect to share with you the final decision during the second quarter conference call.

Let me say that what we are looking for is not a disposal. We are looking for a new partner that should add value. It has to be fully aligned with our growth strategy where we have the ambition to reach a capacity of 6 gigawatts in 2025. I think that they were 20, yes, 20 gigawatts in 2030, while we maintain the control of the vehicle. This process is being held more quietly, more softly, you like, since we are generating more cash than expected under the '21-'25 strategic plan, thanks to the current macro scenario.

For us, let me underline this concept. I mean the value that the partner will contribute to the new vehicle and the value crystallization generated are going to be really key to take a final decision. So depending of this alignment of the partner with our growth strategy, the contribution of the partner to this new vehicle in terms of growth and value generation, and of course, the value crystallization coming from the price are going to be the key elements to take a final decision about that. But in any case, Pablo, you are going to have a full disclosure of all this information and our final decision in the conference call we are going to call for representing the second quarter results. Thank you, Pablo. Gracias.

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**Ramón Álvarez-Pedrosa Repsol, S.A. - Head of IR**

Thank you, Pablo. Next question comes from Mehdi Ennebati at Bank of America.

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**Mehdi Ennebati BofA Securities, Research Division - Director & Research Analyst**

Can you hear me? Because, Ramon, you just disappeared.

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**Josu Jon Imaz San Miguel Repsol, S.A. - CEO & Executive Director**

Yes, Mehdi. Perfectly.

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**Mehdi Ennebati BofA Securities, Research Division - Director & Research Analyst**

So 2 questions, please, on my side. The first one on Chemicals. So your Chemical EBIT dropped quite significantly in the first quarter compared to the last quarter of 2021. And yes, I wanted to know if this is 100% due or, let's say, essentially due to higher feedstock cost, higher, let's say, naphtha price or if you've noticed a contraction in petrochemical product demand as well.

And it's true, and you highlighted it, that we are currently in a very volatile environment. But maybe can you tell us if you are seeing a recovery in your Chemical realized margin since beginning of April or if it's not the case yet. My indicator is showing me a relatively strong recovery in April, so I wanted to hear what you have to say about that.

And one question about Algeria as well. So there are some noise on Bloomberg saying that Algeria wants to reallocate part of its gas export to Europe from Spain to Italy. Can you tell us if you have seen a decrease in the Algerian gas flow to Spain during those last weeks or no? And maybe can you remind us what are the quantities of gas you are importing from Algeria? Is it something material or not for you?



**Josu Jon Imaz San Miguel Repsol, S.A. - CEO & Executive Director**

Thank you, Mehdi. Thank you for your questions. I mean I'm going to try to put some -- or to answer your questions. Going to the Chemicals, I mean, you are right. Russia-Ukrainian war is having a strong impact in energy and feedstock prices. And as you mentioned, this increase in operating costs impacted margins negatively, mainly in March when we saw that naphtha price increase. But still, in April, reasonable demand level is allowing price increases.

I mean you can see that (inaudible) published prices for ethylene, for example, rose more than EUR 200, EUR 220, EUR 230 per ton, given a record-high value, similar situation in propylene with downstream derivatives, mainly polyolefins and so on, seeing impact of higher imports and also some but very light signs of potential demand destruction. I mean, seeing all that today, our Chemical business is going back to margins close to what we had before the Ukraine invasion. For the upcoming months, even in this entourage of naphtha's high prices, feedstock flexibility is going to be key for competitiveness in any naphtha price scenario.

And it seems to me that all that is going to favor those companies and those units like Repsol able to feed more LPG as is the case of our crackers. So all in all, I see reasonable margins this year. And I see a good year for our Chemical business in 2022. And of course, that is a guidance, let me say, taking into account all the caveats because the uncertainty we have around us. I mean -- but today, I maintain the previous guidance of EUR 700 million of EBITDA for the whole year for our Chemical business.

Going to your second question about Algeria. I mean, again, Algeria is a very important country for Europe and for Spain in terms of gas supply. It seems to me that Algeria could play a positive and important role for Europe in terms of diversifying the sources. Unfortunately, you know that the gas pipeline, what is called a mid-cap joining Spain, the Iberian Peninsula and the continent is not already built, so that is going to reduce this capacity of Algerian gas to arrive by pipe to the European markets.

In the case of Repsol, we have today a long position in our gas contracts. That means that what we have in offtakes in our gas contracts, mainly coming from the Gulf of Mexico, is a higher, larger position than the cash we are consuming in our industrial sites, but we don't have any contract with Algeria to supply gas to our system. I mean the contracts we have are coming from the Gulf of Mexico or from some other companies but we don't have a contract with Algeria. But in any case, I mean, in macro terms, I fully agree with the point that Algeria is very important in supply terms for Spain and for the whole Europe. And it would be great to see a development of infrastructures to diversify a bit more the gas supply in the whole European continent. Thank you, Mehdi.

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**Mehdi Ennebati BofA Securities, Research Division - Director & Research Analyst**

Sorry, if I may, just because I received this from a lot of investors, can you tell us about the marketing, what could be the impact on your marketing business from all the decisions which have been taken by the government and by you for the second quarter? Can you quantify it, please, in terms of EBIT?

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**Josu Jon Imaz San Miguel Repsol, S.A. - CEO & Executive Director**

Yes, of course, Mehdi. I mean, you know because you follow the Spanish market. One month ago, more or less, it was published a bill, what is called in Spain a royal decree, with entitling a bonus of EUR 0.20 per liter on the price in all Spanish service station. This bonus will be advanced to the end customer by the owners of retail, in this case, Repsol, but the government is paying this bonus. I mean, the sales in April, for instance, are going to be received at the beginning of, more or less, in the first quarter -- in the first part of June.

So this measure is not going to have any impact on Repsol, so the P&L, although it may have an impact, but let me say that it's not going to be material in the working capital depending on this lag, but we are talking about 40, 45 days of lack in the payment of the bonus by the estate. But what is important is that in addition to this measure, and better said, anticipating this measure, Repsol announced a minimum discount of EUR 0.05 per liter to every customer and reaching EUR 0.10 per liter for digital clients, Waylet users, and also for Repsol (inaudible), I mean, finalization card of Repsol professional customers. And these measures are going to be working until the end of June. I mean in strategic terms, these kind of measures we are taking are going to have a positive impact in Repsol customer-centric strategy. We are taking advantage to dramatically grow in our digital strategy.

Well, it achieved, as I said before, 4 million users in Spain some days ago and multiply almost by 4 or 5 the number of operations comparing with previous months. All that is part of our multi-energy strategy. All that is going to reduce these weeks, our margins, that's

true. That is going to have a negative impact from the mobility business P&L. I remember you that in the results of this quarter, mobility, more or less, accounts are 5% of the total result of the group.

And we are taking advantage of the situation, first of all, to increase our commitment with the society. Secondly, to bet in favor of our digital strategy, convinced that we are creating value for our mobility business. We are enlarging and growing in the number of clients, in volumes, in digital users, and we know a bit more about our customers, thanks to this strategy. So we think that all that is strategic. All that is going to have a positive impact in Repsol customer-centric strategies, so we are really happy and comfortable enforcing this discount policy. Thank you, Mehdi.

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**Ramón Álvarez-Pedrosa Repsol, S.A. - Head of IR**

Thank you, Mehdi. Next question comes from Joshua Stone at Barclays.

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**Joshua Eliot Dweck Stone Barclays Bank PLC, Research Division - Analyst**

A couple of questions just on refining, please. Firstly, on refining, if you could just remind us where we are on carbon costs and impacts there. But then second, I was hoping you could talk a little bit more broadly about the distillate market because diesel is clearly extremely tight. How much can you shift your yields towards more middle distillates? And then also, how high do you think these prices can realistically go before you start to see the system start to break? Have you seen any impact to demand destruction yet? That's it.

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**Josu Jon Imaz San Miguel Repsol, S.A. - CEO & Executive Director**

So Joshua, first of all, I mean in the margins, we are disclosing the current carbon prices are included. So because our variable part of this refining margin. I mean, roughly speaking, the number I have in mind is that if -- I mean, every EUR 10 or EUR 12 per ton in CO2 cost in the European market from the current figures we have now is going to increase -- is going to reduce, better said, in \$0.1 per barrel the current refining margin. So in case of seeing EUR 25 per ton more in the CO2 price, we will reduce in \$0.2 per barrel our guidance in terms of refining margin.

Going to the distillate market, I mean we are maximizing our middle distillate production because what we are seeing in the market is demand growing, first of all. Secondly, some markets within the middle distillates as kerosene, the first time since the pandemic, we have seen in Eastern and thus this last week's kerosene sales in Spain, higher than the volumes we had in April '20 -- sorry, '19, so before the pandemic. So this kerosene market is growing in a dramatic way. You have to take into account that Barcelona and Madrid and many Spanish airports, they have been over the last 2 months, one of the most dynamics in Europe in terms of demand recovery because, I mean, Spain has a strong tourism sector.

We suffered a lot during the pandemic, but now we have the windfall, the windfall cash in the tourism sector coming from the recovery of the pandemic. So in demand terms, we are seeing -- what we are seeing is positive. It's true. As you said that -- I mean, you have to think in rational terms and high prices in a market that has some kind of elasticity could have as a consequence some demand reduction that could arrive, of course, but we are not seeing that at this moment. And what we are doing is maximizing our middle distillate production. 55% of our production is middle distillates. You know that we have, more or less, in operational terms, I mean, changing catalyzers and so on, the way to shift a 5% among gasolines and middle distillates.

But today, we are maximizing the middle distillate production. That is the most usual thing. But it's true that over the last 2 years, we have seen unusual things in margin terms. But now what we are doing is maximizing the middle distillates production. And I want to remind you that, more or less, Spain is absorbing 90%, 95% of our total middle distillate production. But we have a market in our interim that is a French market that has a shortage of middle distillates that is larger than the whole middle distillate production of Repsol. And Bilbao and Tarragona refineries are closer to the French Southwest market than any French refinery, so it's our natural thing to run. And in case of seeing a reduction of demand that we are not seeing today, we have an internal, almost an internal market that is a French market in our own borders for our middle distillate production.

So let me say that I'm quite positive today about our refining business. Seeing, first of all, that we have demand, we may cover this demand from our system. And third, that we are seeing, I mean, good cracks in the middle distillate sector in coming months in Europe, and we have a refining system that has been prepared for years to take advantage of these kind of opportunities. Thank you.

**Ramón Álvarez-Pedrosa Repsol, S.A. - Head of IR**

Thank you, Joshua. Next question comes from Michele Della Vigna at Goldman Sachs.

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**Michele Della Vigna Goldman Sachs Group, Inc., Research Division - Co-Head of European Equity Research & MD**

Josu Jon, I really wanted to ask you a question on hydrogen. We've seen a huge focus from repower EU on increasing the green hydrogen volumes into Europe, multiple fold by 2030. And Spain is ideally positioned from a cost perspective. There's -- we could look at a long-term future, where effectively Spain could become a little bit of the Norway of green hydrogen in Europe. But I was wondering, do you see the right regulatory environment for these projects to become profitable and for capital to really be deployed in large scale in this business?

And then my second question went back to your comment in terms of the renewable partner that you're looking for. And I was just wondering if you could elaborate a bit more into which capabilities you are looking for in that partner to continue to accelerate your low carbon expansion.

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**Josu Jon Imaz San Miguel Repsol, S.A. - CEO & Executive Director**

(foreign language), Michele. So first of all, I think that what we are seeing in the repower European strategy in the directives RED II, RED III and so on are, in some way, underlining and boosting this need of developing the hydrogen business in Europe, and in our case, I want to say particularly in Spain, but I mean we are looking for an international hydrogen business because, as you said, we have clear competitive advantages. First of all, we are in the right place to do that because in resource, so I'm talking about wind, sun and so on, on renewable production, Spain is the right place to be in Europe.

Secondly, what is very important, we are the main hydrogen consumer in Spain. 62% of all the hydrogen is produced in our own refineries.

And third, we have the regulatory framework that is going to allow us to produce or to substitute this green hydrogen. Today, we are producing and using in our refineries by green hydrogen. When I talk about green, I'm talking about coming from either from electrolysis or from wastes through biogas and so on. So both ways are green hydrogen. Because in the framework of the European directive, this hydrogen is considered as some renewable energy with known biological origin. That means that we are not competing in price with the green hydrogen. We are competing in price with the palm oil we are importing from Malaysia and from Asia. So in business terms, we see returns there.

And we are trying to accelerate this business to be producing 500 megawatts of equivalent capacity of production in our 5 sites of hydrogen. In some cases, we are going to have electrolyzers. We have 3 refineries now where we are working the direction of preparing electrolyzers to cope with this production. In 2 others, we are going to develop hydrogen coming from the transformation of biogas in our reformers. But I mean, you are right that I think that there is room for improving the regulation on that. Either in European site and also in Spain, it seems to me because I have an open dialogue with the Spanish administration about this issue. And I see, I mean, that they are quite positive about this challenge. I mean, the Spanish government want to boost and to launch this hydrogen strategy for the country because it is a way to decarbonize a part of the economy that is not going to be electrified.

And it seems to me that they have the aim to give more and more secure stability and regulation to allow funds and financial agents to invest in this business in Spain. We are doing all our best. We are accelerating all our projects. We are working today in the engineering of these electrolyzers. But at the same time, we have an open dialogue with (inaudible) because what you said, Michele, is very important to attract capital. You know Spain is an attractive country in terms of stability and attractive country, Spain, in terms of regulation. And in this case, Spain is also the right place to invest in the hydrogen business. So we are going to do our best to advance on all that.

Going to the partner in renewables, I mean, these capabilities for me is very important, a clear aim to grow with us. I mean any kind of restrictions to grow. We are not looking for partners to divest. We are looking for partners to change the mind of our business. We want people committed to grow in a more accelerated way together. And of course, the kind of partner we are looking for is a nonoperating partner because, I mean, we want to operate. We want to lead this business. We want to have this business as a part of our own business and operations.

So let me say that the challenge is to make us better, this partner, is to accelerate the delivery and, let me say, is fully indispensable to be ready to pay the right price to do that because, I mean, we don't need the -- today, we have the balance, we have the cash flow to grow. So we have the optionality to take the decision. And we are going to take this decision only if we find the partner fulfilling all these conditions. In any case, Michele, we are going to inform in an open way about that in the next conference call. (foreign language), Michele.

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**Ramón Álvarez-Pedrosa Repsol, S.A. - Head of IR**

Thank you, Michele. And next question comes from Irene Himona at Societe Generale.

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**Irene Himona Societe Generale Cross Asset Research - Equity Analyst**

A number of questions, if I may. First of all, in your Spanish renewables, can you say roughly what portion of your capacity is covered by PPAs? And so what portion you can sell at the actual current market prices?

Then secondly, you referred to progress with your 14 strategic Upstream assets. I wonder if you can update us on -- specifically on Alaska, on Pikka. What is the project time line, please? And are you still looking to sell down your interest?

And then finally, just a point of clarification. I think you said that you expect at the current refining margins that your full year refining EBITDA would be EUR 700 million above the budget. Can you just remind us what the original budget was, please?

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**Josu Jon Imaz San Miguel Repsol, S.A. - CEO & Executive Director**

So thank you, Irene. I mean, going to your first question related to our current renewable production of power in Spain, I mean, if we take what we call the P50, that means because that depends, of course, of the resource that is going to come, it depends on sun, wind and so on. But I mean taking this P50, what we have in terms of today committed production, PPAs and long-term contracts is at around 60%, 65% of the production. That means that 35, 40 is open.

So going to your second question, and here, I'm including hydraulic, wind farms and solar production. Going to your second question, I mean, today, Pikka, that is the part of the Alaska project that you mentioned, we are going to develop is the trackable modular facility that is going to produce, more or less in gross terms, 80,000 barrels per day. Pikka is a fully permitted oil project, has a strong community support. It's a first quartile project in terms of greenhouse gas emission. We are seeing the breakeven cost of supply of less than -- at around \$40 per barrel.

And what we have in mind with our partner and operator of the project is that an FID is expected to be taken around more or less in July, August, in the third quarter of the year. That is the common dialogue is related to, I mean, a real discussion, processing facility discussions and so on. But again, it's a fully permitted project. And it seems to me, in the dialogue we have now with the operator, that we are going to have the FID in the first quarter of this year.

When you talk about -- I mean, you are right, I talked about the delta. I mean, the EBITDA refining above the budget is EUR 700 million, but I forgot to mention what was the initial budget. I'm checking here the figure and the initial budget we have for the whole year at \$4 per barrel that gross indicator or the margin index we have in our budget for the whole year was EUR [660] million. So that means that we will be talking about EUR 1.35 billion, EUR 1.36 billion for the whole year under the current assumptions of maintaining the EUR 6.5 billion margin index over the whole year.

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**Ramón Álvarez-Pedrosa Repsol, S.A. - Head of IR**

Thank you, Irene. Next question comes from Matt Lofting at JPMorgan.

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**Matthew Peter Charles Lofting JPMorgan Chase & Co, Research Division - VP**

Two quick ones, if I could, please. First, on cash return, I mean, it sounds like you're signaling that the Downstream business is performing well and capturing the margin up cycle. Given the cash return upside that's implied under stronger macro prices and the sort of the 25% to 30% CFFO distribution model that you're formalizing, why not within that also formalize scope to rebuild the dividend back

to EUR 0.75 faster than the sort of the strategic plan that was based on \$50 flat Brent? Just wondering if there's anything specific at this point that is stopping the Board from doing that.

And secondly, on renewables and delivering the sort of the growth that you've referenced over the medium term, any incremental concerns at this point around execution on that capacity growth linked to cost inflationary pressures?

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**Josu Jon Imaz San Miguel Repsol, S.A. - CEO & Executive Director**

Thank you, Matt. I mean, I take your point. But I mean, I think that the Repsol share of the stock price is quite low now. So I think that it's a better investment to buy back shares and to redeem them in terms of creating value for our shareholders. In any case, I mean, I have a positive sensitiveness about your comment. The proof of that is that we are increasing this year the remuneration in cash dividend from the EUR 0.60 last year to EUR 0.63 that is going to be paid in cash at 5% more this year. And this year, then next year, in 2023, we are going to go on increasing this pathway year after year as we committed in our strategic plan. And as you said, I mean, we improved what is forecast in our strategic plan for 2022. And be sure that next year, in 2023, the dividend is going to be at least EUR 65 -- or sorry, EUR 0.65 or above this figure.

So that means that I have a positive sensitiveness related to your point. Saying that, I think that today investing in our shares is a good business. For that reason, I mean, we are going to, after next week, next Friday, we have the AGM. I mean immediately it means after having the approval of the proposal of the 75 million shares that Friday or next Monday, I mean, immediately, we are going to redeem the 75 million shares. On top of that, our 2022 guidance contemplated a potential amortization of 50 million shares. I mean -- and given the macro environment, we are going to present to the AGM an additional capacity to amortize to redeem up to 10% of the capital of the company. All that is going to give us flexibility.

And thanks to this flexibility, we are going to launch in the second half -- in the third quarter, in the second half of the year, we are going to launch the acquisition of this additional 50 million shares. And we are going to amortize, we are going to redeem this additional 50 million shares this year in 2022. And on top of that, I mean, I don't want to take any kind of additional commitment because, as I said before, the environment is uncertain, it's volatile. But in case of seeing a macroeconomic scenario that could be favorable to our interest, we may again consider future remuneration improvements, complying with these capital allocation priorities we set in our strategic plan. For that reason, we are going to ask for this additional flexibility to our AGM next week.

Remember, the discussion we had some weeks ago when I said some months ago that I haven't got the mandate, the authorization of the AGM to redeem in a flexible way additional shares. Now we are going to ask this additional right to have or to avoid having this problem in the future. And in any case, I may give you the indication that our aim and our commitment will be to have a total expected distribution between the 25% to 30% of cash flow from operations of the year.

Going to your question related to renewables, the delivery of growth and so on I mean, the concern about inflation is always there. I mean I'm not going to deny something that is evident. But first of all, let me say that what we are seeing, first of all, the projects that are in operation, we are fully invested, so no concern there. Secondly, if we go to projects, we are taking FID. I mean, the main CapEx, the main CapEx, I'm talking about the turbines in the case of the green projects, the photovoltaic panels in the case of -- are already committed. In new projects, what we are seeing and take please these figures quite in a flexible way because things are changing.

But what we are seeing is some kind of increase, something in between 5%, 10% in the CapEx related to turbines and a 5% in the BOPs related to these wind farms. And in terms of solar panels, we are seeing an increase of 10% more or less of solar panels and the BOP that could be today, almost 50% of the total investment could be at around 5%. So they are material, but let me say no dramatic increases of prices. But what is more important, what we are seeing at the same time is an increase in the PPA prices that are fully absorbing this inflation cost in the requirements we need to invest in this business.

That means that we are, again, seeing the double-digit return for our projects. In this strategy of asset rotation we are developing and the last proof of that has been 2, 3 weeks ago, what we did with TRIG in the Valdesolar solar project. And that means that we don't have any

concern related to inflation. I mean there are concerns. Of course, we have to develop the pipeline. We have to overcome with permits, with things. That is very -- of course, a crucial task that, today, inflation is not going to be the driver of any kind of a slowing down process in the growth of our renewable business. Thank you very much.

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**Ramón Álvarez-Pedrosa Repsol, S.A. - Head of IR**

Thank you, Matt. Next question comes from Fernando Abril at Alantra.

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**Fernando Abril-Martorell Alantra Equities Sociedad de Valores, S.A., Research Division - Analyst**

I just have clarification one with regards to the shareholder remuneration policy that you've mentioned, Josu Jon. So the 25%, 30% of CFO -- CFFO guidance, are you including the shares that will be canceled this year, both the 75 million shares that will be canceled in the next few weeks and the 50 million shares that will be canceled by the end -- or before the end of the year or -- because I thought that those ones were on the back of 2021 results. So just if you can clarify this would be helpful.

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**Josu Jon Imaz San Miguel Repsol, S.A. - CEO & Executive Director**

(foreign language), Fernando. (foreign language) Okay. I mean, what we are going to include in this figure, I mean, that is, roughly speaking, 25%, 30% is a general indication. But we have not taken into account the whole 75 million that we are going to redeem this week. We are only going to take into consideration what we are buying this year with the cash of this year. I mean, I have to check the figures. But perhaps we could be talking about something close to 35 million shares, something like that this year. So that is the part we are going to take. I mean, roughly speaking, the cash of the year used to buy the shares of the year.

I mean, do you retake the general figure 25, 30, in our current expectation, there is room to pay the year the dividend in cash as we have committed, the next EUR 0.33 are going to come in July. Secondly, to redeem the whole 75 million shares next week. Third, to buy an additional 50 million shares that are going to be redeemed this year. And that could be, let me say, that could fit with what we are seeing today in a prudent approach, taking account the current commodity prices. And in case of seeing something higher, Fernando, let me say that we'll be open to do something additional to fit with this 25%, 30% cash flow from operation indication. Thank you.

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**Ramón Álvarez-Pedrosa Repsol, S.A. - Head of IR**

Thank you, Fernando. Next question comes from Jason Kenney at Santander.

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

Yes, I also wanted a clarification on the share buyback when you mentioned the headroom up to 10% of capital.

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**Josu Jon Imaz San Miguel Repsol, S.A. - CEO & Executive Director**

Yes, Jason. I mean what we are approving our Board, and we are going to present to be approved, of course, that is in the hands of our shareholders next week is, first of all, an authorization to be approved to redeem the 75 million shares already bought before. A part of them were in our balance and the other part came from the program. So that is going to be approved and it's going to be redeemed, I mean, in hours, days, depending technically in 2, 3 days or before Monday.

And secondly, on top of that, we are going to present an open authorization authorizing the Board and the CEO to redeem up to 10% of the total shares of the company. I mean that doesn't mean that we are going to redeem 10% a year. It's an open authorization that is going to give us the possibility to amortize, to redeem an additional 140 million, 144 million shares that is -- what could be the 10% of the total shares of Repsol. So there is room there for this additional 50 million shares I mentioned before or something additional in case hypothetically, and that is not a commitment, it's only a guidance in our comment, in case of seeing a better commodity or cash flow from operation scenario. Thank you, Jason.

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**Ramón Álvarez-Pedrosa Repsol, S.A. - Head of IR**

Thank you, Jason. Next question comes from Ignacio Doménech at JB Capital.



**Ignacio Doménech** *JB Capital Markets, Sociedad de Valores, S.A., Research Division - Associate*

Question regarding the measures in the Mobility division. My question is, given where the current price stands today, should we expect both the measures announced by the Spanish government and the additional discounts announced by Repsol to last until the end of the second quarter? Or should we be thinking on a possible extension throughout the -- of these measures throughout the year?

**Josu Jon Imaz San Miguel** *Repsol, S.A. - CEO & Executive Director*

Thank you very much. I mean what we have decided is to go on with this policy of discounts, and in our case, mainly link it to the digital tools and professionals in the framework of this strategic approach to grow in the future in our Mobility business till the 13th of June. I mean, that is going to depend of the macro scenario. We are in very volatile and uncertain scenario. So things could be different depending on prices and so on. But what we are committing now is these kind of discounts on these kind of commercial policies till 30th of June. Thank you.

**Ramón Álvarez-Pedrosa** *Repsol, S.A. - Head of IR*

Thank you, Ignacio. Next question comes from Joshua Stone at Barclays.

**Joshua Eliot Dweck Stone** *Barclays Bank PLC, Research Division - Analyst*

Just a quick follow-up. You mentioned the fuel price discounts you're offering at EUR 0.05 to EUR 0.10. You want to actually quantify how big an impact that is for EBIT. Are we talking tens of millions or hundreds of millions of euros? How much are you giving up there?

**Josu Jon Imaz San Miguel** *Repsol, S.A. - CEO & Executive Director*

Yes, Joshua. I mean, first of all, it's not easy to give you a figure because what we have seen are 2 different phenomena. First of all, we are reducing the price, but we are increasing the volume. So that means that there is a positive effect and a negative effect. No doubt that the negative is larger than the positive. So in any case, I mean, this quarter, what we have seen is that the Mobility business, but it is a profitable business for Repsol, accounts less than 5% of the total P&L, the total EBIT of the company. So I mean, it's not going to be sure. It's going to be less than EUR 100 million in the quarter, be sure about that, and probably significantly less. But let me say, I'm seeing that as a long-term loyalty investment.

So we are not expending money here. We are investing money that is -- I know that in formal terms, it's not like that. But for me, it's a CapEx because it's accelerating, in a dramatic way, the digital transformation of the commercial, the client-focused business of Repsol. But in any case, be sure that it's not going to be material in the second quarter of Repsol. I mean it's going to -- you are going to see these figures in the commercial business, of course, because the effort we are doing is important. But I think that in the current environment, when (inaudible) business and all industrial activities of Repsol, they are experiencing a good sound. I think that all that has to be part of our commitment with the society, and at the same time, the investment in the long term to have a more value-creating business in the commercial side in the future. Thank you, Joshua.

**Ramón Álvarez-Pedrosa** *Repsol, S.A. - Head of IR*

Thank you, Joshua. That was our last question. At this point, I'll bring our first quarter conference call to an end. Thank you very much for your attendance.

**Operator**

That does conclude our conference for today. Thank you for participating. You may all disconnect.

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