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PRESENTATION

Operator

Hello, and welcome to the Repsol's Third 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 call over to Mr. Álvarez-Pedrosa. Sir, you may begin.

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

Thank you, operator. Good afternoon, and welcome to Repsol's Third 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 advise you to read our disclaimer carefully. 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.

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

Thank you, Ramón, and thanks to everyone joining us today. I hope that all of you are doing well. In today's call, I'd like to cover the following main topics: Firstly, the key initiatives of the quarter; secondly, the divisional highlights and financial results; thirdly, our capital allocation priorities in the current higher price scenario, namely our updated ambitions in low carbon and a proposal to increase shareholder remuneration. I'll finalize with our revised outlook to the end of the year. At the end of this presentation, we'll be available to answer your questions.

And let me start by reviewing the key messages. In the third quarter, Repsol has delivered an outstanding set of results and cash generation that consolidates our recovery to prepandemic levels. This performance has been supported by a positive market environment, with all business segments benefiting from a higher demand for energy and petroleum products.

In this context, the adjusted net income reached EUR 623 million, its highest level since 2018, and a 19% improvement compared to the same period in 2019. The accumulated result to September was EUR 1.6 billion, 3% below the first 9 months of 2019. The underlying cash generation was strong across all businesses, with all the 3 divisions increasing their operating and free cash flow contributions compared to the previous quarter. Cash flow from operations was EUR 1.4 billion in the quarter and EUR 3.4 billion accumulated to September. Excluding working capital movements, mainly related to an inventory buildup associated with higher prices, the operating cash flow was EUR 1.7 billion in the quarter and EUR 4.8 billion to September, a 28% and 6% increase, respectively, compared to the same periods in 2019.

Free cash flow amounted to EUR 0.9 billion in the quarter and EUR 1.9 billion up to September, more than covering investments,

interests, shareholder remuneration and the purchase of treasury shares in both periods. Net debt stood at EUR 6.1 billion by the end of the quarter, roughly a EUR 250 million reduction compared to June and around EUR 650 million lower than in December.

At the operating level, upstream production was negatively impacted by issues in several assets, including the impact of Hurricane Ida in the Gulf of Mexico. By quarter end, these issues have been solved and production has averaged around 575,000 net barrels per day in October. Longer term, the value-over-volume strategy remains intact with our focus on operational efficiency, lowering breakevens and the rationalization of our portfolio.

In the Industrial division, the performance of the Refining business confirmed the inflection point that we anticipated in July. In Chemicals, the margins remained strong, partially softened from the maximums achieved in the first half of the year. All in all, our strong performance year-to-date, together with our reinforced financial position and a better commodity price outlook, is allowing us to move into the next phase of our capital allocation framework.

Earlier this month, we announced increased ambitions for the energy transition, accelerating investments in the hydrogen, renewable power generation and e-mobility, among others. And aligned with this ambition, we increased our intermediate decarbonization targets to 2050.

Now the extra cash we expect to generate in a higher commodity price scenario has opened the possibility to improve the distributions to our shareholders. In that sense, the Board of Directors has agreed to propose to the next Annual General Meeting a 5% increase of the shareholder remuneration to be paid in 2022 to EUR 0.63 per share and a capital reduction through the redemption of 75 million treasury shares, equivalent to around 5% of our share capital.

Looking now very briefly to the evolution of the main macro indicators in the quarter. Starting with oil, Brent crude averaged around \$74, 7% higher quarter-on-quarter and 71% higher than a year ago. In gas, the oil prices increased sharply through the quarter, and we have averaged \$4 per million BTU, 43% higher than in the second quarter and 100% higher year-over-year. Prices were, let me underline this point, particularly strong in Asia and Europe, multiplying by 4 or 5x their levels in 2020. The Refining Margin Indicator benefited from the better market environment, more than doubling compared to the previous quarter.

Moving on now to the main divisional highlights, starting with the Upstream. Production averaged 530,000 net barrels of oil equivalent per day. This was 6% lower than in the previous quarter and 14% below a year ago. As explained earlier, quarterly volumes were negatively impacted by production shutdowns in the Gulf of Mexico, issues on the Peru LNG plant, delays in Trinidad and PSC effects due to the high prices of oil and gas. Compared to the first 9 months of 2020, the operating cash flow per barrel has increased by 110% since January, above the increase of oil and gas prices. The lower production has been compensated by a higher share of oil in our mix and also by the contribution of Libya.

Repsol's average gas realization price has increased by 77% in the first 9 months of 2021. The recent price escalate has continued in October, with some regional references achieving or soaring to record-setting levels. Gas accounts for around 60% to 65% of our production. So this price environment is beneficial for us. In broad terms, around 20% of our gas sales are referenced to oil. 25% are on fixed contracts, and 30% are exposed to North American spot prices, mainly Henry Hub. The remainder production is mostly linked to other regional spot references.

Looking into our development activity, Yme, in Norway. Yme has started production this week. At plateau, the field is expected to produce 56,000 gross barrels per day. In unconventionals, as recovery in Marcellus and another one in Eagle Ford will start drilling operations in November, each rig is expected to contribute 10,000 barrels per day of additional production in 2022. In the Gulf of Mexico, we took the final investment decision for the development of Shenzi North. The FIDs of -- for Akacias in Colombia and Leon-Castile in the Gulf of Mexico are expected, these 2 FIDs, by year-end.

Moving on now to the Industrial division, starting with the Refining. Margins and utilizations benefit from the recovery of demand, driven by the progress of vaccination strategies on the end of mobility restrictions. The margin indicator averaged \$3.20, a significant improvement from the \$1.5 of the second quarter. And on top of this, the flexibility of our system allow us to generate \$0.5 premium in

the CCS margin. The impact of higher energy cost and the increase in the price of CO₂ were more than offset by wider products spreads and stronger heavy to light crude differentials. Margins were particularly solid in September as the strengthening of middle distillate differentials pushed the indicator to \$4.6 per barrel.

The utilization of distillation and conversion capacity increased to their highest level since the first quarter of 2020, I mean, pre-pandemic levels, driven by the better market dynamics. Activity continued to be prioritized in the plants with the higher margins. The recovery of demand has also allowed to end the temporary layoffs adopted earlier this year in response to the weak market conditions. In October, work has started in the new general plant turnaround of Cartagena refinery that will last 45 days. It will require a total investment of EUR 75 million, of which 1/3 will be deployed on energy efficiency initiatives that are going to improve the competitiveness of the refinery from now on.

The Chemicals business remained on track. On track means that it's on track to surpass its EUR 1 billion EBITDA guidance for the year. Repsol petrochemical margin indicator was 4% lower than in the second quarter. International margins remained at very healthy levels, partially eroded by the increase in the price of feed stocks. This was aligned with our expectation of a soft landing of margins towards the end of the year. After quarter end, Repsol signed an agreement with the Portuguese government for the expansion of Sines that includes tax incentives of up to EUR 63 million.

Finally, let me highlight that the result of Industrial segment was negatively impacted in the quarter by a mark-to-market adjustment in the wholesale and gas trading business. It is -- let me explain that because this adjustment corresponds to unaccounted mismatch between the valuation of physical and financial positions on gas transactions. We expect that this adjustment will be offset in the operating result in the coming months after the physical transactions materialize. The negative impact in the Industrial segment was partially offset at group level by a positive consolidation adjustment in the corporate and others line, also due to this gas position.

Moving now to the Commercial and Renewables division, starting with Mobility. Sales in our service stations in Spain increased gradually through the quarter and were, on average, 10% lower than in the same quarter in 2019. In renewables, we continued developing, assembling and putting an operational project pipeline. In the U.S., we are making progress in our Jicarilla solar project. In Spain, the Valdesolar photovoltaic project starts to generate electricity in July and is now fully operational. In Chile, our JV completed the construction of Cabo Leones III, our first wind farm in the country, and secured long-term project finance. We also started the construction of the Atacama wind project. Lastly, after quarter end, Repsol was awarded 138 megawatts of new wind capacity in Spain in the recent renewable auction held last week.

Let me now review briefly the financial results. The group's adjusted net income was EUR 623 million, which compares to EUR 7 million in the same period a year ago. By division, the adjusted net income of the Upstream was EUR 385 million, EUR 334 million higher year-on-year, mostly due to higher realization prices, partially offset by the lower production. In Industrial, the adjusted net income was EUR 100 million, EUR 167 million higher than a year ago, mostly driven by Chemicals and Refining. The result in Commercial and Renewables was EUR 169 million, in line with the same period of 2020. Better results in Mobility and other segments were partially offset by the LPG business due to the regulated price formula that, in case of an increase in commodity prices, has a gap to be translated to this price formula.

In Corporate and Others, the adjusted net income was EUR 31 million negative, a EUR 115 million improvement over the same period a year ago. The result was positively impacted by higher results from treasury stock positions and the consolidation adjustment previously discussed associated to gas positions. The group's EBITDA at CCS grew to EUR 1.8 billion in the quarter, 112% higher year-on-year for an accumulated EUR 4.7 billion generated in the first 9 months of this year.

At this point, I want to elaborate on the allocation of the extra cash that we expect to generate, thanks to the positive evolution of the main macro indicators. Our 2021 to 2025 self-finance strategic plan includes a clear capital allocation policy for the extra cash generated in scenarios of higher commodity prices compared to our strategic price deck that, as you know, was set at \$50 Brent and \$2.50 Henry Hub.

In the first place, we will invest in profitable growth opportunities within our portfolio, basically in the development of the newer carbon

platforms, accelerating our plans or increasing our ambitions. Aligned with this, we have increased our planned renewables CapEx in 2021 by EUR 0.3 billion and the total low carbon investment between 2021 and 2025 by EUR 1 billion. With that, the share of low carbon CapEx until 2025 increases from 30% to 35%. And it's great in our capital employed, it's now expected to reach a figure close to 45% by 2030, above the 40% expected in the plan.

In the second place, we will improve the distribution to our shareholders, always searching for the most valuable choice for them. Our delivery in 2021 and improved outlook, at least in the short term, opens this possibility. Therefore, our Board of Directors has agreed to propose to the next Annual General Meeting an increase in the shareholder remuneration of 2022 and a capital reduction through the redemption of treasury shares. As a consequence, the cash dividend to be paid in 2022 will amount to EUR 0.63 per share, of course, 5% below the commitment set in our strategic plan. And we will redeem 75 million shares, launching in November a program to purchase 35 million shares, with the rest coming from our treasury stock position.

Today, with just 2 months to go to complete 2021, we expect that the cash flow from operations is going to be at least EUR 1 billion above our budget. 1/3 of this extra cash has been allocated, 1/3 more or less, to each of the following areas: increase of our renewable CapEx, mainly the entrance in the U.S. market; improve shareholder remuneration, building a treasury share position that will be available to redeem the 75 million shares once approved in the AGM; reinforce, finally, our balance sheet and financial flexibility, reducing our net debt as part of our prudent financial policy and keeping the gearing below the average forecast in our strategic plan.

Before moving to our guidance, let me briefly review our update ambitions into the energy transition that were thoroughly discussed in our recent Low Carbon Day held earlier this month of October. In renewable hydrogen, we increased our capacity objective by up 40% in 2025 to 550 megawatts equivalent and by up 60% to 2030 to 1.9 gigawatts. In renewable generation, we have accelerated our capacity ambition by up 15% in 2025 to 6 gigawatts and by up 60% in 2030 to 20 gigawatts.

Finally, in the customer-centric business, we will reinforce in mobility offering with the installation of more than 1,000 public points of recharge in Spain and Portugal, in Iberia, by 2022, deploying either a fast or ultrafast charger every 50 kilometers in Spain, leveraging on the sites we already have. Moreover, our enhanced ambitions in low carbon, together with a favorable regulatory environment and technological breakthrough, allow us to increase our intermediate decarbonization targets to 2050. The carbon intensity indicator reduction targets increased from 12% to 15% in 2025, from 25% to 28% in 2030 and from 50% to 55% in '24.

At this point, I want to take you through our update outlook to the end of the year. Full year production is expected to average around 580,000 net barrels per day, a 3% reduction compared to the previous guidance due to longer operational issues already solved. In Refining, we expect to beat our previous guidance of \$2 per barrel average margin indicator in 2021. The indicator has averaged \$4.5 in October, and we expect it to remain below \$4 during the rest of the quarter. The expected EBITDA CCS now stands at EUR 6.7 billion, a EUR 0.6 billion increase compared to previous estimates and 65% above 2020. And net debt is expected to close 2021 at around EUR 6 billion, less than 1x EBITDA.

To wrap up, Repsol has delivered a remarkable third quarter performance, aligned with prepandemic levels. Our results in the first 9 months, together with an improved commodity outlook, have allowed us to accelerate investment in low carbon and increase the remuneration to our shareholders, maintaining, at the same time, our financial discipline. In the long term, the new opportunities generated here, the support of favorable climate policies and a better environment have encouraged us to increase our ambitions towards the energy transition.

Going forward, we will maintain our focus and efforts on the delivery of our commitments and the strategic plan, transforming our operations and business to become more efficient and competitive. Digitalization, technology and new ways of working will be key enablers of our transition, allowing us to remain leaders of our sector in our pathway to net zero emissions in 2050.

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

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

Thank you very much, Josu Jon. Before moving on the Q&A session, I'd like the operator to remind us of the process to ask a question. Please go ahead, operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

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.

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

The first one, I just wanted to clarify on the buyback front. So you have 75 million shares, some of which are already in hand. I was just wondering why you don't cancel the shares as and when you buy them? What's the rationale for keeping some as treasury? Because it maybe would be simpler to just announce the buyback that equates to what you're actually buying in the market.

And then the second question is on 2022 CapEx guidance. Should we assume a sort of modest increase from 2021 levels? And if so, how much? And maybe if there is an increase, can you talk about where the incremental CapEx is going outside of renewables? Is it higher activity in the U.S. onshore or anywhere else?

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

Thank you, Biraj. I mean, first of all, the proposal of our Board approved yesterday is clear, is defined, is the redemption of the cancellation of the 75 million shares. That is more or less a figure close to the 5% of the number of shares of the total capital of Repsol. But legally, this redemption, this cancellation has to be approved by the AGM this spring. So our Board is going to present this proposal to the AGM this spring to be approved.

Going to your point about the CapEx in the Upstream, I think that in 2023, we are going to recover in some way, let me say, a more normal or average CapEx level in the company and also in the E&P. It's true that some things or some part of the CapEx is out, is -- went away forever, for instance, the exploratory effort we have in the past, because you know that we are going to invest at around \$200 million to \$250 million per year in the exploration, mainly focused in our main production areas where we have clear competitive advantages, where we have facilities, where we have a clear capacity to monetize these resources in the short term and so on. But we are in some way in the process to go back to the normal.

In this sense, it seems to me that in the Upstream, we are going to invest, in CapEx terms, more or less \$600 million more in 2022 comparing with what is going to be the CapEx level in 2021. The main drivers of this increase of CapEx are going to be, of course, the effort we are doing now and we are going to develop in 2022 in the unconventional, where we have 2 rigs in the Marcellus and we have 2 -- 3 rigs, sorry, now in the -- 2 rigs in the Eagle Ford. And we are going to increase with a third rig, our effort, in the Eagle Ford. As I said in July, this -- the first rig is going to add 10,000 barrels per day, more or less, in every case, the Eagle Ford and in the Marcellus. And the second one is going to add, more or less, at around 5,000, 6,000 barrels per day in every -- of these assets.

On top of that, I mean, we are taking FIDs. We approved, in the case of Baskin, a new well. This summer, we took the -- we approved the FID of Shenzi North part. On top of that, probably this fourth quarter, we are going to see new FIDs as Leon-Castile in the Gulf of Mexico, the CPO-9 is going to come in the first quarter of 2022. On top of that, I mean, 2022, we are going to go the FID of the Pikka project -- part in Alaska. And also, we are working now to enter the -- a rig in the Greater Edson area in Canada, taking advantages of the current gas price situation in the area.

So all that is going to have a clear effect in production terms. I know and I understand that production has been a concern for the market. And in some moments, I mean, markets thought that we have an underinvestment in the E&P production. I mean, let me underline again that, unfortunately, this year, we have suffered some one-shot effects. The 25 barrels per day we have lost over this quarter in Peru LNG,

in that -- or due to Peru LNG. That fortunately has been soft and now is working in a normal way. The 30,000 barrels per day we have lost over the whole year due to the decline of the BPTT. And unfortunately, after the start-up process of Matapal has been recovered in 10, 12 barrels per day, more or less, in -- is in operation since this week, we are going to see a ramp-up in coming weeks, months, that we are going to achieve a peak of 50,000 barrels per day, more or less, gross over 2022. And remember that we have a 55% of the stake of these assets.

So all in all, we are quite comfortable about the guidance we have in the strategic plan for 2022. It's true that, I mean, we are not going to recover some barrels. The first one -- the barrels, I mean, that when -- because the divestment process in the company, I mean, Russia, what is going to disappear from Malaysia in TTF, all that is going to reduce comparing with 2019 the number of barrels in that figure, that could be close to more or less 35,000 barrels per day. On top of that, we lost, due to higher prices, 12, 15 barrels per day due to the PSC contracts.

I mean, all in all, today, we are comfortable with our production level at around 605,000 barrels per day for the whole 2022 periods. That fits with the figure we have in the strategic plan, taking into account the new prices, the PSC effect and the effect of the divestment. So no concern about the production level of the company because we are recovering the figures we have before.

And I don't know if I'm missing something, Biraj.

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

No.

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

No. Okay. Thank you very much.

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

Thank you very much, Biraj. The next question comes from Oswald Clint at Bernstein.

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

Oswald, are you there?

Oswald C. Clint Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst

Can you hear me?

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

Yes.

Oswald C. Clint Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst

Okay. Sorry. I'm sorry. Fantastic color there on the upstream. Just finally, could you talk about things like the Camisea gas field in Peru? Obviously, some potential issues coming up there. Obviously, tricky to call, but any discussions you're having there with the government around that field as it might affect Peru? But also, unplanned maintenance, you've talked about it there today. But I mean, do you think you have this under control again for 2022 so that we don't see this unplanned maintenance popping up again next year?

And then secondly, could I ask -- you talked about LPGs and some of the margin being lagged. But could you also talk about lubricants and specialties? I think your feedstock is putting a bit of margin pressure here in the quarter. When do we see that starting to normalize for you, please?

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

Thank you, Oswald. I mean, starting from the unplanned, let me say that, of course, we have -- an operator always have or could have hypothetically unplanned problems in their operations. But let me underline that the 2 main problems, the big problems we have suffered over 2021, they were not assets operated by Repsol. The first one, also the Peru LNG, you know that we don't have -- not even a stake in the plant. We are not the operators. We suffered the consequences for the exports for the whole country. And in BPTT where we

have a, I mean, a stake of a 30%, a good partner and a good operator, but I mean, we have unplanned problems in the country and a decline that was larger than expected. But as I said before, I prefer to see the positive part. And the positive part is that Matapal is partially offsetting this reduction of production in BPTT.

Going to Peru, I mean, let me underline that in Peru, we have seen different political scenarios over the last 20, 25 years. Peru is a stable country with solid institutions and where -- I think that the rule of law works in the country. Saying that, I mean, in every country where we operate, there could be talks, conversations and potential negotiations with governments about the assets and revenues and so on. And when we say in Camisea, we have a 10% of our stake, it's not even the main asset we have in Peru. And I mean, we have, of course, ready, as always, to have a strong close and good relationship with governments in countries where we operate. And Peru, let me say, that is not an exception at all.

Going to the lubricant business, it's true that margins, they were under pressure during the quarter. By year-end, we might see margins in a normal level. It's true that raw materials, mainly the lubricant base raw material, have increased due to commodity prices. I mean, however, even in this situation where margins were, let me say, suffering a bit comparing with the recent past, a good (inaudible) business and good P&L has happened. We have had a good performance of the business even in this bad scenario. The JV is working in a way better than expected even in this scenario. And seeing that margins are on track of being normalized, let me be a bit optimistic about the evolution of our lubricants business. Thank you, Oswald.

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

Thank you, Oswald. Our 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

Josu Jon, I had 2 questions, if I may. Great news on the 5% increase in the dividend for this year. I was wondering, how should we read that impact on the forward expectations for the dividend? Should we increase -- should we expect that the whole curve that you showed at the strategy presentation effectively moves up by 5%? Or simply that we get more gradually to the EUR 0.70 in 2024?

And then my second question is on your industrial operations, which I thought -- I believe we all pretty much expect it to be a bit stronger this quarter with margins going above \$3 per barrel, and yet EBITDA was down EUR 100 million Q-on-Q. I was wondering if you could perhaps dissect some of that? How impactful were the gas derivatives? And whether you think that with improving -- with a further improvement in the refining margins we've seen in Q4 that we could see a material improvement in your Industrial EBITDA?

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

(foreign language) Michele, thank you. I mean, starting by the first part -- from the first part of your question, I mean, let me say something that is evident, but I prefer to underline it. I mean, what we are announcing today is that we are going to increase 5% the 2022 cash dividend. I mean, in addition, we are going to cancel 75 million of shares with that program to be launched this month in -- I mean, this month, I mean, November 2021, of 35 million of shares and the other 40 million of shares coming from the current treasury stock position, physical or derivatives, related to a better price scenario we have in the past. So I mean, we are going to launch this purchasing program of 35 million shares in November.

As I explained before to Biraj, the annual general assembly in spring will cancel or will redeem this 75 million of shares. I mean -- but I understand your point, Michele. I mean, I note, let me say, read it and close in my mind. I understand your point. It is proposal at the end of the road. I mean, my answer is definitely not. Is our strategic plan, distribution road map written on stone without any remote possibility to be modified or improved? Of course, Michele, not.

I mean, saying that, let me again, to be prudent, all that is defined in the framework of the strategic plan. But let me emphasize that providing a competitive shareholder remuneration has always been a pillar with Repsol's strategy, and we have traditionally been a good distribution player. And remember, Michele, as I said, when we presented our strategic plan last year, in a better price scenario, the extra cash generated will be allocated either to project acceleration in growth and also to increase shareholders' remuneration. It's exactly what we are announcing today, and that will be exactly what we do in the close future in case of seeing a pretty good macro scenario and a good cash generation. And that is exactly what we will do in case of seeing this extra cash generation in the future. But let me, please,

Michele, being prudent, taking today the decisions we have to take today and leaving for the future the decisions that have to be taken in the future, in case, of course, of seeing a sustainable cash improvement over the whole period of the plan, all that, of course, keeping going our strong balance sheet.

And going to your question about the Industrial area, I mean, you are right because Refining is performing in the right way. Margins in the fourth quarter are going to be significantly better than in the third quarter, I don't know, depending on 30% or 50% better than in -- because we have experienced \$4.5 per barrel in October. And being prudent, our expectation is that the average of coming 2 months are going to be above \$4 per barrel.

So what are we missing? What we are missing, Michele, is that we have a negative impact at around EUR 90 million, EUR 100 million at adjusted income level in the Industrial segment. What is the reason for this negative impact? I'm going to try to be clear and didactic. In September, August and September, we bought a volume in the Spanish market for the month of December or January at a fixed price. And we transformed this volume price with a TTF reference. And we closed on a small margin that is based on the differentials applied to the purchase and the sale with respect to the TTF. I mean, the margins are going to be there, and they are going to be positive at the end of the road, no doubt about that.

The physical purchase will be very positive since the market price that is correlated with TTF has risen a lot, and the financial position that is inverse of the previous one represent losses. So the problem is that the first, the positive one, will be collected in the EBIT of December or in January. And the second one, the mark-to-market position, is reflected in September, in the P&L of September. And this EUR 90 million or EUR 100 million negative in the Industrial area are related to this mark-to-market position. And it's true that in the opposite sense, we have an intragroup positive adjustment that is partially with EUR 40 million, EUR 45 million, especially offsetting this effect in the corporate side. And all that is related to the intragroup activity between our gas supply activity and the electricity and gas retail business.

So all in all, we have a negative effect in the adjusted net result of EUR 100 million in the Industrial side. And we have a positive effect of EUR 40 million that has the same nature, the same rationale in the corporate and financial side. And let me underline again, the negative part -- I mean, this gap is going to appear in a positive way in fourth quarter and first quarter of the year. And all that is going to depend, of course, the evolution of when it's going to appear, depending on the closing date of the physical operation is going to appear in a positive way in the P&L. And that is the rationale of what is happening in the Industrial's P&L, nothing to do with the refining, nothing to do with the chemical that is performing in a great way. It's the mark-to-market position that is partially offset in the corporate and financial side. Thank you. (foreign language), Michele.

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

Thank you, Michele. Our next question comes from Sasikanth Chilukuru at Morgan Stanley.

Sasikanth Chilukuru Morgan Stanley, Research Division - Research Associate

I was just following up on the Refining margins and wanted to check the impact of the higher energy costs and higher hydrogen costs. You highlighted a \$4.5 billion -- \$4.5 per barrel Refining margin so far in 4Q. Can you just confirm that this includes the increases in the energy prices? And it would be great if you can isolate the impact of higher hydrogen costs on Refining margins at present.

My second question was related to the 2021 CapEx, which you have reiterated at EUR 2.9 billion. That kind of implies a very significant increase in CapEx for 4Q, almost more than double the quarterly run rate we have seen so far. If you can just provide some guidance on where this higher CapEx is coming from? And also, apologies if you have already flagged this. But can you confirm what the guidance for E&P CapEx is for 2021?

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

So thank you -- excuse me, Sasi. It was my mistake. All the effect of the gas price that is available cost for our refining system is fully included in the Refining Margin Indicator. So when we say that in the third quarter, the Refining Margin Indicator rose \$3.3 -- \$3.2, \$3.3 per barrel and in October has been \$4.5 per barrel, then you say the negative effect of the cost increase of the gas to feed these refineries are fully included in this margin indicator, of course, are impacting in a negative way comparing with our budget.

And more or less, I have in mind the figure that we have experienced in October, a negative effect of \$0.7, \$0.8 per barrel due -- sorry, in the third quarter and in October due to this effect. But all that is already included. When we say that the margin is \$4.5 per barrel in October, the huge TTF prices and NBP prices and so on in Europe are included. And the cost of all that is included in this margin. So same thing, of course, because we produce the hydrogen with gas, it's included.

And the CO2 price is at around, like I remember the figure, about \$60, \$62 -- EUR 60, EUR 62, sorry, per tonne of CO2 in the third quarter and in October are included in this variable cost because, I mean, the construction of our Refining Margin Indicator is made taking the oil prices and the slate of crude oils we use, plus the products and the spreads of the products, plus the variable cost we have that they are many, the oil and gas and including the hydrogen we use. On top of that, the CO2 this year is fully included as a variable cost in the refining margin. So we are taking into account all that when we say that we have had a refining margin of \$3.2, \$3.3 per barrel this third quarter or \$4.5 per barrel in October.

Going to your second point, yes, you are right, we are going to see a significant increase in the fourth quarter '21 for E&P CapEx that are going to come mainly from the investment effort we are developing in the unconventional, and I referred to this effort before, and the progress of the FID of the projects I mentioned before. But you are right, we are going to see -- achieving EUR 2.9 billion, our total CapEx guidance for the whole company in 2021 and EUR 1.1 billion, \$1.3 billion, more or less, for the E&P this year. For that reason, I said before that what we are going to see in 2022 is going to be at around \$1.9 billion in the case -- of almost \$2 billion in the case of the E&P. I mean, \$2 billion, \$1.9 billion, \$2.1 billion is going also to depend on the exchange rates that I have in mind. But I mean, we are -- at around \$2 billion is going to be the effort in CapEx terms of the E&P in 2022. Thank you.

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

Thank you, Sasi. Next question comes from Jon Rigby at UBS.

Jonathon Rigby UBS Investment Bank, Research Division - MD, Head of Oil Research and Lead Analyst

Josu Jon, can I just circle back on distributions again? First, on the buyback, it always gets me confused. And I think the point about the treasury shares, et cetera, always I stumble on. So can we just go through some of the mechanics of this? Can you explain to me, do you have call options or anything sat in treasury that you can use to buy back or to realize some of the buyback of these shares? And therefore, is there some sort of cost or lower costs in acquiring the shares and putting them into treasury? I'm just trying to understand what you have physically in treasury and what you have in sort of synthetics or derivatives. And is it the intention to buy back, I think, the 35 million through to the end of this year so that they're sort of cleaned out?

And then just one piece of sort of arithmetic I was a little puzzled about was, I think you say 40 million -- or you see 75 million of shares to be canceled, that you are doing 35 million in the market, but you have 45 million treasury shares already. Why not just take that all out and take the whole 80 million treasury shares and just clean the whole thing up? I didn't quite understand why we go backwards and forwards on this partly in the market, partly in treasury, et cetera, let's say, just on the mechanics of the buyback?

And then just secondly on the dividend. Is it your sort of sense that the dividend should reflect underlying performance of the business and operating performance of the business and the buyback, the sort of macro surplus? In which case, I'm again a little puzzled why you've chosen to sort of allocate this surplus partly to a recurring commitment, i.e., the dividend and partly to the buyback. Just sort of philosophically, could you explain that, please?

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

Thank you, Jon. I mean, I promise you that I'm going to do my best to explain all that. But I'm not guaranteeing the result because it's complex, but I'll do my best. I mean, today, today means at the end of September, at the end of the third quarter, we have 49 million shares in cash that is part of our balance sheet and 74 million shares in equity derivative instruments, 50 million shares in a collar. I remember that at that time, it was acquired at a price at around -- I have to change the figure, but EUR 8.2 per share, more or less. But it's mark-to-market, of course, as a derivative collar. And we have 24 million in equity swaps that are not part of our balance sheet. That means that we have 74 million shares in equity derivatives, plus 49 million shares in cash.

What we are going to do now is we are going to take 40 million shares of these physical shares that are part of our balance sheet. And we are going to launch a new program, a purchasing program, developed under the rules to do this kind of things. That is going to be launched in November and is going to a standstill or, [listening] to us, till the spring to -- before the AGM to acquire 35 million shares in the market. I mean, your question is right. Why are you doing that instead of taking what you have in your hands? I mean, first of all, because that is not going to be the last shot. That means that we have -- we are going to go on with the buyback policy of the company. I mean, I'm going to enter on the debate about if we are going to redeem only the 200 million shares we commit in the strategic plan or more. As I said before, I mean, we have to go step by step. And today, that is the step we have to develop. And be sure that if we have room to do more things in the future, we'll do it, Jon.

And I'm going to your last point. Why to distribute some in cash and some in buybacks? I mean, first of all, I mean, linking all that with the purchasing program because I think that the actual -- the share is not reflecting the real value of the company. And I think that we have the opportunity to create value for the shareholders buying today shares of Repsol in the market. And we are going to do that in the framework of our program under the law to redeem the shares and so on. And we are going to stay keeping going these options that could come in the future. So that is the rationale behind the distribution combining cash and buybacks because we think that buying shares today is a better option for our shareholders than paying the dividend in cash. Of course, we combine both options because for some shareholders, cash is also an interesting option.

And I mean, if you take your models and you see the cash flow from operations we have had this year, what we expect in 2022 and the effort we are developing in terms of distribution and combining buybacks and combining cash dividend and taking into account that we are going to use 40 million shares that were acquired in 2021, I mean, you could see that all in all, we are more or less going back to a dividend that is close to EUR 0.9, EUR 0.87, EUR 0.88 per share all in all, the combination of both years. So every year, EUR 0.9, as I said. And we are going to grow in the future.

So we are almost -- a year after the pandemic, we are almost recovering the dividend we have before the pandemic in the past. And we are going to go on improving this distribution policy, Jon, if we have room to do that, always under a principle of financial prudence because if you take this figure, you could see that what we are applying in these 2 years, 2021, 2022 combined is below a 30% of the figure sitting with the cash flow from operations. That means that we are proud. We are mainstream in the sector in Europe in our sector in terms of distribution policy and expecting that we have room to improve the cash flow from operations in the future, this year, that we have also room to increase and to improve the dividend distribution in the future. That is true that I prefer to be prouder because, I mean, I have to go a step by step, taking into account the volatility we are seeing in the macro scenario. Thank you, Jon.

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

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

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

Two, if I could, please. First, following up from Jon's previous question on the cash return and specifically the buyback program, I think the acceleration around the 200 million share program is welcome. Thinking about it, though, in the context at this point of accelerating the program, I wonder if you could just expand on as we move forward, assuming that macro conditions remain above your \$50 base plan, what would make you think about expanding the scale of the program above 200 million shares as opposed to purely accelerating the time horizon of the program?

And then secondly, coming back to the Industrial business, in the context of the comments that you made earlier around the transitory nature of the derivative effect in 3Q, could you just clarify the EBITDA expectations that you have for the Industrial business this year within the sort of the EUR 6.7 billion total and how that compares to your strategic plan expectations?

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

So thank you, Matt. I mean, let me say, as I said before, that nothing is written on the stone. We have a guidance. The guidance is a strategic one, but be sure that we are going to follow the capital allocation policy I defined when we presented the strategic plan. That means that any extra cash under the principle of financial prudence and strengthening the balance sheet is going to be focused on growing in low carbon platforms, anticipating the future and increasing the shareholder distribution for our shareholders.

And I mean, today, the framework is 200 million shares. That's clear. But let me say that, that is going to occur, potentially evolve, depending on the cash flow from the operations, the macro scenario and, of course, the share price because if we are -- I mean, I'm talking about a hypothesis, a disclaimer. If we are in 1 year at EUR 15 per share, for instance, in Repsol, in that case, or EUR 16, perhaps could be better option to increase the cash part of the distribution and reducing or limiting the share buyback. I mean, because we are, in some way, preparing all these scenarios. For that reason, we are comfortable keeping going this 74 million shares in equity derivative instruments that I mentioned before to Jon.

But again, that is today the decision coming from the extra cash we are having today. And depending on the evolution of this cash flow from operations and the potential extra cash of the future, we could hypothetically take some other decisions in this line, as I said before, step by step.

Going to your question about the EBITDA expectation for our Industrial business in this year, what we expect this year is EUR 2.2 billion EBITDA in 2021. Let me underline, Matt, that I'm talking about net EBITDA, pure EBITDA. If I go into a figure of EBITDA at CCS, the figure this year for the whole Industrial business is going to be EUR 1.5 billion. If we compare with what we have in the Industrial area, what we have in the strategic plan for this year, 2021, was EUR 1.6 billion because we were taking, at that time, \$50 per barrel for the whole period. That means that [mid-form] CCS, it seems to me, I have to check the figure, that more or less will be the same in our forecast for 2021.

Let me say that the figure is more or less what we expected, we forecast in our Industrial area in 2021 in our strategic plan. The better Chemical business is in some way offsetting what we are losing in the Refining business because you know that over the last half of the year, the margin has been due to -- no expected growth of the pandemic. In Europe, it has been significantly lower than expected. And now we are starting to recover. And let me say what we are seeing by 2022 in margin terms is probably better than the expectations we have in our strategic plan for 2022 or aligned with the expectations we have. My point is we are recovering the prepandemic pathway. And in some way, we have been punished in the first half of the 2021 because the pandemic stayed, unfortunately, longer than expected over the forecast we had last year when we presented the strategic plan in November. Thank you, Matt.

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

Thank you very much, Matt. The next question comes from Alejandro Vigil at Bestinver.

Alejandro Vigil Bestinver Sociedad De Valores, S.A., Research Division - Senior Analyst

Josu Jon, I have a couple of questions about the low carbon strategy. One is about your thoughts about the different options you have to crystallize value in renewables and in the customer-centric activity. You're planning an IPO, private investors. If you can elaborate on that, please?

And the second question is about the European Union next-generation funds. How important are these funds for your strategy in low carbon, particularly in hydrogen? Which is the level of financial support you need from these funds to go ahead with your hydrogen projects?

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

Alejandro, I want to start with a thank you very much. Going to your question on the low carbon strategy, I mean, the most important thing, Alejandro, is that we go on performing, developing projects over the last quarter. We have launched the Valdesolar project in the Southwest part of Spain, the Kappa project, both solar, combined -- combining 400 megawatts of photovoltaic storage capacity, new capacity in Spain. We are starting to put in operation parts of the Delta 2 project in the Northeast part of Spain in Aragon, in this case, our wind farms. I have in mind that we put in operation 80 megawatts more or less of a part of this project in -- over the last weeks.

So that means that we are on track of increasing what we are doing in the renewable business. Cabo Leones is now working with a project finance that was signed this quarter. We are working on the Jicarilla project to get a reality from this potential option that we are analyzing now. I mean, all that is on track. And as I said before, when I present the strategic low carbon or the low carbon strategy at the 1st of October, I mean, we have a period of time. We are not in a hurry to incorporate a partner to this division. We want to do that

because we think that is important, the entrance of an equity partner or an IPO in this business. I think that, that's important from the point of view of -- to crystallize the value we are creating in this business, that would be important, but also to help us to find or to reduce the cost of capital of this business to be more competitive.

But in the meantime, I mean, we are improving our position. We are seeing opportunities. We are not in a hurry to do that because, I mean, it's not a financial problem. We don't need, let me say, this cash to go on growing in this business. But we have eyes on opportunities. I asked for 18 months to take a decision, and I'm still in the framework of this period.

Going to the hydrogen, I think that for hydrogen, being refiners, what is important is the current and the development of the European regulation related to decarbonization of liquids. That means that we could be competitive now producing highly renewable refineries because this refinery is going to be used to our own refining operations, building the hydrocarbon chain, hydro -- generating the oil we produce as feedstock. That means that this hydrogen, green hydrogen is not competing in price terms with the green hydrogen coming from the reforming process of natural gas, that is tip of that, competes with the alternative of palm oil that is coming from Malaysia or some other parts of the world.

So we have a clear, real and unique opportunity to develop this hydrogen business in coming 2, 3 years. Remember that Repsol today consumes 62% of the total Spanish hydrogen consumption. And on top of that, I mean, let me say, reducing CapEx in hydrogen through the next-generation funds could be a way to reduce risk of these projects, to reduce the CapEx intensity, to accelerate the learning curve of this hydrogen. And let me say what is important, of course, for Repsol but also for the Spanish society and for Spain, to be a reference in Spain leading the hydrogen -- the green hydrogen business in Europe. We have the opportunity to do that. Repsol could be the player. We are going to do it. And in case of having, let me say, some kind of public support with that, what we could do is accelerate this process. That is important not only for Repsol but also for the whole Spanish economy. Thank you. (foreign language) Alejandro.

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

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

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

I've got a couple of questions. I'm just trying to clarify on this buyback. So if I understand correctly, you're going to be buying back 35 million shares in the market between November and the AGM in May. At that point, you will get approval to cancel the 75 million shares. But then over what time frame will you be canceling the 75 million shares? So will you be canceling those at a faster rate than your 50 million per annum guidance? So that's just a clarification.

And my second question, maybe this is a stupid question, but why do you need AGM approval to cancel the shares from the buyback? Who sets those rules? Because it doesn't really distract from your investment case? And can you look to change those rules?

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

Thank you, Joshua. First of all, I can't be -- I can't give you the accurate answer. But let me say that our days, days could be 1 day, 2 days, 3 days or some days after the AGM, we will proceed to cancel, to redeem the 75 million shares. So that's the technical process that's today on your table to give you an answer, of course. Our team is going to check that, but we are talking about days, a couple of days or some days after the AGM.

Why do we need the other ones or the approval of the AGM? I mean, again, I'm not an expert, but to be sure, it's Spanish regulation. And I see -- [this seems] to me, but making sure that it's also a European Union regulation. I'm not sure on this last part. But be sure, that is Spanish regulation, ask for the approval of the AGM to redeem or to cancel such a significant part of shares. I mean, excuse me, I have asked a member, the legal member of my team -- yes. Okay. Thank you, Miguel. It's Spanish company law. So it's a Spanish regulation. Thank you.

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

Thank you, Joshua. Next question comes from Peter Low at Redburn.

Peter James Low Redburn (Europe) Limited, Research Division - Research Analyst

The first was just a question on the Refining margin premium. I think you said it was \$0.50 a barrel in 3Q, which was lower than 2Q. Can you perhaps explain some of the moving parts there and what level you might expect for the fourth quarter?

And then secondly, and really sorry, just another clarifying question on the buyback. But the existing 40 million of treasury shares that you already hold and that you plan to retire, can you disclose over what time period you acquired those shares?

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

So thank you, Peter. Starting by your first question related to the Refining margin premium, it's true, it was lower. The main factor, I have to check. I mean, first of all, \$0.5 per barrel is a good premium over the IMC. But the main factor, it seems to me, that is related to the power electricity prices in Spain. And I'm going to try to develop the rationale. We are even in our industrial assets. That means that -- I can't remember the exact figure, but we have 600 megawatts of coal generation, combining refining and chemical. And if we are, let me say, exporting to the system, more or less, 1.3%, 1.4% of the total Spanish consumption, what we are buying for our own needs in industrial assets are even with this exported.

In regulatory terms, due to this, that means that in the mid, long term, we are not impacted in any way by this debate about the power prices because we are, at the same time, producers and consumers. It's true that in regulatory terms, we have some kind of cap in the short term to the tariffs of the coal generations. And for that reason, we have had a negative temporary effect that is going to be redressed in coming weeks, months. So that's one other factor. The other one is also that in the second quarter, we have an extra premium coming from the biofuels market that gave us opportunity to improve the margin we have.

Going to the second part of the period, what we have more or less in mind is that the premium could be at around -- I mean, that is going to depend -- that is not a commitment because we could have operational problems, operational or market advantages, but it's going to -- at first glance, today, what I have in mind is that we could be at around \$0.5 per barrel in the quarter, taking into account that we are going to have a penalty coming from the maintenance program of a part to the refinery of Cartagena. When I say a part, because that is impacting a part of the distillation and on the coker of the refinery. So all in all, I think that \$0.5 per barrel could be a quite reasonable period.

Going to your question on buyback, I mean, the buyback, we have, at the beginning of the year -- I mean, at the end of 2020, I have in mind, we have, at that time, 18 million or 19 million shares in our balance sheet. So if we have at the end of September 49 million shares, it means that we have acquired 30 million shares over the whole period. I don't have in mind the total cash applied to this purchase, but I mean -- but we could see that we have invested around EUR 300 million over the whole year increasing the treasury stock of the company. Thank you.

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

Thank you, Peter. Well, that was our last question. At this point, I bring our third 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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