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REP.MC - Q3 2022 Repsol SA Earnings Call

EVENT DATE/TIME: OCTOBER 27, 2022 / 10:00AM GMT

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PRESENTATION

Operator

Hello, and welcome to the Repsol Third Quarter 2022 Results Conference Call. Today's conference will be conducted by Mr. Josu Jon Imaz, CEO; and a brief introduction will be given by Mr. 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 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. 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 to Josu Jon.

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

Thank you, Ramón, and thanks to everyone online for joining us today. I hope that all of you are well. In today's call, I'd like to cover the following main topics: First is the key messages; secondly, the performance of our businesses; third, a recap of our recent ESG Day held in London and some of you had the opportunity to attend; and finally, a summary of financial results and an updated outlook. Of course, at the end of this presentation, we'll be available to answer your questions.

To begin with, let me take you through the key messages. Last quarter was again characterized by an extremely complex and challenging environment. In a scenario of elevated energy prices, the threat to fund economic downturn and supply constraints generated a lot of volatility during the period.

The adjusted net income was EUR 1.5 billion, 30% lower than in previous quarter, due to lower oil price realization, in other words, downstream margins.

The cash flow from operations reached EUR 3.2 billion, 73% higher than in the second quarter, helped by a positive evolution of working capital. Net debt closed at EUR 2.2 billion, a EUR 2.8 billion decrease from June and EUR 3.6 billion lower compared to December. Debt reduction was driven by operating cash generation and the cashing of the Renovables disposal, partially offset by the July dividend payment and the acquisition of own shares through the buyback program. Gearing ratio stood at 7.3% by the end of the quarter compared to 17% in June.

In this dynamic unpredictable context, we keep moving faster towards our strategic objectives, accelerating the transformation of our portfolio, increasing the returns to our shareholders and maintaining a solid balance sheet to face uncertainty in any future macro scenario. In line with this transformation on the 7th of September, we reached an agreement with EIG to divest 25% of our Upstream division. This strategic alliance is based on the continuity of our business plan while offering additional optionality for this key business vertical. It allow us to crystallize value in a complex environment and leverage capital to accelerate the shift into our low carbon platforms.

This agreement comes after the partnership entered in June to grow our renewable business. Together, the 2 transactions will generate combined proceeds of EUR 4.3 billion to Repsol with an implied valuation of more than EUR 23 billion including debt for just 2 of our 4 business verticals. Regarding shareholder distributions, yesterday, we completed the share buyback program in place since the 28th of July that I announced that day and redeemed the 75 million shares committed in our previous conference call. Looking forward, aligned with our guidance of distributing between 25% to 30% of our cash flow from operations, the Board of Directors yesterday approved to increase the distributions of 2022 through an additional capital reduction of 50 million shares expected to be executed before year-end.

With this, we expect to have canceled 200 million shares in 2022, anticipating the commitment defined in our strategic plan by 3 years. Furthermore, the better price scenario compared with assumptions of our plan has allowed our Board to propose to the next AGM an 11% of dividend increase in 2023 to $0.70 per share. Let me finalize these opening remarks by reinforcing that we remain committed to our disciplined capital approach and our strategy of value over volume, always under a prudent financial policy as these are the factors under our control in the volatile scenario we have ahead.

Let me now briefly review the main macroeconomic indicators of the quarter. Brent averaged $101 per barrel, a $13 decrease quarter-on-quarter and $27 above the same period a year ago. The Henry Hub averaged $8.2 per MBTU, 14% above second quarter and 105% higher than a year ago. The average refining margin indicator remained well above mid-cycle levels despite high volatility, having fluctuated between $0 and $20 per barrel at different points of the quarter. Lastly, the U.S. dollar continued to escalate averaging $1.01 per euro, having surpassed parity in October.

Let's move on to the Upstream performance. The strategic partnership with EIG validates our commitment to the upstream vertical as a core division for our group. And with this deal, we are bringing a leading global investor that has proven capabilities to help us maximize the value of our E&P business. Repsol will receive proceeds of $3.4 billion for a total consideration of $4.8 billion, including debt. The deal implies an enterprise value of $19 billion for the 100% of the business, an attractive premium compared to benchmarks.

Repsol will maintain control and continue to consolidate the Upstream division in its accounts. The effective date of the transaction is at 30th of June of 2022 and closing is expected in the first quarter of next year, 2023. Looking at the quarterly results. Third quarter adjusted net income was EUR 0.8 billion, EUR 194 million reduction over second quarter and EUR 358 million higher than in the same period of 2021. Year-over-year results were driven by higher prices, higher volumes and on the stronger dollar, partially offset by higher costs and the impact of country exits.

Net production averaged 549,000 barrels of oil equivalent per day, 2% higher than in the previous quarter and 4% higher than the same period in 2021. Year-over-year, the connection of new wells in Eagle Ford and Marcellus and higher volumes in Trinidad and Tobago more than compensated for the impact of disposals and natural decline. Compared to the second quarter, the normalization of production in Libya and the increased activity and conventional more than offset the lower contribution of Peru. In Norway, the recent technical issues in Yme have been solved and production has been resumed.

Turning to the development activity. Last quarter, we took some important steps forward in 4 of our projects. In Alaska, the FID for the development of the first phase of Pikka was taken in August, with first oil forecast in 2026 and a gross production of 80,000 barrels of oil per day. The project has a carbon intensity footprint that is among the lowest in our global upstream portfolio. In unconventionals, we approved the third development phase of Eagle Ford, expecting a net aggregate production for the 3 phases of 60,000 barrels of oil equivalent by 2023. In Trinidad and Tobago, the development of Cypre offshore gas project was sanctioned in September. First gas is expected in 2025 with a gross peak production of 250 million to 300 million standard cubic feet per day. In Brazil, the go-ahead for Lapa Southwest is expected to be approved this quarter, November. In the Campos Basin, the joint venture is progressing with the Pao de Açucar project and the final investment decision for its development is expected soon.

Moving now to the Industrial division. The adjusted net income was EUR 638 million, which compares to a result of EUR 1.2 billion in the second quarter and EUR 100 million a year ago. Year-over-year, third quarter results benefit from the higher contribution of refining, trading and Peru, partially offset by lower results in chemicals and wholesale and gas trading.

In refining, the margin indicator averaged $12.7 per barrel, which compares to $23.3 in the previous quarter and $3.20 in the same period a year ago. The narrowing of product spreads and the increase of energy costs explain the reduction of the indicator over the previous quarter. The average premium in our unit CCS margin was $2.5 over the indicator. The utilization of the distillation and conversion units remained high, averaging 88% and 103% respectively. Unit availability benefit from the absence of any major turnarounds in the quarter.

The planned turnaround of Tarragona start on 23rd of September and is planned to last for around 50 days, 2 months. In the current context, we continue to manage our assets to maximize the output of middle distillates and reduce gas consumption. In this scenario that we foresee will benefit those players with enough flexibility to reduce their exposure to high natural gas prices and switch to lower cost liquids. Repsol has reduced its consumption of natural gas by up 50% compared to historical levels by substituting natural gas for other feedstocks in the hydrogen plants and fuel gas network.

Continuing now with the chemical business, the operating income turned negative in the quarter. Results were negatively affected by the weakness of polyolefins and intermediate products and the higher energy costs. The challenging environment for this business could be an advanced indicator that we are possibly approaching to an economic downturn. Demand drop is affecting almost all chemical sectors with increasing imports and high energy costs, causing a significant reduction in margins in Europe. Production costs have quickly increased, reflecting the difficulties with gas supply and the high cost of electricity.

Going now to the projects that are helping us transform our industrial complexes. In renewable hydrogen, the 100 megawatts electrolyzer in Cartagena and the 150 megawatts electrolyzer in Tarragona have moved into the engineering phase. Both projects are expected to begin operation in 2025. In Bilbao, the 2.5-megawatt pilot electrolyzer is expected to start production at the beginning of next year. The development of the future 100-megawatt electrolyzer in Petronor Bilbao is at its final basic engineering phase with potential FID before year-end.

Let me highlight that the electrolyzer in Cartagena and the 100 megawatts project in Bilbao have been qualified by European Union as strategic and of general interest being prioritized in this way of public funding for their development. In circular economy, earlier this month, we acquired a 27% stake in Acteco, a company specialized in the collection of recycling and recovery of waste in Spain. Lastly, the Ecoplanta project in Tarragona keeps moving forward with the engineering phase after being selected by European Commission to be fund -- through the innovation fund large-scale program.

Turning now to the commercial and renewable business segment. The adjusted net income was EUR 158 million, EUR 60 million higher than in the previous quarter and EUR 11 million below the same period of a year ago. Year-over-year, the better performance in Lubricants LPG and low-carbon generation didn't compensate the lower results in mobility and retail electricity and gas. In Mobility, sales in our service stations in Spain were 8% higher than in the third quarter of last year, but results were dragged down again by the impact of distance.

Our Waylet app has reached more than 5 million users as of today. The discounts applied by Repsol represent more than EUR 150 million in the third quarter for a cumulative total of around EUR 300 million since the beginning of this program in March. We anticipated to our competitors in Spain by voluntarily lowering the price of our fuels, and we maintain our commitment to soften the impact of high fuel prices and consumers. In

Retail, electricity and gas, we are very close to reach the 1.5 million Iberian customers targeted to the year-end. This month, we have reached an agreement to acquire a portfolio of additional 100,000 clients, allowing us to continue growing and growth is becoming an increasingly competitive market. In low carbon generation, the average pool price in Spain was EUR 146 per megawatt hour, 20% lower than in the second quarter, and the power generated by Repsol reached 2.8 terawatt hour, 23% higher than in previous quarter.

In September, we completed the sale of a 25% minority stake of our renewable business for EUR 905 million and the incorporation of the new partners reinforces our growth strategy towards the objective of having 6 gigawatts of installed capacity in operation in 2025. We currently have 1.2 gigawatts under construction in our renewable project pipeline. In Texas, construction began in the 600-megawatt Frye solar project, which is expected to start up next year. Moreover, through our participation in Hecate, we expect to incorporate the 629-megawatt Outpost Solar firm to our U.S. portfolio. So combining Frye and Outpost, we are talking about 1.23 megawatts of new projects in the States.

At this point, let me briefly review the main messages shared in our recent ESG Day, in which we had the opportunity with you to discuss our progress in Repsol's sustainability framework. Most of my talk there revolves around the importance of achieving A just transition that is fair for the people. For our society to become carbon neutral by 2050, we must have accessible, competitive and sustainable energy that supports social and economic development. A just transition is a concept that involves guaranteeing an adequate supply of energy, including hydrocarbons to meet the needs of present and future demand at affordable prices. The transition must also reinforce Europe's industrial base. Only with industry and talent we can grow in a sustainable way.

The elephant in the room is that the world is not reducing emissions. Since 1990s, Europe has cut its emissions by more than 30%, reducing the rate of industry in European GDP from 21% to 17% in the last 2 decades. And in that time frame, global CO_2 emissions have increased by averaging 44%. Climate change is a global problem, and we won't reduce emissions just relocating the European industry, moving CO_2 emissions elsewhere or stripping this CO_2 emissions under the carpet. Our goal should be to decarbonize the economy, not gas to electrify it. And the technologies that will help our society to decarbonize shouldn't be seen as antagonistic, but as a complementary.

To a large extent, Europe has given up producing its own hydrocarbons, but a single-minded commitment to electric mobility will make us dependent on other countries for rare minerals and precious metal. In this sense, the availability of efficient, sustainable, renewable fields will be crucial for a clean mobility and for decarbonizing sectors where electrification is not with the current technologies today an option.

Two of our presentation in London elaborated on the crucial concept of technology neutrality. I can't stress enough the importance that regulation will have to deliver our objectives. We can confer, for example, the very different approaches between the European and U.S. legal packages. I see the new inflation reduction Act approved in the U.S. as a more inclusive way to go, relying on technological neutrality and diversification as the best route to achieve the effective decarbonization of our economies.

Moving now briefly to the financial results of the quarter. Here, you have a summary of the numbers we have discussed when reviewing the performance of the businesses. For further details, I encourage you to refer to the complete documents that were released this morning. Now let me take you through our update outlook to the end of the year. In the Upstream, we expect full year production to average 550,000 barrels per day, around 20,000 barrels below previous guidance. The reduction is mostly due to Canada investments ramp up longer than expected in Yme and operational issues in Peru and some delays in unconventionals.

In refining, in the last few weeks, had tightening of the middle distillate market and the wave of strikes mainly in France, have brought margins well above the third quarter. The margin indicator has averaged more than $20 per barrel in October, and the utilization of the distillation capacity has been close to 80% due to the turnaround of Tarragona, while keeping our profitable conversion capacity evolved 95% even with the turnaround of Tarragona. The estimated full year cash flow from operations is between EUR 8.4 billion and EUR 8.7 billion.

CapEx is expected to reach EUR 4 billion, at the higher end of our previous guidance. And with regard to shareholder distributions, the clearer vision that we have at this point on the cash generation of the year has allowed yesterday our Board to approve the redemption of another 50 million shares before year-end. Of this, around 36 million shares will be acquired through a formal buyback program that is going to be launched in coming days, and the rest will be shares held physically acquired through derivative instruments.

The 75 million shares canceled in May -- the 75 additional million shares redeemed yesterday and the additional 50 million shares just approved yesterday again will make for a total of 200 million shares to be canceled in 2022. This is equivalent to 13% reduction of our share capital at the beginning of the year anticipating to 2022, all the share buyback commitments expected in our strategic plan until 2025.

In addition, the Board will propose to the next AGM to distribute a cash dividend of EUR 0.70 per share in 2023, an 11% increase, of which EUR 0.35 will be paid in January and EUR 0.37 later in the year. This comes after having increased the 2022 dividend by up 5% to EUR 0.63 per share. Total shareholder distribution in 2022 will be in the higher end of our guidance to distribute 25% to 30% of cash flow from operations. And moreover, the total distribution for the year will comfortably surpass the EUR 1 per share ordinarily expected in our strategic plan by 2025, combining, of course, the cash and the share buyback.

To finalize, let me briefly touch on the speculation these days on the windfall taxes or the so-called windfall taxes, better said. Like I said in our previous call, our industry is not a regulated business. So there are no windfall profits to tax. On the opposite, ours is a cyclical business affected by the turns of economy and characterized by volatility. The oil and gas sector doesn't operate with regulated tariffs that ensure profitability like some other sectors. We are in an industrial liberalized business. And the current profits don't compensate for the accumulated losses and negative returns we have had in the last 3 years. The windfall tax approved by European Union on the refining industry ados investor confidence, harms international competitiveness, and let me say, creates the seed of doubt on its capacity to invest in the transformation of the sector. In our view, the levies imposed on energy companies requires additional measures to mitigate these negative impacts.

To conclude, we continue to approach the current uncertain scenario with a solid capital discipline that we have, of course, in mind. And we are allocating the extra cash generated in this higher price scenario in accordance with the allocation priorities defined in our strategy, portfolio transformation, shareholder remuneration and financial strength. The strategic partnership in the Upstream renewables have allowed us to crystallize value in a complex environment, liberating capital to accelerate our shift to low carbon.

By the end of this year, we will have canceled all the shares initially forecast in the 5 years of our strategic plan. In 2022, the remuneration per share, we surpassed the objectives defined by 2025. Repsol is fully committed with achieving carbon neutrality in 2050. For this, we have a clear strategy, a streamlined organization and an operating model that is focused on this target and the team of people to make it happen. And orderly energy transition requires diversified service of energy. The transition towards climate neutrality must be just for everybody. This goal will be better achieved by guaranteeing security of supply and affordability pillar on technology and industrial development that, in turn, foster employment and social progress. With that, I mean, I think that I could now hand the conference call to Ramón. Thank you.

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

Thank you very much, Josu Jon. In case you run into technical problems, please contact us through our e-mail address, investor.relations@repsol.com, 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 go ahead.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

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

Thank you. 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*

Two, please. The first one is on the financial framework. When you commit to the 25% to 30% payout, is that on headline CFFO? Or is that after the minority payments, which was -- I guess, will start to ramp up post the Upstream sale? And then is your -- are you assuming anything on windfall tax in your 2022 numbers? And if so, how much? And then the second question is on the wholesale gas trading result this quarter. You mentioned some losses on the trading contract. Can you just confirm what exactly that was and whether that's a one-off or we should expect more of that into Q4?

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

Thank you, Biraj. I mean, we talk about the cash flow from operation. I mean there is no -- this year, any proceeds coming from the disposal of the E&P business because we are still on track in the process of closing. That is going to be done probably in the first quarter of 2023. In any cases, this cash flow from operation is going to be calculated before, I mean, any disposal. And there is neither disposals nor any kind of windfall tax in this figure.

I mean, I'm saying more, Biraj. More or less, it seems to me that growth we are committing in 2022, that means the share buyback, including the purchase program we are launching this break with this new 50 million shares that are going to be redeemed before the end of the year, plus all the shares redeemed before the year plus the current EUR 0.63 dividend that we paid in 2022, it could be probably in the high range of this 30% of cash flow from operations. So more or less, that is going to fit with a high range of this cash flow from operation calculated this year. Of course, that's going to depend on the evolution of coming 2 months, but we are going to be probably close to the 30%.

I mean, going to the wholesale gas trading, which is to me that we are asking about growth in our accounting this quarter. I mean, let me say that, first of all, accounting is mark-to-market position is related to our contract we have with Engie, that is a contract for gas trading. I mean it's not related to the gas we are using for supplying our industrial complexes. It's not -- nothing to do with the cash generation, I mean, it's only on accounting of the future mark-to-market position of these contracts, probably very impacted because the spread we experienced the last days of September between the TTF that is related to this contract and the Spanish internal -- PVB internal market that's had an important discount those days, that has been significantly reduced over this month of October. So it's mark-to-market position, and it's not going to have an impact on cash. I mean the cash generation of our gas trading wholesale business this quarter has been pretty good, more or less a free cash flow of around $300 million over the quarter. Thank you, Biraj.

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

Thank you, Biraj. Our next question comes from Oswald Clint at Bernstein.

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

You talked around the solid balance sheet you have and reaching your strategic objectives way faster than you would have anticipated. You also mentioned how much you like the U.S. inflation reduction act. So should we expect Repsol to make some accelerated moves or investments across clean energy in the United States and take advantage of these favorable tax credits, favorable economics? And if so, what technology may you look at? Would be the first question.

And secondly, please, just shorter-term refining margins, you mentioned $20 in October. I think in September, you had a lot of swings in volatility between 0 and $20. So -- but I'm thinking forward to some of the disruptions here with Russia coming up and also increased Chinese diesel flows perhaps coming around, perhaps into Atlantic Basin. How do you think diesel margins might behave or trend, let's say, over the next 6, 9 months or so, please, if you could?

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

So thank you, Oswald. I mean, going to your first question, I mean, you know that we are accelerating, in some way, our investment in the transformation process of the company, looking for a profitable growth in all our businesses, but with an important focus on the low carbon businesses. You also know that, I mean, we are prudent people. Let me say that perhaps at the beginning of a potential complex and volatile time, I mean, being a prudent and called CEO sometimes could have a negative valuation from markets, but I think that this is important. We are going to have opportunities in coming months, no doubt about that. We are going to see, I mean, across companies, we are going to see opportunities. And I think that we have to be patient. These opportunities are going to arrive, and we are going to try to execute them in a prudent way.

And in some way, we are doing moves in this direction you mentioned as well. I mean in the American renewable arena, now we have on track a project (technical difficulty) with more than 600 megawatts that will be in operation this year. On top of that, I mean, we acquired a pipeline from Hecate in April that is called Outpost, more than 500 megawatts, 600 megawatts. I mean combining both, we are going to invest EUR 1.2 billion. And on top of that, we have to consider that we are also analyzing some other opportunities, of course, in Spain and also in Europe and in the United States.

So these 2 operations are going to be -- are going to have a CapEx at around $800 million. It's a significant figure. And on top of that, I mean, we are also analyzing a potential growth platforms in some other technologies like wind energy in the States. But again, we are only to execute this kind of transactions, if we have a clear clue that is going to create value for our shareholders and it's going to give us a real opportunity to invest and create value in this business. But I mean, I think that this IRA is going to give us additional returns and opportunities to shift a part of our investments towards the United States.

Because as I mentioned before, I mean, sometimes the European policymakers approach is focused on banning and the American one, they are focused on encouraging and giving opportunities from -- under the principle of the technological neutrality.

Going to your second question, I mean, Oswald, I'm going to be very humble. I don't have a crystal ball. I mean, I don't know, in case of going on, unfortunately, in social, economic and political terms, with the current geopolitical tension in Europe, it seems to me that this very open diesel cracks are going to stay for coming months, why? I mean, first of all, because there is a real restriction to the imports of Russia on diesel, even let me say, in operational terms to diesel production in some Russian refineries, so all this product is not going to appear from some other parts of Asian geographies.

Secondly, winter is coming. You know that seasonally, winter is a period where diesel margins or diesel cracks are higher than in some other periods of the year. And third, I mean, it seems to me that taking into account the dreadful, the high natural gas prices we are seeing in Europe and in some other parts of the world, clearly speaking, all the parts of the world depending on LNG imports, diesel could be competitive in some places to substitute gas either for thermal application or for producing power in some geographies. So it seems to me that there is room to see high diesel prices in coming months. I mean, in the lack of good, but probably today unexpected deal in political terms about the invasion of Ukraine and the Russian conflict.

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

Thank you, Oswald. Our next question comes from Joshua Stone at Barclays.

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

Two questions, please. Firstly, coming back on refining. Clearly, a very strong result. If I look at the EBIT margins today, if my math is right, it looks like we outperformed the indicator by about $6 a barrel. You talked about premiums of $2.5, clearly costs are coming in better as well. So maybe you could talk about what's driving that very strong refining result this quarter and how much you think can stick around for the next quarter and beyond?

And then secondly, you've completed the buyback program early, you'd be looking into next year. How do you see the balance of returning cash to shareholders through dividends and buybacks? And is a special dividend something you might consider?

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

Thank you, Joshua. I mean going to the refining, I mean, what is driving the strong refining margin, but first of all, I mean, as I mentioned before, we had the CCS margin, was in the third quarter at around $15 a month. I mean there are 2 main drivers, and the main drivers are directly linked to the main features of the Repsol refining system. You know that we have a system that mainly is fed by heavy oil, mainly, I mean, a higher percentage than some other systems, close to 40%, 45% sometimes. And our main product of 55% are middle distillates. So what we feedstock and we have a higher margin in the products of refining.

So I mean, let me say that what is happening now in European markets fits in a very positive way to what is the main feature, the main pillars of the refining system of Repsol that we have built over the last 15 years, investing hard, it's true that we have invested more than EUR 12 billion in this system over the last 15 years to build these capacities.

But now we are taking the returns of all the effort of sustaining industrial jobs, sustaining industrial activities and investing EUR 12 billion over the last 15 years. I mean, after the share buyback program, I mean, I see the balance is strong. Let me say that I'm not uncomfortable having a strong balance. I mean, it's great, mainly when you have to -- I mean, you have to weather perhaps a complex macroeconomic time with any strong volatility in markets and with the risk of having a crisis in our geographies. I mean, I'm talking about Europe, North America and so on, perhaps worldwide. I mean I don't have any clue about the depths or about

(technical difficulty)

potential crisis, but let me say, I'm comfortable having a strong balance sheet for this period.

So we are not considering any special dividend. What we did today in terms of redeeming yesterday 75 million shares, launching today a new program that is going to redeem an additional 50 million shares before the end of the year plus increasing 11% the cash dividend to EUR 0.70 per share in 2023, I think that is the way to cope with the distribution policy to our shareholders that fits with a higher range of this 25%, 30% of the cash flow from operations, and that is the way we are going to follow also in 2023.

I mean our policy, our commitment is, first of all, to distribute next year a figure fitting with this 25%, 30% of the cash flow from operations. And we are going to go on with our share buyback programs in 2023 and 2024. And the dimension of this program will fit this percentage of the cash flow from operations. And let me say, I'm convinced that in the current macro scenario, there is plenty of room to fulfill in -- among 2023 and 2024, a minimum of additional 100 million shares more of buybacks that could reduce the number of shares of Repsol to a figure close to 1.2 billion shares. Why 1.2 billion shares? Is that a magic number? No, it's the number of shares we had in 2012 before launching the first scrip program after the complication of our YPF assets in Argentina.

I mean, I have the aim of going back to that figure, 1.2 billion shares in some way, redeeming the effort that our shareholders, they have, maybe to use the term, suffered in some way over the last 10 years for the consequence of that scrip we have to launch in 2012 after the disproportion of YPF. So there is room for new share buyback programs in 2023, 2024, and that is going to fit in this range of 25% to 30% of the cash flow from operations as a total distribution for our shareholders. Thank you, Joshua.

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

Thank you, Joshua. Our next question comes from Irene Himona from Societe General.

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

Congratulations, Josu Jon. I had 2 questions. Firstly, if you can possibly talk about the special charge, EUR 400 million you took on refining this quarter, it follows the Q2 charge of EUR 1.5 billion, I think. Can you perhaps share with us your view of what long-term refining margins you assume to take those impairments, please? And then my second question on balance sheet management. Excluding leases, you now have EUR 1.8 billion of net cash and the E&P disposal is yet to come into the balance sheet.

Obviously, we are at the top of the commodity price cycle. I wonder if you can talk around how you aspire to manage balance sheet versus distributions at the next downturn. So could we presume that you continue distributing 25% to 30% of, obviously, lower CFFO and that you would releverage the balance sheet to continue paying that dividend. And if that is the case, then how high would you expect to see gearing rising to at the bottom of this next down cycle, please?

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

Thank you, Irene. I mean, let me say that we have a very positive view about our refining in the short and perhaps the midterm due to what we are seeing now as forecast in this context, but taking that we have to be prudent, and we have to take into consideration that, I mean, the refining sector has threats coming from regulation, coming from energy efficiency, coming from an openness of another forms of mobility, and we are taking all these factors into consideration. I mean, going to this impairment of the refining business that was done in this third quarter, this EUR 400 million, I mean, is something additional to what we booked in the second quarter that goes around, I think I had the figure in mind of, EUR 1.1 billion, EUR 1.2 billion more or less.

But the -- what we have in mind when we analyze as we often do in terms of analyzing the free cash flow and the cash flows of every business to have the fair value and to compare with the book value we have, in the case of the test impairment of our refining business in Spain, first of all, we have taken into consideration higher margins this fourth quarter expected and higher margins in 2023 due to the geopolitical situation. We are also considering higher costs, I mean, because we have a higher inflation that is going to happen in the fourth quarter and probably in 2023 than expected.

We are also, I mean, taking in this whole basket of flows also the possibility of higher taxes, I mean, temporary levies in the energy business, and we have considered possible scenarios that are consequence of the European regulation or in the case of having a Spanish rule -- proposal, and we are also taking into consideration the WACC increase. I mean, due to risk-free euro interest rate, we have to take into account that this interest rate rise and the WACC increasing 0.4%, 0.5% comparing with June.

I mean, when we put all that in consideration, I mean, we have this fair value that compares with the book value we have. But I mean, again, we have a positive view about our refining business, taking into account all this consideration. I mean the fair value that we are taking for our business amounts to EUR 7 billion. So I mean that's a real value for Repsol. But we have to take into account all these factors when we are talking about having prudent in accounting terms.

I mean going to your second question that was linked, I mean the balance sheet. I mean, we are in -- and I'm comfortable with the current balance sheet. I mean, that is not a priority to go on strengthening the balance sheet. What we are going to do is, first of all, I mean, to invest and to grow, looking for opportunities to create value for our shareholders and growing mainly in the low-carbon platforms. In this sense, I'd like to underline that we have invested more than EUR 1 billion this quarter. I mean that's for Repsol dimension is a big figure.

We are going to invest EUR 4 billion in CapEx this year in 2022. I mean we are increasing, the figure I have now in mind is 50% more than what we invested last year. The figure is even of 15%, 20% higher than the investment level we have in the pre-pandemic period. I mean that means that we have projects. We have ambition. We are building platforms to invest and to grow, and that is going to be our first priority, of course, always getting and looking for returns. And on top of that, we are going to complement as we are doing this year. This investment effort with the distribution to our shareholders in an ambitious way.

And in this sense, I think that being close to this 30% of cash flow from operations as a total distribution figure, I mean, it's quite ambitious in terms of distributing to our shareholders. So that is our rem, not for 2022, also for coming years. And having, I mean, a strong balance sheet is some kind of guarantee to be able to fulfill all these targets we have. Thank you, Irene.

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

Thank you, Irene. Our next question comes from Mehdi Ennebati at Bank of America.

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

So it will be 2 follow-up questions. First one regarding the refining margin environment. Can you maybe tell us where is your refining margin indicator quarter-to-date? And where is it currently, just for us to understand how to position, how is it? Where is it compared to Q3, which was a strong quarter for the refining?

And the second question is that I understand that you are constructive on the refining margin in the short term, even in the midterm. But I wanted to hear your view, to hear your thoughts about the fact that China might decide or already decided, in fact, to export more oil products. And also what do you think about the fact that in the Middle East, some refineries might be starting soon and might also target the European deal market, which is extremely, extremely strong.

I am highlighting the negative points just to hear what you have to say. But I also understand that we will be missing around 300,000 barrel per day of Russian diesel exports probably from beginning of next year. But just wanted to hear your view. And the second question is about the Chemical business, which was pretty very strong last year, pretty strong in the first half of the year and which started weakening in Q3. Can you maybe tell us if you think that the chemical margin reached bottom in Q3? And you can already see a kind of improvement regarding chemical margin. Or would you rather say that the macroeconomic environment remains quite weak and this doesn't allow the chemical margin to improve in the short term?

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

Thank you, Mehdi. I mean, going to your first question, the figure I have now in front of me is that the average of the refining margin over the whole year in Repsol 2022 has been -- I'm talking about the margin indicator with no premium, $15.3 per barrel. This month, in October, $26 per barrel, and this is mainly, as I mentioned before, due to this combined effect of a higher diesel cracks, middle distillate cracks plus the discount in heavy oil, that is our main feedstock.

I mean I see -- I tried to go to your second question about the China and so on. First of all, I think that in some way, these Chinese and Middle East exports towards Europe are going to be needed in some way to compensate the product that Europe now lacks. I mean we have to take into consideration, I mean, you perfectly know, in France, Mehdi that -- I mean, now we are running out of Middle East, Eastern Europe in some European countries, so we need products. So it seems to me that this lack of Russian product that could be at around 500,000, 600,000 barrels per day of diesel has to be substituted, and I think that it's going to be helpful this Chinese and Middle East products.

But it seems to me that in the short, midterm, it's not going to push hardly down the diesel cracks. I mean I think that the refining margins, they are going to be pretty good even in this context. And I want to clarify because when we talk about our refining business and so on, I mean, I want to underline that on one hand, we are going to see a decrease of volumes in Europe in this gasoline in the long term due to regulation and so on. But on the other side, I mean, our industrial sites are growing and are going to grow in new products, new volumes and new margins.

I'm talking about biofuels, I'm talking about advanced biofuels, I'm talking about biojet, I'm talking about synthetic fuels, product linked to hydrogen and so on. So I mean, I have a very positive view about the capacity of our industrial complexes to generate new flows, new margins and the new cash flows in the future.

Going to the chemical margin, I mean, here, I have a bit more negative view in the short term. I think that fourth quarter is not going to be better than the third one in margins. I mean, sometimes I have defined our chemical business as some sort of canary into the mine because this -- our business is worldwide, is impacted by many different sectors, household goods, automotive sector, packaging, I mean, very linked to the global demand. And I don't like what I'm seeing in these markets worldwide.

So it seems to me that margins in the first quarter are not going to be better than the third one. Probably, I mean -- and that is not a commitment, it's a name and I think that we are going to be able to do that. Perhaps we are containing in a better way, the losers of the business because we are optimizing our operations. We are reducing the production in some of our plants and so on. So perhaps we will be able to manage in a better way the situation in this business. But international margins are not going to be better from my point of view. Thank you, Mehdi.

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

Our next question comes from Matt Lofting at JPMorgan.

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

Just 2 follow-ups, if I could, please. First, factoring sort of the points that you talked about earlier in terms of low balance sheet and sort of the backdrop, could you sort of share a sense at least on a range basis of where you see...

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

Excuse me, Matt. We have -- I mean we have a strong noise. May you please repeat your question? We have some noise problems. Excuse me.

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

Yes. Let me try again, and I'll speak up a little bit. Hopefully, that helps and keep the questions brief. First...

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

Sorry, Matt, I think it's a problem with the volume of your device, probably?

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

Is that any better?

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

Yes, we can understand more clear now there.

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

Okay. Sorry for any interference. I'll keep the questions short. First, can you give us a sense on a range basis, putting together the inputs that you talked about earlier around where you see at least the organic CapEx range for 2023, factoring in the sort of the inflationary backdrop?

And then secondly, I don't think you mentioned Peru earlier in the sort of the discussion, if I understood rightly according to headlines, that the lawsuit in Peru was admitted to court at the end of the summer. What's your latest understanding there?

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

Thank you, Matt. I mean, I'm not able now to give you any clue about the guidance of CapEx for 2023. I mean we'll do that in February. But I mean, let me say that I think that it's going to be a bit higher than the EUR 4 billion. I think that the figure is going to be above this EUR 4 billion, I mentioned before.

Going to -- I mean when I was talking about Peru before I was talking about the operational problems that Peru's petrol had in the E&P in the Malvinas plant that shut down the capacity we have to export gas for some weeks.

And I mean, going to the Peru downstream activities, I mean, first of all, let me say that I mean that we are fully committed, and we have concluded the containment, the cleaning phases, except in a very specific area that is called the Pasamayo where -- because the cliffs and so on, the advice of experts is to use a natural recovering process. I mean, all the rest has been completed in terms of cleaning. And let me say that all that has been done according to the best international practices and supported by the positive view of international institutions. I mean, saying that, the total cost stepped in potential fines has been at around EUR 383 million.

I'm here also including all the social part and the forecast we have for 2023, I think that a relevant part is going to be covered by insurance companies, 10% more or less of this figure or 13% has been already paid. And going to your question, I mean, we consider that this claim of in the copy has no merit -- that in the copy has not -- even the legitimation to go ahead with this claim from our legal point of view.

We are, I mean, preparing all these arguments and all these points to the Peruvian court. And we are, let me say, quite comfortable about the capacity of coping with this claim launched by -- in the company, not only against Repsol. I mean it was launched against many companies, including -- I mean, the company that grows behind the sudden movement that was at the origin of this spill that grows the Italian company owning the ship Mare Doricum. Thank you.

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

Next question comes from Alessandro Pozzi at Mediobanca.

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

Yes. Can you hear me? Hello?

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

Yes, Alessandro. Go ahead, please...

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

Yes. So the -- my first question is on the strategic transactions of this summer, very similar one. But I'm just wondering whether the end game or the rationale is also the same because, of course, in renewables, you have a lot of CapEx and strong growth ahead. In Upstream, probably is not quite the same. So I was wondering if at some point down the line, we could see Repsol having a minority stake in Upstream or whether you're happy to increase the disposal and basically selling more than what you have sold so far in the -- in your portfolio? And also the second question on Upstream guidance, if you can give us maybe the new assumptions around maybe Peru, whether you have fixed the operational problems and also maybe on Libya as well what you assume for those regions as well.

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

Thank you, Alessandro. I mean, let me split if you allow me at both disposals because I think that what is behind the renewable disposal was mainly -- I mean, the reconnection of the capacity of Repsol of building from the very beginning from the scratch business, a renewable business, that market was not recognizing the capacity of creating value in this renewable arena. And I think that is very important.

On top of that, of course, the valuation done by Crédit Agricole Assurances and EIP was fulfilling our expectation, so positive. And third, what is for me more important, they are not only buying at 25% of this business. They are endorsing. They are supporting. They are going to finance a growth project to achieve 6 gigawatts in operation by 2025 and 20 gigawatts in operation by 2030.

So that was the rationale behind this entrance of partners in the renewable. In the case of the E&P, the rationale is -- I mean of course, valuation was there. It's also to go on transforming the company. I mean, our aim is to allocate and to accelerate the transformation of the company, improving the business portfolio and fulfilling the low carbon targets. So that is going to help the company to go on transforming the company and accelerating the energy transition of Repsol.

But let me say, I mean, we have a full control of our E&P business. This business is a core business for Repsol. We are ongoing operating this E&P business. We are, of course, currently focusing completing the transaction. But what we are going to do in our E&P business is going to be to execute what we commit in our strategic plan, 2021-2025. So Repsol and our partner, EIG, we will be fully committed in delivering growth what we said in tour strategic plan.

So at the end, we have is to go on now disposing assets in the E&P. The main name we have now is -- I mean, to go on increasing their production. And in this sense, I mean, to fulfilling the commitment we have and the guidance we have of achieving a production at average of 630,000 barrels per day on average in the period 2023, 2025. I know that the figure is a bit below we said the last time, but we have to take into account that in the mean time we disposed the -- a part of the Canadian assets.

Going to our Upstream guidance, the Peru problem that was, as I mentioned, linked to the Malvinas plant is over. So Peru is today producing more or less Repsol net 45,000 barrels per day. Here, the main part comes from the Block 57. So the JV we have with CNPC and the part we have in Camisea is also included in this figure.

Going to Libya. I mean, let me say that in Libya, our current production, net Repsol, is more or less at around 30,000 barrels a day. I mean the production -- the average of the year has been a bit below this figure. We also have, I mean, some in August, some production problems that went the production down a bit that these problems were fully solved at the end of August. It was a problem of reparation of tanks and turbines and so on. I mean -- but all that is over. We continue operating in a normal way. And the gross production could be at around 250,000 barrels per day that fits with this figure of 30,000 barrels per day, I mentioned before as net Repsol.

I mean -- and I want to stress the fact that -- I mean, the fantastic work that the national oil corporation is managing in Libya to remain united and continue working with a great professionalism, trying to maintain the production on the exports of the country, I mean, in the general interest of the Libyan people. So we are very happy with them as a partner and also happy about the current figures in the country. And I mean and we are starting to work together in every positive way with the new Chairman of the National Oil Company in Libya, strengthening the historical good relationship we have in Repsol with this national company and with this country. Thank you, Alessandro.

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

Our next question comes from Giacomo Ramiro at Jefferies.

Giacomo Romeo - *Jefferies LLC, Research Division - Equity Analyst*

I have 2 questions left. The first is, I just want to go back to sort of your original CapEx plan that you had in your strategic plan. And should we now completely disregard what you had because obviously, EUR 4 billion this year, EUR 4 billion or even more than EUR 4 billion next year, feels like you're really drifting up versus that level? And sort of -- what sort of level of investments should we keep in mind going forward versus what you had in the previous plan. And within the context of the plan, should we now take the 25% to 30% CFFO payout sort of the payout that you will be looking to pay, not just in 2023, but also in the future years.

Second question is around the EIG transaction. Just wanted to know if I can -- you can share a bit more details around whether there is any agreement around level of spending or dividend distributions from the entity. And yes, and if you can provide a little bit more color in terms of potential use of proceeds, if you -- once you receive the payment from the divestments, if any of this could be returned back to shareholders or if it will all be reinvested into the lower carbon business.

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

Thank you, Giacomo. I mean, it's true. I mean the CapEx plan could be fit in line with the strategic plan in the whole view now. But it's true that in '21, we invest below the figure committed, clearly below the figure committed in the strategic plan. So what we are doing a bit in 2022, and it seems to me that it's going to be more clear in 2023 is recover this reduction of CapEx we had in 2021. We have to take into account that comparing with the figures of the strategic plan, I'm always adding EUR 1 billion additional CapEx in the low carbon that we commit in low-carbon Capital Market Day we had in October 2021.

Yes, Giacomo, I see here your second question. I note the 25%, 30% of payout as taken as a reference, the cash flow from operation is also for coming years. It's also for 2023 and 2024 and 2025 in the period of the strategic plan. So that is a commitment that I am taking for next year. Going to the EIG, I mean, let me say that we are very aligned in terms of the objectives. Of course, we have a company -- E&P company that has to be investment grade. That has to be, of course, self-funded, but it's also true that we are fully aligned in terms of creating value in the E&P and maximizing also the cash generation for the shareholders, so Repsol and EIG.

So saying that, I think that we are going to invest, of course, in the projects we have in our hands. The commitments we have in our strategic plan 2021-2025, are going to be the strategic road map of this shared company with EIG, but we are going to do our best, of course, to maximize the free cash flow we have -- we could get from this company. So the CapEx plan we had for the period 2021-2025 is now supported and endorsed by Repsol and EIG.

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

Thank You, Giacomo. Next question comes from Fernando Abril at Alantra. So waiting for Fernando, next question comes from Henri Patricot at UBS.

Henri Jerome Dieudonne Marie Patricot - *UBS Investment Bank, Research Division - Associate Director and Equity Research Analyst*

Two quick follow ups. The first one, just on the outlook for the full year on the cash flows. I wanted to check if you could provide us with the underlying macro assumptions that you're using for the fourth quarter, in particular for refining.

And then secondly, following up on the production outlook, you said flat in the fourth quarter. And then should we expect, given what you were saying about Peru, Libya that we could see a rebound in the first quarter and then a bit of a gradual increase through the rest of 2023 as you ramp up in the onshore?

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

Thank you, Henri. What we are seeing, I mean, of course, we've been very humble and prudent because I mean it's easier to forecast the past than the future. In oil price, what we are considering, and as we are taking as assumption is something close to $90 per barrel from now on until the end of the year. In Henry Hub, we are taking an assumption close to $5, $6 per MBTUs in the United States. And what we are taking as assumption in the refining margin could be, I mean, an average for the whole quarter that could be close to $15 per barrel, more or less.

It seems to me that we could capture a premium for that. But it is also true that, I mean, taking into account the figure we have now in October that as I mentioned before is $26, perhaps this $15 assumption would be perhaps overcome. The real figure could be a bit above this figure. In conversion terms, the conversion utilization percentage is going to be this quarter, something in between 95%, 100%. I mean, in October, we are 95%. It seems to me that November, we could be there or perhaps a bit above because we are going to exit from the turnaround at $15, $20 of November. And probably we'll have to be in higher figures in December.

Saying that, we don't have any additional significant turnaround this quarter after finishing Tarragona. And even what I have in mind is that in the first quarter of 2023, the only turnaround program we have is in Bilbao, linked to the hydro treatment plant that is going to impact a plant and a small unit in Coruña. So that is the only thing we have in the first quarter of the year. In Libya, what we are seeing now in October and I mean, it's a quite steady production this fourth quarter. Of course, with the information I have, there are factors that are not in my hands. But in October, we are there. And we don't see anything different.

Going to the production of the first quarter, we are going to have -- I mean, we are in the process of the ramp-up of Yme -- I mean you could say and why are you in the ramp up? I mean, because we have a water cut higher than expected in some major wells. That is not -- I mean, it's not a concern. The concern is that if we have a water treatment plant that is acting in some way as a bottleneck to treat this water. I mean all that is impacting the capacity we have to produce. Probably this quarter, we are going to be able to start injecting a part of this water in wells. So we are going to try to solve -- overcome this problem we have with the water cut. We are going to have 4 new wells in operation in this quarter and going to the unconventional growing, and we are going to add also production because the Cassia compression unit in Trinidad and Tobago. So all in all, we expect in the fourth quarter a higher production in coming 2 months that the average we had in the third quarter. I mean, Libya -- I mentioned Libya, so I think that I answered all your questions.

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

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

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

Hello. Could you hear me?

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

Yes, perfect.

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

Okay. Okay. Three quick questions. Thank you for the presentation. The first one is follow up on production. So I was wondering if you have any forecast for what production could be at the very end of this year, just in order to see what the production could be going forward. And then second question is with regards to the working capital. So you improved that figure in this quarter with nearly EUR 1 billion working capital inflow, but it is still minus EUR 2.9 billion this year. So I don't know if you can elaborate on this going forward as well. And then third question, if you can provide any update with your Venezuelan operations.

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

Yes, Fernando. I mean, the production at the end of this year, the production, as I mentioned before, we are going to grow the production this -- I mean, this quarter because this effect in Yme, Norway because the unconventional on Marcellus and Eagle Ford, and because this Cassia compression unit in Trinidad and Tobago. I mean I'm comfortable giving the 550,000 barrels per day as an average for the whole year. Saying that, it seems to me that, that would be the figure in October and November. But in December, we could be producing 580,000 barrels per day. But as average over the whole year, I mean, I think that 550,000 barrels per day could be perhaps the right figure to give you as guidance.

Going to the working capital, I mean, as you mentioned, we have reduced in EUR 1 billion the working capital this quarter. I mean, let me say that at 50%, 55% of this figure comes from volumes. I mean, a better optimization of volumes and 45% because prices. I mean, you could see that in our accounting, you have the negative effect of inventories in the net result. And this negative impact comes because we have seen a reduction of oil and product prices over the quarter. It's true that we have a positive -- I mean, outflows of working capital in EUR 3 billion this year. That is a mix. It's a mix of more activity. I mean, because Fernando, I want to underline that we are increased in an 8% sales in our service stations over the whole year.

We have increased in an 18% of sales in the wholesale market in Spain. We have increased our activity in lubricants. We have increased our activity at 30% in aviation. We have increased our activity in specialties. I mean -- and that is the working capital we need to operate. So an important part of this working capital build over the year comes from this increase of activity. Another part, more or less EUR 1.2 billion, EUR 1.3 billion, EUR 1.4 billion comes from price. I mean because the average of price now is higher than the prices we had in 2021. So we need more money, let me use the term, to build the same capacity of inventories.

And on top of that, it's true that we have developed and especially for this year to have a bit higher inventories because I think that guaranteeing the security of supply of our products in our main markets, Spain and Portugal is also a priority for Repsol. It's part of our social responsibility and is part of the commitment we have with the Spanish and the Portuguese society because they are the main markets where we operate in Europe. So we have increased in this sense the working capital.

Saying that, I can't give you a full clue about the end of the year, but let me say that in case of going on with the current prices, I mean, oil products and gas will improve in EUR 300 million or EUR 400 million, I mean more inflows. So a reduction of the working capital we need to operate in the end of the year. So going forward, we will see something similar, not in the same figures we see -- we saw in the third quarter.

In Venezuela, I mean we are operating in the right way. We are increasing a bit at around 530 million, 540 million cubic feet per day of gas production in carbon. You know that from May on, we start receiving -- lifting cargoes to pay the bills from the gas we produce in Venezuela. And I mean, we think that this increase of production, this effort to optimize the production we have in the country and the payment of bills will continue in the future.

And let me say that is important not only for Repsol is important, of course, for the E&P of Repsol is important for the downstream and for the Spanish refineries because is giving us the opportunity to increase the utilization of the conversion units and that is important in terms of supply in the Spanish market. And let me say that it's important for Europe because in a moment where the Russian -- we lack the Russian oil because the conflict and the world we are experiencing in the European continent. I mean to have additional alternatives to supply Europe is also important. Thank you.

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

Next question comes from Ignacio Doménech at JB Capital.

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

My first question is on the Mobility business. If you could remind us what was the impact from mobility discounts in Iberia during the third quarter? But also, how should we be thinking in Q4 and also going into 2023? And my second question is seeing in renewables. I was wondering if you are comfortable with your current portfolio in Iberia? Or would you be looking to accelerate opportunities? And if so, maybe the size and the technologies to reach your mid-term objectives.

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

mean, going to your first question, I mean, the impact this quarter of the discounts we are applying in our service stations is around EUR 150 million. So we are incorporating EUR 100 million of -- let me say, discounts of -- in the P&L of this business this quarter. And it's a figure that is very similar to the quarter we had before the second quarter. So all in all, I think that we have invested more than EUR 350 million since the beginning of the policy we launched in March, anticipating our competitors and even governments.

In terms of, I think, being close to our clients, and the Spanish society in a moment that is very difficult for them. We are trying to push our P&L down, close to 0 in this Mobility business. I mean, we mustn't go to the negative because, I mean, there are competition rules that has to be applied. But I think that is our way to show and to demonstrate the social responsibility of Repsol being close to our clients.

It's also true that we are taking advantage of this investment, first of all, to increase our market share in Spain. We have increasing almost a 5% market share we have in this business in Spain. That is good news because we are preparing the ground -- paving the ground for the future. And on top of that, we are increasing in a dramatic way the loyalty policy and the digital customers of Repsol. Remember that we had a figure slowly -- slightly sorry, below 2 million users of our app, Waylet in February at the beginning of this year. And now we achieved EUR 5 million (sic) [5 million] of users. I mean, you know that we are the most used app in the Spanish market. And on top of that, I mean, that could be anecdotic, but some weeks in April, we were more downloaded in the Spain, even the TikTok and Whatsapp. I mean that is a proof of the success of our digital tool.

Going to renewable, I mean, we are -- first of all, we are happy with our position in Iberia. But being happy, I mean, we want to go ahead in this position we have. We are now investing in the construction process of Delta 2 in Aragon. The large project we call Delta 2 is 800 megawatts, 830 megawatts more or less, 250 megawatts of them are in operation, and we are building the others. We are also building a PI in Castilla, in Palencia Valladolid area wind projects. We are also investing and building in Sigma, Sigma is in Cádiz, is solar, 200 megawatts, 250 megawatts. We have some other projects in beginning in Valencia, 300 megawatts more or less.

And on top of that, I mean, we are trying to increase our pipeline, mainly in the green technology because, I mean, in wind, we are seeing a better way to capture price because the solar energy is producing the whole Peninsula at the same time, the same days. In the green, you have the possibility to capture prices at better hours. And in the long term, we are analyzing with our partners of Ørsted, a potential possibility to invest in the Spanish shore in the seats around the Iberian Peninsula in the offshore technology. So I mean we are comfortable, that's true, but we want to go on growing in a market where we are happy to be there.

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

Next question comes from Peter Low at Redburn.

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

Just one final clarification on the structure of the EIG deal. I think it's been asked a couple of times, but I didn't quite catch the answer. Will the Upstream business pay out dividend to EIG in the coming years once it completes? And is there any policy around that, that's been agreed that you're able to share? I'm just trying to understand the cash flow impact once the transaction completes.

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

Yes. I mean we have a full alignment between the 2 partners. We are endorsing both partners, the strategic plan. That means that we have also fully aligned about the target of extracting value, and we are fully aligned about the target of restructuring free cash flow of this business. So the dividend will be paid after the CapEx, always under the principle of maintaining the debt commitments of this JV we have. But I mean, be sure that's increasing or having a pretty good free cash flow is going to be a target share by 2 partners, a 75% of this free cash flow will be, of course, in the hands of Repsol and at 25% in the hands of EIG.

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

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