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Q2 2021 Repsol SA Earnings Call

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## PRESENTATION

### Operator

Hello, and welcome to the Repsol's Second Quarter 2021 Results Conference Call. Today's conference will be conducted by Mr. Josu Jon Imaz, CEO; and a brief introduction will be given by Mr. Ramón Álvarez-Pedrosa, Head of Investor Relations.

I would now like to hand the conference 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 Second Quarter 2021 Results Conference Call. Today's call will be hosted by Josu Jon Imaz, our CEO, with other members of the executive team joining us as well.

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

I will now hand the call over to Josu Jon.

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

Thank you, Ramón, and thank you to everyone joining us today. I hope that all of you are keeping healthy and well. Today, I'd like to cover the following main topics: firstly, a review of the key messages of the quarter; secondly, the divisional highlights and financial results; and thirdly, our update outlook to the end of 2021. At the end of the presentation, we will be available to answer your questions.

Let me start by reviewing the key messages. During the second quarter, our industry has remained on a path of recovery to the pre-pandemic activity levels. Repsol's solid quarterly results have reflected this improved scenario, supported by strong oil and gas prices, exceptional chemicals performance and the recovery of demand in Spain.

The adjusted net income rose EUR 488 million, 4% higher than in the previous quarter and just 2% below the same quarter in 2019.

All divisions improved their adjusted results compared to the first quarter of the year. The cash flow from operations amounted to EUR 0.9 billion for unaccumulated EUR 1.9 billion in the first 6 months of 2021, a 124% increase compared to the first half of 2020.

Upstream continued prioritizing value over volume, improving operational efficiency and reducing its cash breakeven. Moreover, further progress was made on the rationalization of its portfolio aligned with our strategy to concentrate operations on the most competitive and sustainable geographies and assets.

The aforementioned strategy allows the Upstream to contribute with another EUR 0.4 billion of organic free cash flow in the quarter for a

total of EUR 0.9 billion in the first half of 2021.

In the Industrial division, the Chemical business had another extraordinary quarter, helped by record level international margins and some market fundamentals despite having completed the planned multi-annual turnaround of Puertollano. On the other hand, the refining environment remained challenging, negatively impacted by weak middle distillates and narrow heavy to light crude differentials. Still at low levels, the refining margin indicator recovered significantly to \$1.5 from the \$0.2 per barrel achieved in the first quarter. The new EUR 657 million [projects] in Sines, Portugal or petrochemical site will allow us to produce new materials for highly specialized applications aligned with the energy transition and the transformation of our industrial base.

And in our aim to transform our legacy industrial sites into decarbonized hubs, we have defined and detailed and update renewable hydrogen strategy that allow us to increase our strategic plan ambition to 0.55 gigawatts equivalent by 2025 and 1.9 gigawatts by 2030 from 0.4 and 1.2 gigawatts before.

In the commercial businesses, after a challenging start to 2021, demand for road transport fields recovered gradually throughout the quarter, benefiting from the easing of mobility restrictions in Spain.

In Renewables, we start production in our first solar farm in Spain, Kappa, and we acquired a 40% stake in Hecate Energy that marks our first entry into the U.S. market. The greater visibility that we have now on our portfolio based on the project pipeline we have in Spain, Chile and the U.S. allows us to increase our renewable generation objective from 5.2 to 6 gigawatts in 2025. This brings our total low carbon generation target to 8.3 gigawatts from the 7.5 gigawatts defined in the strategic plan.

At corporate level, net debt stood at EUR 6.4 billion as of the end of June, which compares to EUR 6.8 billion at the beginning of the year.

Moody's improved Repsol's outlook from negative to a stable, reaffirming their Baa2 credit rating. Repsol published its new transition financing framework that aims to progressively incorporate our sustainability road map into our financial strategy. In July, with the objective of accompanying and visualize, our sustainability strategy, the financial position has been further reinforced with the issuance of 2 new sustainability-linked bonds for EUR 1.25 billion.

Looking forward, we still see some uncertainties related to the spread of the delta strain. However, considering the positive macro scenario and our delivery in the first half of 2021, we have improved our outlook to the end of the year compared to our previous guidance.

And finally, the recent developments affecting the energy transition like they recently announced [fit for 55] package in Europe of the ambitious goals of the next-generation European funds, reinforce our conviction that the strategic shift we took when we became the first oil and gas company to assume a net zero emissions target by 2050 was in the right direction. Our increased targets for renewables and hydrogen reaffirm our past.

Looking now briefly to the evolution of the main macro indicators in the second quarter. Brent oil averaged \$69 per barrel, 13% higher than in the first quarter and more than doubled its average price a year ago. In the gas markets, Henry Hub averaged \$2.8, 4% higher than the previous quarter and 65% higher than a year ago. In Europe, the main gas price references remained at very high levels due to tight inventories and a strong demand from Asia. Finally, Repsol's refining margin indicator reached its highest level in the last 4 quarters.

Let me now review the main divisional highlights of the quarter, starting with the Upstream. Production averaged 561,000 net barrels of oil equivalent per day. This was 12% lower than in the first quarter of 2021 and 12% lower than a year ago. Production was lower than budget, mainly due to Peru LNG operational problems, the plant of Pampa Melchorita and Trinidad & Tobago gas project delays. The operating cash flow per barrel was around \$0.7 higher than the first quarter compared to the first half last year. The negative impact of a lower production has been more than compensated by higher realization prices and a higher percentage of all in our mix.

The rationalization of the portfolio continued with the divestment of our producing positions in Russia and Malaysia. The disposal of Block 46 CN in Vietnam, the transfer of our stake in the TFT assets in Nigeria and the end of production in Spain.

Development activity remain focused on the successful delivery of the 14 core projects defined in our strategic plan. We continue working through to reduce breakevens to deliver on our planned schedule of FIDs. We are currently reinitiating the activity in Marcellus and in the Eagle Ford with 2 drilling rigs in each assets. The development of -- in Norway is expected to start production in the third quarter, contributing around 17,000 net barrels per day in 2022.

The FID, the final investment decisions for Shenzi North, Lapa Southwest, Akacias, CPO-9 in Colombia and Leon Moccasin are expected before year-end.

Let me now continue with the performance of the Industrial division, starting with refining. The margin indicator averaged \$1.50, which compares to the \$3 a year ago. Year-on-year, the increase in the energy cost are narrower middle distillate spreads more than offset the stronger gasoline and naphtha differentials. Even in this environment of great demand, the flexibility of our refining allow us to generates a \$1.1 premium in the unit CCS margin. The utilization of our distillation and conversion capacity in Spain was 71% and 73%, respectively. On the face of the low run rates, consequence of the market conditions, activity was prioritized in plants with higher margins.

In the second quarter, margins have shown an inflection point on the path to recovery, led by the rebound of gasoline cracks, resulting from the progress of vaccination strategies and the easing of mobility restrictions worldwide. There has been a quick rationalization of refining capacity since the crisis started.

In Europe, more than 700,000 barrels have been taken out since the beginning of 2020. In the U.S., roughly 81% of the refining capacity rationalization expected to 2025 has already occurred. The Chemical business delivered another exceptional, let me use the term quarter-driven by higher international margins, positively impacted by the strong increase in the price of polyolefins.

Repsol's international petrochemical margin indicator published this quarter for the first time was 45% higher than in first quarter and 74% higher than a year ago. During the first half of the year, petrochemical margins have sold to record levels. A combination of strong consumer demand and supply constraints more than compensated the increase in the feedstock price.

Looking ahead, we expect margins to decline, to go down smoothly towards the end of the year. And we are confident that this positive outlook for chemicals will help compensate the ongoing weakness of refining.

Aligned with our objective of leading the energy transition in Iberia, in Spain and Portugal, the expansion of Sines is the biggest industrial investment in Portugal in the last 10 years. The project includes 2 new plants of high value-added, 100% recyclable materials for use in the pharma, automotive and food industries. The new facilities are expected to be operational in 2025.

Moving now to the Commercial and Renewables division, starting with mobility. Demand for transport fuels in Spain increased after the end of the state of alarm in May and the easing of lockdown measures. Sales in our service stations were 15% below the second quarter in 2019. Volumes recovered gradually throughout the quarter, with June showing the strongest month of the year so far. In Renewables, we continue working on our projects under construction and developing the ones in our pipeline.

In Spain, in solar last quarter, Kappa, Kappa is a solar project in the south of Madrid in Ciudad Real, has started production. And earlier this week, we began to generate power at Valdesolar in the region of Extremadura in the Southwest part of Spain. In wind, we started the construction of the first farms in the Delta 2 in Aragon, Northeast part of Spain, and big projects in the Northern high place in Castile. In Delta 1, which started operations in 2020, Repsol has launched a process to incorporate a minority partner to the project.

In the U.S., the acquisition of Hecate provides a higher vicinity towards the delivery of our renewable generation ambition to 2025, with the access to a pipeline of more than 40 gigawatts. We have made quick progress, having taken this week the FID for our first photovoltaic projects in the country. The project called (inaudible) Gas in New Mexico. We now target reaching 6 gigawatts of renewable

generation to 2025, increasing our ambition. We keep on focusing on the delivery, while exploring on different capital structure options, including a potential IPO or the entry of a partner who shares Repsol's long-term ambition for this business in line with the targets disclosed today.

Let me now review briefly the financial results. The group's adjusted net income was EUR 488 million, which compares to a loss of EUR 258 million in the same period a year ago. By division, the adjusted net income of the Upstream was EUR 351 million, EUR 492 million higher year-on-year, mostly due to higher realization prices, partially offset by the lower production.

In the Industrial division, the adjusted net income was EUR 166 million, which compares to EUR 8 million a year ago, mostly driven by the strong performance of chemicals. The result in Commercial and Renewables was EUR 127 million, EUR 85 million higher than in the same quarter of 2020, primarily driven by the mobility business.

In corporate and others, the adjusted net income was EUR 156 million negative and EUR 11 million increase over the same period a year ago.

The group's EBITDA at CCS grew to EUR 1.6 billion in the quarter, 144% higher year-on-year for an accumulated EUR 3 billion generated in the first half. For further detail on our results, I encourage you to refer to the detailed documents that were released today this morning.

At this point, I want to take you through a revised outlook to the end of the year. Full year production is expected to average between 590,000 and 600,000 barrels per day. This downward revision to our previous guidance is mostly related to the ongoing issues on the Peru LNG plant; Trinidad projects delays; divestments on the PSC effects in Bolivia; and during the second half of the year, we expect a start of increasing volumes in unconventional coming from the ongoing drilling campaign. The expected average refining margin indicator remains unchanged at \$2 per barrel.

Our estimated EBITDA at CCS increased by EUR 0.3 billion to EUR 6.1 billion in 2021. CapEx is now expected to reach EUR 2.9 billion, coming from EUR 0.3 billion increase in renewables. The investment in low-carbon platforms during 2021 increases to 1/3 of total CapEx. The net capital budget for 2021 remains unchanged at EUR 2.6 billion, as we expect to cash in EUR 0.3 billion from Upstream divestments. With this assumption, we expect to end 2021 with a net debt of EUR 6.1 billion.

To conclude, and while maintaining a prudent approach towards the macro, looking at the numbers, the second quarter results have brought us back to the pre-pandemic levels. We have continued delivering on our strategy, facing the pandemic with a focus on capital discipline and cost efficiency. Our reinforced commitment with the energy transition drives our strategy in the long term. Our road map is based on 2 pillars: renewable generation and the transformation of our industrial sites into low-carbon hubs.

The revisited renewable objective increases our low carbon generation ambition by 2025, including combined cycles and cogeneration from 7.5 to 8.3 gigawatts. Moreover, we will invest, as defined in the plan, EUR 1 billion until 2025 in other products that society will demand in the future, like advanced biofuels, hydrogen or e-fuels. And we are developing the multi offering to our clients with a customer-centric, digitally-driven approach.

When we release our strategy, we wanted to be cautious. At \$50 oil price, we will be able to deliver our projects to 2025, keeping the same level of debt. The higher-than-expected oil and gas prices are allowing us to generate extra cash. We are going to invest part of this cash in profitable growth, but this better scenario also opens the possibility of anticipating shareholder remuneration commitments if the current price level is maintained.

The sustainability-linked bonds demonstrate our confidence on delivering on our emissions reduction goals and opens a market for new credit investors.

Finally, I want to take the opportunity to remind you of our Low Carbon day to be held on October 5, where we'll showcase our decarbonization in action with ongoing projects, and we'll outline responses to stakeholder expectations in terms of metrics and

objectives. With that, I'll now hand the call back to Ramón, who will lead us through a question-and-answer session. Thank you very much, Ramón.

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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 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'd 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 Biraj Borkhataria at RBC.

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**Biraj Borkhataria RBC Capital Markets, Research Division - Director, Co-Head of European Energy Research Team & Lead Analyst**

The first one is on production volumes. Are you expecting a similar level of production into 2022? And maybe also, if you could give a bit more color on the Peru LNG issues? And when you expect those to be resolved? And then the second question is on asset sales in the Upstream and your decarbonization targets. I believe the -- one of the recent asset sales in Malaysia is likely to have a quite material impact on your Scope 1 and 2 intensity metrics, but I haven't seen any figures on this. Could you provide any color on what the impact is likely to be as you report the numbers next year?

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

Thank you, Biraj. I mean I'm going to be very clear about production because I know that is one of your concerns in this quarter. I mean I'd like to underline that the production in this first half of the year has been impacted mainly by maintenance downtimes and unexpected shutdowns. I mean this half, our budget accounted by 625,000 barrels per day. And the current figure is 25, 26 barrels per day below. And the gap is due to these facts and unexpected shutdown in the Peru LNG plant, Pampa Melchorita, that you know that is not operated owned by Repsol, but it's fully needed for exports from Peru. And due to this effect, we expect it's going to be solved by the end of August. We have lost 10,000 barrels per day production as average over the whole half of the year.

Second factor. 7,000 Barrels per day due to the delay of some production projects and unexpected downtimes in the BPTT asset in Trinidad operated by [BP]. On top of that, we have -- so we have 17,000 out of these 25,000 barrels per day that we are going to -- they are going to be solved in coming weeks.

We have a third factor that -- let me say, the reason is positive because we are talking about something in between 8,000 and 10,000 barrels per day due to the PSC contract effect in some of our assets. I mean higher prices means less barrels to be taken. And that is going to stay as far as these prices are going to be there. And on top of that, we have a 4-factor divestment. I mean that is not a factor, of course, in our budget, neither in cashing, not in production, accounted for a reduction a average of 4,000 barrels per day in this half, mainly due to Russia. So I mean you have these 4 factors that are behind this production reduction. So there is not any kind of, let me say, strength decline or lack of investment and things like that because these 4 factors are higher than the gap we have experienced in production terms in this first half of the year. I mean our guidance for the whole year is at around 595,000 barrels per day. That means that we are going to be in similar figures in the second half because the Peru LNG impact and so on is going to last still some weeks and is impacting hardly in this production.

I mean if we take the whole strategic period, let me say that the figure, when we talk an average of 650,000 barrels per day in the whole period, today, if you take the whole impact of the divestments in coming years, I mean Russia, Malaysia and so on, in the lack of any potential, I mean bolt-on acquisition or something like that or any synergistic acquisition, I mean we could have a guidance of 620,000 barrels per day for the whole period. I mean we have to take into account that the prices are higher. We are going to have an impact of 8,000 or 10,000 barrels per day as a consequence of the PSC contract effect.

I mean on top of that, the impact -- duration of selling in Malaysia is, of course, the rationale of, as we said, high grade in our portfolio concentrated in countries where we could make and create value for the company. We have divested Malaysia, Russia, the TFT asset in Algeria, the ceasing of operations in Spain over the last year, Australia, Ireland, Bulgaria, the Kurdistan in Iraq. And so also, there is a of concentrating in places where we could create value and having more and more efficient E&P. But as you said, this Malaysian asset selling is going to have an impact in terms of CO2 greenhouse emissions in the company.

The closing of Malaysia is going to be executed in the 4 quarters, so the impact is going to be seen in 2022. And it's true, as you said, I mean we are going to reduce in the E&P, the carbon intensity of the business in enough figure. That is going to be at around 70%, 75% of the total emission level of the E&P. But on top of that, we are doing more things. We are working hard in the methane emissions in North America. We are trying to reduce -- going to 0, the flaring emissions in the E&P; working unconventional; reducing the banking. I mean that is at the core of the strategy of this company and also at the core of the strategy of the exploration and production business.

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

Next question comes from Fernando Lafuente at Alantra.

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**Fernando Lafuente Seseña Alantra Equities Sociedad de Valores, S.A., Research Division - Equity Research Analyst**

Just 1 quick question on the renewable upgraded target and another one on the dividend. On the renewable, Josu Jon, I was wondering where do you see additional upside? Or where does this upside to the target comes from? First, in terms of country and then in terms of technology. And on the dividend, I guess what you understand -- what you want to say here in the presentation or as I understand it, that you could bring forward the buyback. Now I understand that the DPS targets remain the same for the time being over the strategic plan.

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

I mean in the case of the renewable business, I mean we are now upgrading the target because we have more certitude about the pipeline we have now in our hands. I mean let me say that some months ago, we could have a higher risk in terms of which country, which technology and so on. Now with the pipeline we have, either in Spain or in Chile or in the United States, thanks to the products that are going to come from the acquisition of Hecate developer we acquired now 40%. Now we have the pipeline, we have technology, we have the (inaudible), and we have the people ready to deliver in this target. We are increasing from now on until 2025. So we are comfortable with this target. We see the way to create value for our shareholders, developing these projects. And we have, let me say, a higher certitude about the projects and the pipeline we are going to develop in coming 4 years.

I mean going to your question about the dividend. I committed in previous quarters that we were going to allocate the extra cash generated in higher price scenarios to increase the CapEx allocated to these low carbon platforms and eventually grow the shareholder distribution, always, of course, searching the most or the best choice for our shareholders while maintaining, of course, our financial plans. I think that it's convenient to remember that the share buyback program will be carried out as long as the average price of the year was higher than \$50 per barrel from the end of 2022 on, over the last 4 years of the strategic period.

So taking into account, we have improved our forecast as well as probably, as I mentioned before, the net debt for the year 2021. As soon as this situation consolidates over the next few months, it could be brought forward a year. So in that case, in case of seen this -- let me use the term Fernando, this macro scenario and being in the range of net debt, I gave you as guidance by the end of the year. In that case, the decision will be taken at the end of 2021, and we will propose the first share buyback included in our strategic plan to the next Annual General Meeting. So that will be our proposal respecting the framework of the strategic plan in terms of the distribution for our shareholders, seeing the cash position we have and the debt position we could have eventually at the end of the year.

In that case, been in this scenario, Fernando, our decision will be taken at the end of 2021, and we will propose the first share buyback included in our strategic plan to the next Annual General Meeting.

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

Next question comes from Alessandro Pozzi of Mediobanca.

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**Alessandro Pozzi Mediobanca - Banca di credito finanziario S.p.A., Research Division - Research Analyst**

Thank you for taking my 2 questions. And the first one is on the entry in the renewables U.S. market with a 40% in Hecate. And I was wondering what type of strategy do you see for the U.S.? And I think Hecate is a more of a developer. Are you looking to buy them on a 100% basis, the projects that, that company is developing? And also, are you looking at adding clients on the retail side in the U.S.? I was wondering what is your strategy there? And also, the second question is on sustainable aviation fuel. The European Commission has set a new target, I think, of 5% by 2030 in terms of market share for SAF. I think it's quite a tough target, given that at the moment, I think the SAF market is not very liquid. And I was wondering, is that pushing you to invest more into this type of fuel? And I was wondering what types of returns you think you can achieve by doing more investments there?

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

I mean going to the rationale behind our entrance in the American renewable. I mean, Hecate, as you perfectly defined, is a developer. It's a developer where we have a stake of 40%. As we announced some months ago -- some weeks ago, we have the right to get or to have the option to take in 3 years, the culture of the company. And in the meantime, I mean we have options to take the pipeline of Hecate to develop our own projects. So for instance, yesterday in our Board, we approved to take 2 projects of this pipeline in the U.S., 125 megawatts. All in all, 2 projects that -- in New Mexico, in the Northeast part -- Northern East part of New Mexico. Projects that they have are negotiated PPA and so on. That means that we are not going to enter in the retail or in the client side in the States. But of course, we are going to build a position in the country to negotiate PPAs and so on. And let me say that is not fully new for Repsol.

I mean we have today a position in the American market. We sell gas day after day. We -- utilities are our clients in the American market. We have people today in the States, specialized in the power trading business in this area and so on. But the strategy is step by step to take pipeline projects from -- the basket of projects that Hecate could have and take this option to develop at Repsol our own projects. And this project, the Hecate operates in New Mexico, 125 megawatts, technically speaking, are 2 projects of 52.5 megawatts each one are going to be developed in coming months in the States, adding new projects to what Repsol is developing in our Renewable business.

Going to the aviation. I mean your point is interesting, Alessandro, first of all, because over the last year, we have worked hard to develop the production of eco-fuels to -- for this aviation sector, either in our Tarragona refinery in the Northeast part of Spain or in Puertollano, in the South of Madrid. And we have a clear pathway, defined to invest in biofuels and eco-fuels in coming years, already defined in our strategic plan.

The first one is what we call in our -- let me say, the internal jargon, the 43 that is the eco-fuels new plant in Cartagena that was approved almost 1 year ago. And that is going to start producing eco-fuels at the end of '22 -- December '22.

On top -- I mean that is going to be a source of a potential eco-fuel for this kind of fuels. On top of that, I mean we are already producing almost 400,000 tonnes per year of HVO in our [5] Spanish refineries using either vegetable oils or recycled oils in a process where we -- hydrogen, the oil -- the vegetable oil or the recycle oil molecules producing eco biofuel that is, in some way, exactly the same in molecular terms than the mineral one. On top of that, of course, this ambition of hydrogen production, where -- I'm going to be very clear. We have a clear ambition to lead this market in Spain. And Repsol is going to play the card of being one of the European leaders in the new hydrogen market, and we have conditions for that. We are in the right place.

Spain is going to lead this market in Europe because we have a lower cost of renewable power production than some other European countries. We have, let me say, a privileged situation in this country, either in geographical terms, natural terms or in regulatory terms to develop that. We have today 2/3 of Spanish current hydrogen consumption are consuming Repsol's plants, and we see the way to do that in a competitive way in our refineries, being first movers in this business and leading this business in Spain and being one of the leading European players. And let me say that, that is also an optionality for this market, not today because I mean in mobility terms, the aviation sector is not there yet. That is going to be in coming years. And same reflection for the fields. And let me say, I mean this kind of projects, even in the hydrogen side, we are seeing today with the current projects we are going to launch, we are seeing a double-digit profitability and return for this kind of projects. And let me say what we are doing in eco-fuels terms has even higher returns, as I mentioned, when we presented our strategic plan.



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

Next question comes from Irene Himona at Societe Generale.

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

My question is around the Upstream, please. If you could update us on progress made in Q2 and in the first half on your targeted operating cost reductions, which you announced in the strategic plan? And then also in that business, given the quite material price increases we are seeing in metals and commodities, are you seeing any cost inflation pressures, please?

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

I mean we have reduced our cost base in OpEx term in the Upstream in a 5% from 2020 to 2021, I mean comparing both years. In some way, operational optimization, mainly in the Eagle Ford, midstream cost reduction, G&A, a strong cost reduction and procurement efficiencies. And it's true that due to a lower production, we are not seeing at this moment, due to this Peru LNG and this Trinidad problem, we have not seen in terms of OpEx per barrel. Well, we are flat. That is behind this reduction.

In terms of cost inflation, let me say that our team is working on a proper planning to secure the contracts needed for upcoming projects. And in some way, I mean having a centralized process as we have today, I mean contributes to have a better management of all that. Today, we have almost closed all the contracts we have for 2022 in the E&P. That means that we are quite protected about the consequences of this potential cost inflation that could arrive and could impact the E&P business in case of going on seen the current oil and gas prices. So we are protected for coming projects because we have negotiated the main contracts we have for next year. And in any case, of course, let me say that the impact of the increase in prices clearly will exceed the impact of the increase in costs, but we are protected for that eventuality.

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

Next question comes from Michele Della Vigna at Goldman Sachs.

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

I wanted to ask 2 questions, if I may. The first one is on your Low Carbon division, which you are clearly accelerating here on the back of the [Fit for 55] plan. How are you thinking about the capital structure of that business? Are you still looking at potential industrial farmout or IPO there to achieve the most efficient cost of capital? And then going back instead to your E&P business, you have quite material short-cycle investment opportunities, especially onshore U.S., the Marcellus with the rising Henry Hub, gas prices at the Eagle Ford with rising gas and oil prices. Are you thinking about material accelerating these areas and potentially filling in some of the gaps that is opening up because of these unplanned maintenance, more to be fair for next year than for this year?

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

I mean going for your first question related about the capital structure of Renewable business, I mean IPO versus partner. I mean we are today pursuing and working on this double track. That means our intention is to launch an IPO or to find a partner. Or let me say, eventually, it could be consecutive. That means that we could have a partner ongoing eventually in the midterm to an IPO, having a partner within the vehicle for that. I mean -- and the rationale for us is, first of all, to have a better visibility into this new business. I mean in terms of, let me use the term, crystallizing the value we have in this Renewable business.

Secondly, I mean we want to reduce the cost of capital of this business and both [bankers], both instruments could be at all to get this objective. And of course, it has to be compatible with the ambition of growing in this business we have. We are working in this double track. Let me say, Michele, I know that, I mean, market and you, of course, want to have a higher clarification on that. When we presented in November our strategic plan, I said that we will have a vehicle within the next 18 months. We are going to be there. So that means that we are going to have solved this new vehicle in coming months. And we are not going to take our rational depending the specific situation that renewables could be experiencing in market (inaudible) or terms. So we work on this double track. And what is more important, in the meantime, we are delivering. I mean delivering in terms of having new projects in production, delivering in terms of entering new geographies, delivering in terms of having the pipeline to increase the ambition we announced before by 2025 and so on.

Going to your question. I mean till now, we have introduced a new rig in Eagle Ford, a new one in the Marcellus. What we could see is

that next year, due to these rigs we have now plus perhaps a second one we are going to take in coming weeks, a second one in Eagle Ford, a second one in Marcellus, and perhaps before the end of the year, optionality a third rig in the Eagle Ford we are going to increase in 2022 in 10,000 barrels per day of production for this new rig of -- in the Eagle Ford, 10,000 barrels per day for -- because this new rig in the Marcellus. And let me say, the second rig in every or in each of these assets is going to have an impact of 5,000 barrels per day more or less in 2020. That means that having 2 rigs in each of these assets in coming months is going to impact positively more or less in 30,000 barrels per day in 2022. So showing the optionality, the flexibility we have to use the unconventional in this way, depending on the evolution on prices.

And in Canada, we are working in the same direction because after years of depressed prices. In [Incoterms], we are seeing a different scenario. And probably, we are -- I mean we are going to work with 2 rigs in Canada in the short term. And our investment level in the unconventional in North America is going to be at around \$700 million in the whole North America in 2022.

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

Next question comes from Joshua Stone at Barclays.

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

Two questions, please. Firstly on refining. You talked about 2Q maybe being an inflection point. So to what extent do you think we're seeing now a sustained recovery in refining margins? And then related to that, can you talk about the impact of higher carbon prices on refining margins? And just kind of give us an update where we are on things like free allowances?

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

First of all, I mean our guidance, as I said before, we are seeing this \$2 per barrel over the whole year in our -- in the margin of our system. Of course, you have to add the premium that -- I mean we are showing the capacity of our system to add at premium to this margin. On top of that, I mean growth -- the market in the future market terms is showing mainly for middle distillates is a recovery this second half of the year. I mean you have to take into account that every dollar of recovery in the middle distillate margin per barrel or the spread per barrel means \$0.55 per barrel of increasing the refining margin of Repsol. The CO2 is included. I mean the effect of the cost of CO2 is already included in the margin we have today and you have seen in our reports. And we are, of course, working over the last years and we are going to work, as we mentioned, and we are defining our strategic plan to go on reducing the CO2 emissions of our refineries.

You know that we have the project that is called [2021-2025] to reduce in an incremental 25% the current CO2 emissions we have in our refineries by 2025. 25% is, all in all, more or less the current emissions we are paying with no free allowances. I mean it seems to me, and that is -- I'm going to enter, let me use the term in the speculative reflection that -- I mean I don't have a crystal ball about what is going to happen with the CO2 prices. But I'm -- and we are in favor of having a CO2 market worldwide with clear rules to the carbonized economy with a leveled play field for everybody.

The European Commission has announced that they are going to introduce a feed-in tariff system to avoid the carbon leakage of industrial sectors in Europe. It seems to me that we are not going to see, as some people saying, I mean carbon prices of EUR 80, EUR 90 or EUR 100 per tonne in coming years in the absence or in the lack of a real European regulation to avoid this carbon leakage. Let me say, that is not going to be sustainable, neither for European consumers that now are seeing that a lot of cost as -- the electricity cost is highly impacted by this CO2 cost. I mean European consumers can't pay this cost, and now the competitiveness of all the European industries, including, of course, the refining or the chemical or the paper, the steel makers, steel mills or the cement industry. So it seems to me that we are going to see the evolution of these allowances and the evolution of the CO2 cost within a quite rational framework that is not going to impact in any way the competitiveness of the European industry, including, of course, the refining industry in this framework.

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

Next question comes from Matt Lofting at JPMorgan.

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

Two, if I could, please. First, capital allocation. I think, Josu Jon, when you presented Q1, you sort of framed being more in resilience mode still for 2021, '22. It seems that there's sort of a change with the update today, and you're sort of shifting more towards optimistic scenarios. Could you just clarify perhaps and talk about the metrics that will determine how going forward the company allocates incremental dollars between additional low carbon spend and potential cash return upside through buybacks? I'm just trying to understand how that will sort of play out and therefore, the potential buyback sizing capacity that the company has looking forward to 2022?

And then second, just coming back on production, if I could, in the Upstream. Where do you see the 2022 production forecast today? And it sort of seemed earlier that you referenced [650] as a strategic plan average being sort of potentially closer to [620] today at acquisitions. So just trying to understand, as you sit today, do you now need acquisitions or additional unconventional investment in order to get back closer to 650 over the 5-year average?

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

I mean first of all, I'm going to be very humble much. I don't know what is going to happen in terms of the evolution of the pandemic because we have seen different things, new trends, the evolution of the vaccination campaign and so on. But as you said, I'm a bit more optimistic now than I was 2 or 3 months ago, when we presented the last quarter results. I mean I'm more optimistic because, for instance, now in the (inaudible) service station, we have seen volumes that are 15% higher than the average of the second quarter of this year. So I mean we are starting to see a new -- whether a new arena. You know that we had a temporary job work restrictions in 3 refineries in Puertollano, in Coruna and in Bilbao. And over the last 2 weeks, we are starting to lift all these temporary adjustment or restrictions. We are seeing how the mobility is growing, how...

(technical difficulty)

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**Operator**

(Operator Instructions) Ladies and gentleman, our speakers have rejoined.

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

Hello? Okay. I think we were...

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

We were cut-off.

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

Yes, we will be repeating the answers to the question of Matthew Lofting at JPMorgan.

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

Matt, are you there?

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

I am, yes. Would you like me to repeat the questions?

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

I mean I'm sorry, Matt. No, no, I have the questions. I'm going to try to summarize the answer. So first of all, I said I don't have a crystal ball. We have seen a lot of things over this pandemic. But it's true that today a bit more optimistic than it was 2 or 3 months ago because we are seeing a clear increase of volumes and demand in our markets. Saying that, we're going to be focused on efficiency, capital discipline, CapEx control, prudent financial policy, commitment with current credit rating. I don't know if that is being resilient or not, but we are going to be very focused on that. Saying that we have increased our CapEx expenditure or investment this year in EUR 300 million.

On top of that, we are -- probably in case of having this situation at the end of the year, we will then anticipate 1 year the share -- the buyback. And saying that, the metric we have, I mean is the metric we define in our strategic plan. I mean we want to have a gearing at around 25% over the whole period with a summit, a peak or a maximum of 30% of giving. That is going to be the metric we are going to use to measure what is our prudent financial policy and the commitment, of course, we have with our credit rating.

Going to your second question, about production. I mean what we have in mind, and we have not upset about production, but it is a production that is going to be at 620,000 barrels per day as average in 2022. Why? Because we are going to see an increase coming from the unconventional. But as I said before, it's going to be at around more or less 30,000 barrels per day coming from the unconventional. And on top of that, I mean new projects, the new FIDs are going to increase their production in 2022. For instance, [image] going to have 17,000 barrels per day next year. I'm going to the acquisition much, but I'm going to be very clear. I'm not by the -- because of passion, and we are not going to destroy the money of our shareholders.

And today, at these prices, an M&A acquisition is very difficult to be accretive for the company or for our shareholders. I mean in case of seeing something very synergistic, very -- with high energies, we'll do it. But I mean it's very difficult today at this market to buy something, making value. And we are not going to buy to reach production, not at all. We are going to buy to increase the value of the company and to increase the value for our shareholders. And that is very, very difficult at these oil and gas prices. So I prefer to say that we are going to be in the 620,000 barrels per day and not in 640,000 something like that, instead of storing the cash and the money of our shareholders.

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

Next question comes from Mehdi Ennebati of Bank of America.

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

So 2 questions, please. One on the petrochemicals subdivision and the petrochemicals sales volumes. So if I look at your report, the sales volumes on the pet chem remain pretty low meaning roughly online with the first half of 2020, but significantly below what you've realized in 2017, 2018 or 2019. While the pet chem margins are extremely high. So normally, you should have tried to maximize those cash volumes.

So my question is pretty simple. Why sales volumes are so low? Is it because of Spanish demand? Or is it more linked to the issue that one of your supplier had at the end of 2019, which is still constraining your petrochemical production?

Second question, I just would like to come back to what you said regarding the share buyback, which might start earlier. Just to make sure I understood, you said the decision will be taken at the end of 2021, okay? But you also said that at AGM, it will be submitted to the AGM. So I just would like to understand that should we expect the share buyback to start -- to really start, let's say, in January 2022 or after the AGM, meaning at the end of March 2022?

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

I mean first of all, the explanation for these volumes is simple. We have a program -- a plan turnaround maintenance period or 50 days in. you know is 1 of our 3 chemical sites, 1 of our crackers and derivative chemical sites in the south part of the Spanish high price in the -- south of Madrid. It's the smallest one that has impacted in volumes of production and of course, as a consequence in the sales. Demand is very robust. And we say that second half of the year in demand terms, at the same level, we were seeing the chemical demand in the first half. It's true that in the first half, we have experienced some restrictions in offer terms either in Europe and in North America, and so on that has increased the margins. But we see a very robust demand in the second half of the year.

I mean what we are seeing today as guidance in EBITDA terms for the whole year. I talked about EUR 850 million in the last call in April. Now I'm closer to EUR 900 million in terms of the EBITDA that the Chemical business is going to give us this year, 2021. Demand is very robust. I mean the share buyback. I mean in case of seeing this macro scenario and being in the range of net debt, I mentioned as guidance, I mean that's -- in case of seeing this situation, maybe -- I mean the Board could take this decision after the closing of December. And the buyback, formally, the redemption of the shares will be approved in the first half of 2022 by the Annual General Meeting. And I mean we could start, of course, buying the shares before this Annual General Meeting that could take decision of

cancellation of this. The cancellation has been taken by this AGM that we could start buying the shares, of course, before. But always, I underline, in case of this macro scenario and in case of being in the range of the net debt I gave you as guidance some minutes ago.

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

Just to be precise. At the earliest in January, you might start a share buyback at the earliest, but this is just a hypothesis?

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

I mean that will be -- I mean technically, you are right that, that has to be decided maybe after seeing that we are there in macro and in debt terms. But technically, of course, we could eventually, with all these caveats, by all that before, of course, the AGM. But the AGM is who has to take the decision -- eventual decision in case of fulfilling these conditions of cancelling the shares, in this case, 50 million shares. But I'm going to say more, Mehdi. I mean today, we have in our hands, 36 million of shares in our balance.

On top of that, we have 80 million options of shares. 50 million of them as derivatives, you know, because I mentioned in our previous call, that has to be canceled by 2023. We have 50 million of options in derivatives. And on top of that, we have 30 million of equity swaps. That means, all in all, we have to date 116 million shares either as physical shares or as options. That means more or less a 60% of a total figure we are going to need over the whole period, and we are going to do our best to have the whole figure of EUR 200 million either as physical shares or as options to deliver the commitment in case, of course, of fulfilling the macro scenario we define and the strategic plan to cancel and to buyback EUR 200 million of shares over the whole period, '21-'25. That is more or less 13% or 14% of the total number of shares of the company.

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

Next question comes from Sasikanth Chilukuru at Morgan Stanley.

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**Unidentified Analyst**

I have 2 left, please. The first one was related to your EBITDA guidance of EUR 6.1 billion for 2021, up, of course, EUR 3.3 billion versus the previous guidance. I was wondering what the building blocks for this increase were? I see the reference Brent price was a move by \$5 to \$65 and the guidance for the production has been reduced by 5%. Are these the 2 reasons behind the new guidance? Or are there any other factors that are either contributing or perhaps offsetting this increase?

The second question was related to the FIDs in the Upstream. You've highlighted 4 FIDs by year-end, but these do not include the 2 highlighted last quarter, Pikka in Alaska and Sakakemang in Indonesia. I was just wondering if you can provide an update on where we are with those projects?

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

I mean there are a lot of reasons, but let me mention mainly 3 reasons behind this EBITDA guidance. The first one, as you mentioned, is price -- commodity prices. The second one is the Chemical business, that I mentioned before that we are increasing EUR 50 million EBITDA. And the third one is -- let me say, in general terms, EBITDA sounds in our main markets, Spain, Portugal and so on of macro scenario that is impacted in a positive way in the commercial side. I mean the commercial side, in general terms. I'm talking about guidances. It seems to me the best guidance today is that we are going to be about EUR 1 billion of EBITDA this year in 2021 in the whole client or commercial businesses in this division of Repsol. I mean let me say that having EBITDA above EUR 1 billion in our Commercial business. The year, we have still suffered a lot. The pandemic in our main markets is a very positive fact. That is, of course, improving the guidance, the EBITDA guidance of the company.

So main factors, commodity price, as you mentioned, Chemicals and in general terms, the commercial businesses. And I think that the company has been able to resolve this year to contain the cost reduced in 2020 because the pandemic, and we have been able to adapt to the new market situation, not increasing the cost of the company efficiency, digital, procurement programs, all that is behind. Growth is happening. But that is behind the new EBITDA guidance we are giving you today.

The second one, sorry, FIDs. I mean growth, we have now in -- I mean in the case of Shenzi, I mean we are going to take the FID of the development of Shenzi in the late third quarter of this year. First of all, it's going to come in the first quarter of 2024. Before the end of

this year, we are going to take also the FID in (inaudible) the CPO-9 project in Colombia. On top of that, this year, in 2022, probably we'll take the FID of South Lapa that is going to see the first oil in the first quarter of 2023. Pikka in Alaska, where you know that we are fully focused in reducing cost, reducing the breakeven of the project, increasing the concept of modularity of the projects.

So we are going to start with a project that gross is going to be at around 80,000 barrels per day more or less of reducing the dimension of the project, but trying to increase the return. Most likely, the FID is going to be taken in 2022. I mean after the agreement, of course, with our partner. And Sakakemang where we are fully focused, and we are sure that we are going to have the support of the Indonesian authorities that they are also very concerned and very focused on this kind of decarbonization issues.

We are waiting for CCS regulation and so on in Indonesia because you know that CCS is one of the social parts, the core parts of the project we are going to develop there. I mean that is going to be great in terms of minimizing the CO2 impact of this project. The FID is going to be taken likely by 2023, more or less. So I don't know if I'm missing something. I could say also that this July, we have taken the FID of the third well of the back spin, that is -- I mean despite this planned by January, the first quarter of 2022. So as you could [Leon & Moccasin] also in the Gulf of Mexico, we are going to take FID this year, in the last quarter. So you could see that we the rich, plenty of projects, profitable projects. We have developed a great effort to reduce the cost and the investment level of these projects. And we are comfortable about the return we could have for these projects even in a lower price scenario.

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

Our next question comes from Pablo Cuadrado at Kepler Cheuvreux.

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

The bulk of my questions have been already answered, but probably I would like to ask about, given that the summer period at least in Spain, it has started already a few weeks ago, and I think you mentioned during the presentation before that you were seeing very strong commercial volumes during June. I wasn't sure if you were comparing versus Q -- I mean June versus Q2 this year. But I was if you can provide us basically how you see volumes during beginning of July, basically versus, let's say, pre-pandemic levels on the commercial front? And likewise, with this inflection point that you have been mentioning on refining, I was wondering whether if you can provide how is the refining margin operating so far this quarter, particularly in July?

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

I mean I mentioned that in July, the volumes are 15% higher than the average of the second quarter 2020. Comparing with 2019, the pre-pandemic year, we are seeing a 12% of reduction of volumes in service station in July. And it seems to me that it's going to more or less to go on in August. Clearly speaking, I think that in Spain, the internal mobility in Spain is at the pre-pandemic levels, more or less, roughly speaking. And we missed the international tourism that is still lagging to. I mean -- and our best approach for the first -- or sorry, the last 4 months of the year, is that we could be something in between a 5 -- between the 5% or 10% of the 2019 equivalent figures of the last quarter of 2019.

So mobility is recovering to the pre-pandemic levels, but we still miss in the Spanish case, and it seems to me that, I mean taking into account that we have a lot -- still a lot of restrictions among European countries and think to cross the pond, we are missing a main part of this -- was significant part, let me use the term, of this international tourism. But things are improving in a dramatic way. For instance, in jet consumption, has almost increased in -- has doubled, let me use the term, in the last 3, 4 months. Today, the jet consumption could be in our main markets at 40%, below the equivalent of the consumption in 2019. So they are still low figures that we have to take into account that we can from a reduction of 90% in the second quarter of 2020 or 65%, 75% of reduction comparing with equivalents of 2019, 3, 4 months ago.

So we are seeing a clear recovery of mobility also in the aviation sector. But we are not still at all in the aviation sector in the figures we had 2 years ago. Saying that, we are doubling the volumes we have 3, 4 months ago for that reason. I mean, our refineries has increased the inventories, this June to be prepared for this increase we are seeing in the markets. And we are starting to open new plants in our refineries to take advantage of the new sound the competitive market (inaudible) we are starting to see with all the products because you know -- I mean this pandemic has a lot of waves and surprises that growth we are seeing now is a clear recovery of volumes.

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

That was our last question. At this point, I'll bring our second quarter conference call to an end. Looking forward to meeting you virtually in our October event. Remember 5th of October, Low-Carbon Day. Thank you for your attendance.

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**Operator**

That does conclude today's conference. Thank you all for participating. You may now disconnect.

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