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CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

Alastair Roderick Syme *Citigroup Inc., Research Division - MD & Global Head of Oil and Gas Research*

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

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

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

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

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

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

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

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

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

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

Pedro António Alves *Banco BPI, S.A., Research Division - Research Analyst*

Sasikanth Chilukuru *Morgan Stanley, Research Division - Equity Analyst*

PRESENTATION

Operator

Hello, and welcome to the Repsol First Quarter 2023 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 First 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, let me draw your attention to our disclaimer. During this presentation, we may make forward-looking statements based on estimates. Actual results may differ materially depending on a number of factors as indicated in the disclaimer.

I will now hand the call over to Josu Jon.

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

Thank you, Ramón. Good afternoon to everyone, joining us in this conference call. Today, I will start with the key messages before moving to the business performance and financial results. At the end, I'll provide you with our updated outlook for 2023.

After the presentation, we'll be available to answer your questions. Starting with the main messages. The complex and volatile environment that we experienced last year continued during the first quarter of 2023. The turbulences in the financial sector intensified the concerns of the possibility of a recession, adding further stability (sic) [instability] to the commodity market.

Oil price fundamentals remain largely unchanged, but market sentiments seem to pay more attention to the uncertainties about the measures to tackle inflation. Furthermore, the threat of economic slowdown aggravated the situation of the gas markets with most price preferences decreasing significantly quarter over quarter as temperatures and demand both turn out below expectations.

In the Industrial side, the refining environment remained robust as the pressure on Middle East debt spreads largely offset by stronger naphtha and gasoline differentials. The petrochemical business continued to be affected by low demand with margins impacted by increasing imports and high energy costs.

In this scenario, Repsol delivered a solid first quarter across all its 4 business verticals, supported by a sound operational performance aligned with the expectations shared with you in our February call. In addition, we closed the disposal of a minority stake in the Upstream business to EIG, cashing in the EUR 1.9 million initial payment. And in renewables, we finalized the acquisition of Asterion and acquired another 250 megawatts of renewable development projects in Spain to (inaudible).

Looking at the results, the adjusted income was EUR 1.9 billion, 7% lower quarter-on-quarter and 78% higher than in the same period a year ago. The cash flow from operations stood at EUR 1.8 billion, 35% below the previous quarter and 68% higher than a year ago. Cash generation was negatively impacted by a EUR 0.6 billion working capital buildup, mostly related to higher stocks in preparation of maintenance activity and an increase in trading positions.

Looking ahead, we expect that for the most part, this impact will be reversed in coming quarters. Net debt, including leases, closed the quarter at EUR 0.9 billion leaving our gearing ratio at 3%, which compares to the 8% ratio as of December of 2022.

Capital allocation remains aligned with our strategic framework with our focus on resilience, CapEx flexibility and value creation for our shareholders. Our strong financial position has been further reinforced with the cash-in of the EIG transaction allows us to navigate the volatility of this part of the cycle investing in profitable growth opportunities in our portfolio and delivering on our shareholder remuneration commitments. In this sense, we are proposing to the next annual general meeting to be held on May 25, an 11% dividend increase in 2023 to EUR 0.70 per share. Of this, EUR 0.35 were already paid in January, and the remainder EUR 0.35 will be paid later in the year.

Dividends will be complemented with share buybacks, aligned with our objective to distribute 30% of the cash flow from operations to our shareholders. In March, we started the 35 million shares buyback program announced in February with the intention of [consolidating] a total of 50 million shares before the end of July. Additional buybacks are expected later in the year, reaching the upper part of our distribution range. And let me say that being more specific, we'll launch a second buyback program in the conference call of July.

This buyback program will have the aim of redeeming an additional amount of 50 million shares. That means we are going to reduce this year our number of shares in a minimum of 100 million shares that combined with a cash dividend of EUR 0.70 per share, represents a total distribution of around EUR 2.4 billion in 2023. That is going to be the distribution framework for this year.

Let me now briefly review the evolution of the main macroeconomic indicators in the quarter. Brent crude averaged $81 per barrel, an $8 decrease quarter-on-quarter and $21 below the same period a year ago. The Henry Hub averaged $3.4 per million Btu, 46% lower than the previous quarter and 32% lower than a year ago.

Gas prices in Europe follow a similar trend impacted by the softer temperatures and high storage levels. Repsol's refining margin indicator averaged $15.6 per barrel, around $3.3 lower than in the fourth quarter and $9 higher than a year ago. Lastly, the exchange rate averaged $1.07 per euro, recovering much of the ground lost in the last part of 2022.

Moving now to the Upstream performance. The adjusted income rose EUR 0.5 billion in the quarter, 35% lower in the same period of 2022 and 21% lower quarter-over-quarter. The contribution of a higher production was more than offset by weaker oil and gas price realizations and higher costs. Production averaged 608,000 net barrels of oil equivalent per day, a 10% increase quarter-over-quarter and 9% above the same period in 2022.

Year over year, first quarter volumes benefit from the startup of new wells in unconventionals. The incorporation of the recently acquired position in Eagle Ford, lower unplanned downtimes and a stable production in Libya. These effects more than compensated the country executed in 2022 and the natural decline of the fields.

As discussed in February, the development activity focused on the efficient delivery of projects with FID taken and production growth was on track. In the U.S., we are closely monitoring gas prices and costs in the region, for adequate activity in unconventionals, if necessary, in response to changing market conditions.

Moving forward in Alaska drilling activity for the first development size of Pikka will start this quarter, and the project progresses as planned towards achieving first oil at the beginning of 2026.

In the Gulf of Mexico, the drilling campaign in Leon, Castile start in February, and the development of Shenzi North is expected to reach first oil by the end of the year. Continuing now with Industrial division, the healthy refining margins we saw in the first quarter and the solid results in wholesale gas and trading more than compensated for the ongoing weakness in petrochemicals. The adjusted income stood at EUR 1.3 billion, 11% higher over the last quarter of 2022 and around EUR 1 billion higher than in the same period a year ago.

Year-over-year, the first quarter benefited from a higher contribution of refining, higher also include trading and wholesale and gas trading partially offset by lower results in chemicals. In refining, the margin indicator averaged $15.6 per barrel, which compares to the $18.9 achieved in the last quarter of 2022. The narrowing of middle-distillates spreads pressured by higher diesel inventories and elevated levels of Russian imports ahead of the sanctions also largely offset by wider naphtha and gasoline differentials. The premium generated in the unit CCS margin was $4 over the indicator.

The average utilization of the distillation capacity was 83%, slightly above previous quarter. Utilization rate of the conversion units reached 100% in line with the fourth quarter of 2022. Maintenance activity included the planned turnaround of Bilbao as part of its multi-annual maintenance schedule.

During the first quarter, we continued to process Venezuelan crude that was received in the last months of 2022. In addition, we have received new cargoes for a total of 1.6 million barrels of oil that will be processed through the second quarter.

In Chemicals, the margin indicator was 10% below the fourth quarter of 2022 and 15% lower year-over-year. The demand situation remained depressed in overall terms. A combination of high energy prices, production adjustments and weak demand continues to affect nearly all chemical sectors in Europe. In Portugal, construction of the expansion of the Sines petrochemical complex starting March after getting all the environmental permits and completion of engineering and main procurement works. We expect to invest EUR 650 million in the project that is part of our strategy to transform our legacy industrial sites into multi-energy hubs. The project includes building 2 new polyolefin plants with a production capacity of 600,000 tons a year of high value added and fully recyclable materials.

Let me also highlight that the EUR 300 million loan that the Spanish Official Credit Institute that is called ICO grant to Repsol last week, which backs our commitment to the transformation of our sites, innovation and maintenance of our industrial activity in Spain and Portugal.

Finally, in Bilbao in partnership with Saudi Aramco, we took another important step in our industrial transformation with the final investment decision for e-fuels thermal plant that will produce synthetic fuels using green hydrogen and CO2 as raw materials.

Turning now to the customer division. The adjusted income was EUR 174 million, 9% higher quarter-over-quarter and 83% above the same period a year ago. All businesses in this division contributed to the year-over-year improvement. In Mobility, sales in our service stations in Spain, sales were 12% higher than in the same period of 2022. The impact of the discounts applied to our customers was more than compensated by a higher market share, again, thanks to the successful loyalty initiatives implemented last year.

Our Waylet mobility app surpassed 6 million clients in March, reaching another milestone towards the objective of having 8 million digital clients in 2025. Moreover, the accelerated growth of our digital client base allow us to take another step in the development of our multi-energy commercial offering.

Starting in April, a new ambitious energy proposition that has been built around Waylet will need discounts to our clients in Spain to a multi-energy portfolio of products. With this program, we aim to retain most of the market share gain since 2022. And at the same time, we aim to increase the integrated margin capture in the whole commercial chain.

In Retail, electricity and gas compared to the same period in 2022, first quarter results benefit from the sharp decline of electricity pool price in Spain and a cheaper gas which has a positive impact in the energy sourcing costs of our business.

Moving now to low carbon generation, the power generated by Repsol reached 2 terawatts hour in the quarter. 5% higher than in the same period last year. The adjusted income was EUR 34 million, 21% higher than a year ago and EUR 27 million higher than in the previous quarter. Year-over-year, the higher results in Renewables division reflect the higher generation and the entry of new projects under operation.

The development of our renewable project pipeline continued in the first quarter. In Spain, we commissioned the first turbines in the PI wind project that's in the Castile and Leon by our Palencia and we have 2 new wind farms under operation to Delta II in Aragon.

In addition, we took the FID of our first fully greenfield projects in the country, the Villena and Trillo solar plants, 320 megawatts, all in all, demonstrating how Repsol can also develop projects that are designed from the ground up, I mean, greenfield projects.

In Chile, the Atacama wind farm, became in generally our second joint project under operation there. By the end of February, we closed the acquisition of Asterion Energies for EUR 570 million, incorporating a portfolio of 7.7 gigawatts mainly in Spain and Italy, of which 2.5 are at an advanced stage of development.

The acquired assets reinforce our ambition to reach 2025 and 2030 generation capacity targets. And finally, during the quarter, we incorporated another 250 megawatts to our portfolio, 150 wind and 100 solar. These projects are in advanced development phase through the acquisition of 3 wind farms and 2 solar plants from developer ABO Wind. This recent inorganic transactions are aligned with our focus in low-risk efficient markets. We currently have 1.9 gigawatts of renewable capacity in operation and 1.3 gigawatts under construction. So we are confident on reaching 2.75 gigawatts of installed capacity by the end of 2023, being United States, the main contributor to this Delta -- to this growth.

Moving now briefly to the financial results. In this slide, you may have a summary of the figures that we have discussed when reviewing the performance of our businesses. Let me highlight that following the sale of the 25% stakes of our Upstream and renewables businesses, we have reviewed the measures used to report the performance of our operating segments to facilitate that our financial information adequately reflects the company decision-making and to ensure comparability with previous years. The newly defined adjusted income represents the total income managed by Repsol before noncontrolling interest. Of course, in our financials, you may find the detailed breakdown of the adjusted income corresponding to minority interest in each segment.

In addition, the former commercial renewable operating segment has been split in 2 divisions. Customer comprising all the commercial businesses and low carbon generation, which includes power generation for renewable sources and CCGTs. The rest of the divisions remain unchanged. This way, our operating segments better reflect the company model, providing more visibility on the performance of our main growth vectors. For further details, of course, I encourage you to refer to the complete documents that were released this morning.

And let me now review our update outlook to the end of the year. Going forward, we continue seeing volatility in the commodity prices, but we are confident that our strong financial position will allow us to face the ongoing uncertainty in the markets. Refining margins have experienced a significant decline since the beginning of April, and the margin indicator has hovered in the $6 per barrel range, the relative strengthening of gasoline has not offset the weakening of middle distillate differentials that were mostly affected by the elevated levels of diesel inventories that were built some months before, in the eve of the sanctions of Russian products and the return of French refineries from the strike.

Despite this decline, we keep foreseeing healthy refining margins for the rest of the year. And this view is underpinned by the recovery of demand in China supported by the solid first quarter GDP figure released last week and by a higher level of compliance of the sanctions to Russia that we rely on European authorities to enforce in a serious way these sanctions in this war environment we are suffering and experiencing and gradual recovery of the aviation sector.

Year-to-date, our refining margin indicator has averaged around $14 per barrel, which at this point, prompt us to maintain and change our $9 average margin indicator guidance for the year. In the Upstream, the group production performance of the first quarter has extended into April. Year-to-date, volumes have averaged around 605 barrels per day, and our full year guidance remains unchanged. On a yearly basis, we expect to average between 590,000 and 610,000 barrels per day of production, supported by the contribution of the new wells in unconventionals, higher volumes in Trinidad and Tobago, and lower downtime compared to 2022.

With regards to gas prices in the U.S., we foresee price to remain constrained in 2023 as high inventory levels would be enough to cover LNG exports and domestic demand.

The organic investment executed during the first quarter of the year was EUR 1 billion, a bit below the average we have for the whole year. Looking forward, we maintain the flexibility of our CapEx budget, considering the weight of unconventional activity on it.

Shareholder remuneration is expected to remain in the higher part of our cash flow of operations distribution range, as I mentioned before, 30% with this commitment, I mentioned before of a new shareholder buyback of 50 million shares that we will launch in July in the conference call of the second quarter with room if there is room for that in October to add an additional buyback in case of not achieving this 30% of cash flow from operations, but always in this range of EUR 2.4 billion of total distribution over the whole year.

Let me say that the figures we are using to calculate this 30% is going to be the consolidated operating cash flow of the group before subtracting the dividends corresponding to our minority partners in Upstream and Renewables. And we are also excluding from these figures, one of cash impacts, not recurrent like the payment made -- is going to be made, like I said, to settle the Maxus litigation agreed last quarter.

In addition to the 11% dividend increase and this share capital reduction of 50 million that is going to be proposed to the next AGM, new buybacks will be approved later in the year, as I mentioned, 50 [million shares] in July to reach our cash distribution target. In the second quarter results conference call, we expect to provide and to announce this new buyback, I mentioned before.

To conclude, we have started 2023 in a very positive tone delivering a very solid quarter of operational performance and financial results. The first months of the year have demonstrated the strength of Repsol's integrated model and our commitment with growing value in our asset base. We maintain a disciplined capital approach, investing in the best energy projects with a focus on shareholder value. The recent refining margin contraction and weaker gas prices in the U.S. could indicate a change -- some shift, let me use the term in the recent macro trends, but I'm confident that our strong financial position will allow us to withstand comfortably the ongoing volatility that we anticipated in coming quarters.

It's still soon to know if this trend will consolidate, but in our view, the recovery of Chinese economy and the increased difficulties for Russia to continue sending diesel into Europe will contribute positively until the end of the year. In the meantime, the current market environment is more than sufficient to sustain our transformation and the delivery of our long-term goals.

Last year, we took advantage of a favorable commodity price context to progress in our strategic objectives. And any change in the commodity cycle will not alter our ambitious neither the past we have defined to deliver the transformation of Repsol and to deliver our solid distribution policy for our shareholders. We are looking into a transition not a revolution. So even if things are beginning to change, our approach remains intact.

With that, I now hand over to Ramón. Thank you, Ramón.

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

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

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

Thank you, operator. We move on to the Q&A session. Our first question comes from Oswald Clint at Bernstein.

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

Yes, first question, let's -- starting with the gearing at 3%. I think they'll probably end up as the best across the sector, but you mentioned it's to help you withstand the current volatility, but I'm sure you're always looking at new profitable new ideas, new investments. And I'm just curious if there's any change in which pool or bucket that you might be looking at today? Is it still very much clean energy focused? Or is there any appetite to perhaps look at exploration as well given we're seeing a little bit of a pickup elsewhere. That's the first question, please.

And then just downstream, perhaps Josu Jon, you're always very good at just talking around demand here for your products across the region. At least as we look into the second quarter, but also what you're doing here with commercial margins? You've offered this big discount. It's obviously been eroding some of your commercial margins certainly within retail. You've changed that up a little bit, I think, at the end of March. So how do you think that plays out now over the summer? Is that going to be a net positive to commercial retail margins?

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

Thank you Oswald. I mean, first of all, as I mentioned in my speech, you see that we are going to take advantage of this low gearing to push some other policies and targets of the company ahead. For instance, the distribution for our shareholders. I mentioned that in any case, we are going to reduce the gear the number of shares we have in a minimum of 1 million shares. That means that, I mean, in case of having a worst environment over the year, and it will be even possible that our distribution over the year will be above the 30% of our cash flow from operations, so nothing happens. We have a strong balance sheet to do it and we are going to take advantage of this strong balance sheet also to push and to have a solid distribution policy for our shareholders.

Saying that, as I mentioned in the first quarter conference call, upsetting our communication team with my statement, my aim is to be the most boring CEO in the world. So being boring is compatible with a small and medium acquisition to help us to transform or to accelerate some businesses. But I mean, if someone expects a big acquisition, that is not going to happen.

So what we are doing is applying the capital allocation policy we defined in our strategic plan in 2020. So we are investing either in legacy assets. I mean this year, the 45% of our CapEx is going to be devoted to our exploration production business. We are launching our strategic plans in this business. Securing in some way of guaranteeing a production above 600,000 barrels a day for coming years and we are investing in the transformation of the company. Transformation, let me say, in 3 main or with 3 main targets. The transformation in the client side. So we are building this multi-energy offer. We are growing in a strong way in the retail electricity and gas business in Spain. We are building this multi-energy offer. You could see that we are improving our EBITDA and our EBIT in the commercial business, and that is because we are growing.

So going to your second question, let me say that I mean, of course, we are going to apply any kind of attractive offers to our customers with a target. I mean, the target has to be to maintain in a huge way, the increase of the market share we had last year. I mean, we have more sales, we have more market share, we have more royalty in our customers. We have increased in a dramatic way, the number of users of Waylet 6 million users in Spain is a huge figure. And all in all, we want to be attractive for our customers and offering them also some other services. You could see that now we have overcome some other competitors, and we are already the fourth company in terms of customers in the retail power business in Spain. We are going to grow more in this line, investing and growing this business.

And the 2 other vectors or objectives of this growth are going to be the transformation of our industrial business. You have seen that we are increasing in our eco-fuel and bio production. What you are seeing in terms of premium of the refining margin, there are many reasons behind this figure, but the eco-fuels, the biofuels, advanced biofuels are also there, are also part of this improvement of the competitiveness of our industrial business and that is going to improve in coming months after the start of the operation of the first on-purpose plant that is going to produce advanced biofuels in Cartagena.

And the third driver, the third target is, of course, the renewable business. I mean, we have significant [price there]. We maintain our target of 6 gigawatts in operation by 2025. Today, we have 1.9 gigawatts in operation in Spain, U.S. and Chile, and the clear target we have is to achieve the figure of 2.75 gigawatts in operation at the end of this year. We are quite confident about this figure because today, we have already 1.3 gigawatts of new projects that are in the construction process.

I'm going to the E&P of course, will always in terms of optimizing, improving the portfolio, we'll analyze opportunities. And the best proof of that has been the inorganic acquisition of INPEX in Eagle Ford, that has been incorporated and is behind this inorganic CapEx you have seen in the first quarter, I mean, to improve the portfolio of our E&P business.

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

Okay. Thank you, Oswald. Our next question comes from Biraj Borkhataria at RBC.

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

So, 2 questions, please. The first one is just on your CapEx plan for the year. You referenced reviewing U.S. activity because of the gas price and so on. Could you just remind us what proportion of the EUR 5 billion CapEx comes from U.S. onshore and specifically related to gas?

And then the second question is just going back to shareholder returns. You've touched on this a few times. But in the past year, Josu Jon, you've talked about wanting competitive shareholder returns relative to the IBEX and then relative to the peer group. Is that still how you think about things? Because it's just 1 example of a peer that's similar to you are sitting on a very healthy balance sheet, generated excess cash flows and you decided to pay out well above 30% CFFO. So I was inclined to think that maybe the payout ratio would move above your range given the materiality of the cash you received from the asset sales. So just interested to get your thoughts on how you've landed on the 30%.

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

Thank you, Biraj. I mean going to our CapEx. I mean, if we see the whole company, it seems to me that more or less this year, something between 32% to 35% of the total CapEx of the company, including E&P and including what is renewable business is going to be applied in the U.S.A. Going to the E&P, excluding the Gulf of Mexico, excluding Alaska, and going to the unconventional this year, we have more or less EUR 0.8 billion in both the United States onshore E&P activity. Saying that, I mean, we are following in a very close way what is happening with American prices. Let me say that we are very, very comfortable with Eagle Ford that is supported by liquids, by oil price, by condensate and so on. So prices are okay, and we are getting good returns in these assets.

Going to the Marcellus, I mean, we have today 2 rigs in operation. (inaudible), introducing a third rig that goes on option last some months ago saying that we are going to continue with this 2-rig activity until September. Since then, we have decided to maintain the production rate with one continuous rig ongoing and this level of activity that we are pursuing in the Marcellus is going to allow us to be cash flow positive with prices above $2 [coming up] in the coming years. Of course, because this, let me say, flexibility we have, we are reducing today our view of this CapEx in the Marcellus in $70 million less that the figure we have in mind in -- 2 months ago when we presented our year results. That means that we are, I mean, adapting this CapEx in a flexible way. The EUR 5 billion -- sorry, I mentioned in February, to a situation that depending on the environment, I mean, we could have room, let me say, to adjust this CapEx.

Going to your second question, Biraj. I mean, last year, the figure I have in mind was that our total shareholders' return growth of 13% for our shareholders, comparing with the market cap we have. And this year, I mentioned that we are going to distribute this minimum of EUR 2.4 billion that's roughly speaking, is equivalent to EUR 0.70. We are going to pay in cash plus the 100 million shares, I'm committing now 50 million that were launched in February and 50 million that are going to be launched in July -- at the end of July.

So all in all, EUR 2.4 billion. If you compare with our current market cap, it seems to me that, that could be around 13%, 13.5% or 14% of return -- total shareholder return distribution for our shareholders. I think that this figure is fully competitive with some other oil and gas companies in Europe and is, of course, very, very competitive to the index.

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

Thank you, Biraj. Our next question comes from Irene Himona at Societe Generale.

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

I had 2 questions. Firstly, trading made a pretty material contribution this quarter and thank you for disclosing that. Is there any visibility you could provide us, please, on trading, but perhaps in terms of what you expect to deliver as a minimum on an annual basis? Or any guidance indeed you can provide would be very useful.

And then my second question. Is it possible to update us with regards to the Sinopec litigation surrounding the Talisman North Sea JV. They had been asking you for EUR 5.5 billion. You have taken an EUR 800 million provision. I wonder where we stand? Is this close to a resolution? And do you have a sense of the adequacy of the provision you have made in the past?

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

Thank you Irene. I mean, going to your first question, no, it's not easy, giving guidances in the trading business because we always have a budget that is budgeted for a normal year. Relative volatility on the environment is favorable for this business. I mean that is positive in terms of trading. And let me say that growth we are seeing this year is quite volatile. So that means that it's okay, it's positive for this business. I mean the figures I could give you, Irene, are the EBITDA we had last year in 2022, I'm checking the figures, sorry, gross EUR 580 million. That was a historic EBITDA last year.

This first quarter, the EBITDA has been at around EUR 200 million, I mean, I'm going to give you the budget we had at the beginning of the year for 2023 was EUR 400 million for the whole year, but it seems to me that -- I mean, in case of having or continuing with this volatile situation, I mean, we are going clearly to break and to overcome this budget we have and we are going to be probably in another historical year. I don't know if that is going to be lower or higher than the last one, but in any case, it's going to be historical.

I mean going to -- you mentioned the second one was -- yes the Sinopec litigation, sorry. I mean you know the history of that. You know that it comes from 2015, 2016 after the integration of the conflict they had Sinopec with the former Talisman. You know that we had 3 partial awards in this Sinopec arbitration, one of them was favorable to Repsol. The second one was unfavorable for Repsol. The third one have the 5 parts, many of them were favorable with respect to Repsol position. So the court -- the arbitration court goes on working on that.

The next hearing will take place next, I mean May, that means that in some weeks, I think that an award, what is called the quantum decision about the previous awards is not going to be expected before the end of 2023 or probably the beginning of 2024, but let me say more, Irene, I mean, Repsol is going to develop all the force needed in some way to have an open dialogue with Sinopec aiming to achieve what could be a fair settlement to this conflict. I mean -- and I say that because I mean Sinopec is not, I mean, an unknown company for Repsol. We have partners in the U.K. We don't want to lose any opportunity to improve the value of our assets. We are also partners, as you know, in Brazil.

In coming weeks, probably, we are going to take together an important decision, the FID of Campos 33. That is probably one of the more -- the most ambitious project we have in Repsol is in any case an ambitious partnership project and because this open and collaborative approach, we have will always do our best to find together a reasonable solution to these legal disputes. So we are there, and we are going to do our best to get it, Irene. Thank you.

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

Thank you very much, Irene. Our next question comes from Alastair Syme at Citi.

Alastair Roderick Syme - *Citigroup Inc., Research Division - MD & Global Head of Oil and Gas Research*

I just had one question, Josu Jon, you sort of presented about the economic slowdown. I mean is your assessment on the sort of the pullback in refining is all about demand? Or do you think there's a supply element to the (inaudible). I guess we've had a few months of Russian oil product ban into Europe. So I'd be interested to hear what you're sort of seeing on the ground and we hear also stories about Russia and China and India. So maybe if you could provide some sort of picture of the supply side that would be very useful.

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

Thank you, Alastair. I mean you know that economy that is easier to explain the past than the future. So I'm going to try to explain what is happening in the past. I think that what we have seen in the last few days, I mean, diesel cracks below $20 a barrel could be due to several factors. I mean in the analysis, we develop. I mean the first one, the winter season is coming to the end. And therefore, I mean, the seasonal demand for heating oil is falling in Europe. I mean nothing new. That happens more or less every spring. And I mean before the start of the turnaround campaign in European refineries.

The second one that I think that has been very important is that in Europe, in the European Union, the level of inventories before the embark on Russian products, was increased significantly over the last month. I mean what happened in the last quarter of 2022 was in some way, let me say, artificial -- margins were artificial because the building of inventories in -- of diesel inventories in Europe. And in some way, what we are seeing now is that these inventories are in some way playing in the opposite direction. But again, my point of view is that, that is temporary. That is temporary because we have to it, let me say, in our refineries in Europe, the inventories of diesel we have built over the last month.

There is other reason from my point of view, the lower natural gas prices. You know that in some applications, natural gas and diesel compete hitting in some places in the world also in terms of power production. And it seems to me that there are reasons to think that we could have an increase in gas prices in Europe in coming months. I mean, to prepare -- preparing the next winter, means that every European country, mainly Central European countries, Germany included, they have to build and fulfill their inventories before winter because the potential risk coming from the war in Ukraine are going to be there in coming months.

So I think that this effect is temporary, and we could see something different in coming months. There is another effect that is the French refineries, I mean, they came off-line due to strikes. And they are, in some way, coming back again, and they are normalizing in some way of supply of petroleum oil products in Europe.

And there is another reason that probably for me is the saddest one. The saddest one is that despite the sanctions, we are in the midst of our work, but diesel from Russia continues to be on the market and continues to be on the European market and continues to be in the Spanish market. And there, of course, different destination, Turkey, Northern Africa and so on, but this diesel is coming to the European Union. And I think that my point is that I hope and I expect that European authorities will be really firm in terms of maintaining the current sanctions for Russian products.

First of all, because, I mean, that's fitting what we are doing in Europe in terms of pressing Russia to stop this invasion in Ukraine. And secondly, because it's fair. It's fair means that some companies we are fulfilling in a firm way all the sanctions regime. First of all, because we are convinced of that because of more reasons. And secondly, because there is a sanctions regime. So what we are asking to European authorities is to stop this import of Russian products through intermediate destinations, Northern Africa, Turkey and so on towards Europe. I think that they are, Alastair, the main results of the current refining margins we are seeing that, again, I think that our view for the rest of the year is a bit better than what we are experiencing today.

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

Thank you, Alastair. 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, congratulations on the strong results today. I had 2 questions, if I may. Now that you've closed your farm out of the E&P business and you're starting to reignite its project pipeline and the growth profile. I was wondering how you're thinking about the potential U.S. IPO in the coming year that you had floated as an idea at the time of the farm-out. And then secondly, I wanted to take your take on the Net Zero Industry Act from Europe and how much Repsol can benefit from that with its low-carbon activities, especially in Iberia.

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

Thank you, Michele. I mean, first of all, we closed the transaction on, I think that was March 3 or 4, so 6, 7 weeks ago, I think that we have a long journey ahead to prepare our E&P business in coming months or years. I mentioned before that we have the aim of listing this company probably in an Anglo-Saxon market and probably in the American market as part of this company. But I think that we have to prepare the Upstream business for that. That means, first of all, being more performance in terms of efficiency, having probably a more optimized portfolio. We are going to go on optimizing our portfolio in the same direction we have done over the last 3, 4 years. I think that we have to prepare a business that could be on the stable for investors, also in those markets. And from this point of view, I mean, we are on track, but let me say, Michele, that we are going to need some time to do that.

We'll go on improving quarter after quarter, this business that we are going to need 2, 3 years to prepare this business for this scenario, but as you mentioned, we have in mind doing that, and we'll do our best to go in that direction.

Going to the net zero ambition. I mean, we are, Michele, we are decarbonizing Repsol. First of all, because we have a moral commitment and we want to reduce the CO2 footprint of our activities. You know that over the last years, we have been tough in this direction. But we also want to decarbonize Repsol because we want to make money. We want to have a competitive Repsol in 2030, in 2040, in 2050 in a world that is going to be different in a world that is going to be decarbonized. And saying that, I think that this ambition either in Europe or in the States to decarbonize our economy, maintaining this concept of [fire] and gas transition is right, is right because it's going to give us the opportunity, first of all, to develop all these new activities and having the regulatory support for that.

What we are doing in our industrial activities in Iberia, increasing the advanced biofuels launching the eco-fuels project, using wastes to produce fuels all that is fitting with European directives and the European framework. It's true. You know that sometimes, I have some kind of criticism saying that we have to develop a transition and not have evolution. That means that we have to guarantee the mix, security of supply, and we have to guarantee good prices for our customers because otherwise, European society could not afford this transition. But we are fully aligned with this activity of reducing the carbon footprint.

And I have no doubt that Repsol could benefit from this support of European institution. And saying that, what we are seeing in the States in terms of the IRA, is even better. It's even better. And I hope that I expect that European authorities in coming months will be able to redress the European framework approaching a bit more our view to the American one. The American is predictable. I mean you know what is going to happen in 10 years. It is simple. It is clear, it's neutral in [generical] terms, it is supporting all technologies. And as I sometimes say they are applying more the (inaudible) that sometimes is behind some European regulations. But again, I think that what we have to do is improving this view in Europe and being ambitious in this transition effort.

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

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

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

Two questions, please. Firstly, just on cash taxes. They were quite low at the start of the year. Is there anything to say there? And in particular, around the windfall taxes just remind us where we are on that and if there's anything more to come?

And then secondly, on refining. With the fall in natural gas price, have you started consuming natural gas or greater amounts of natural gas at the refinery? Just curious on that.

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

So thank you, Joshua. As you mentioned, in the tax -- in the cash taxes during the quarter, we have had the payment of this temporary windfall tax, EUR 225 million in the quarter, and it's true that in this quarter, we also know that we anticipate some corporate taxes. In the Spanish jurisdiction, we had a corporate tax in 2021 and depending on what kind of rules or kind of tax credit and so on apply, we have an evolution of a part of this corporate tax. And that comes from 2021 in the first quarter of this year. And that is the reason why you are, in some ways, seen the combination of both the taxes. But this half of the windfall tax was paid in this quarter.

Your second question was about the refining margin, Joshua, could you repeat?

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

Yes. Sorry, just, at the refining complex and your refineries, have you started increasing the use of natural gas given the fall in price? Or are you still using alternatives?

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

Yes, I mean, today, I could tell you that we are mainly using natural gas as fuel in our refining complexes. I think that today, the naphtha used to fuel some other fuels is quite negligible. And that means that we have the flexibility to do it, and that is going to depend on prices. We have a programming and planning optimization for our complexes and depending on the prices of LPG, depending on prices of gas, depending on prices of naphtha, we optimize the basket. We were able, last year in 2022, to optimize almost 1.2 Bcm of gas. That's 1/3, more or less of our total production -- total consumption, sorry, in our industrial complexes, shifting from natural gas to naphtha and to LPGs and to fuel gas of the refineries and so on due to the huge high gas prices we experienced over the whole year.

Now seeing the current gas prices, I mean we are optimizing the system just in the opposite direction. But again, we are flexible and flexibility is the key word in our refining and chemical businesses. And this flexibility is behind our solid premiums we are getting above the refining margin we defined before the beginning of the year. Thank you, Joshua.

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

Thank you, Joshua. Our next question comes from Jason Kenney at Santander.

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

Thanks, Ramon. Thanks, Josu Jon. Listen, I've covered Repsol a long time, and it's great to see that balance sheet figure and also the positive share buyback commitment too. So congratulations on that. I just want to dig a little deeper on the refining, if I might. Is it possible for you to kind of define the underlying EBITDA uplift that you're seeing in the Industrial division on a kind of like-for-like margin basis relative to 2018, 2019? Or relative to the plan that you had in 2020 when you were thinking $3.54 margins. Just want to see what kind of efficiency initiatives are doing in terms of the EBITDA support at the minute?

And then secondly, can you just remind me of the proportion of renewables that will be under PPA contracts when you reach 6 gigawatts.

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

Thank you, Jason. Probably I'm not able now, I mean, suddenly to give you the exact figure, but I mean, I'm going to give you a clue about that. Last quarter, we decided to integrate our refining and chemical businesses in a single unit. It's true that we are still speaking the result of every business, but we launched at the beginning of the year, the integration of the programming and planning of both businesses, optimizing the whole basket of products. That means that every time we are acquiring a cargo from trading, we are integrating a system to know exactly what is going to happen and what kind of alternatives we have for these products produced in the refinery in order to fit the chemical business, and we are taking into account the whole refining of this business.

Taking into account, only this effect, we have improved in $0.4 per barrel, the premium of our refining system over the first quarter. That means, that is one of the initiatives we are putting on track in terms of optimization. In terms of EBITDA, the breakeven we have of EBITDA over the whole year has been in 2023, we expect to have an additional reduction on the breakeven of EBITDA of -- sorry, a figure of breakeven of EBITDA in our refining business of $0.3 a barrel. That means that at $0.3 a barrel, our EBITDA business will be neutral in EBITDA. So it's a huge and enormous reduction of breakeven comparing with the figures we had when we presented our strategic plan in 2020. In any case, Jason, I'm sure that our IR team will be ready to give you a bit more flavor about that.

Going to our -- the contracts we have in the renewable business, more or less, I mean, 90% of the oil capacity we have now in operation has PPAs. Probably, we have to start here, I think that Valdesolar that is open to the merchant market. All the rest, they have PPAs. And more or less, the PPA, they have this asset in operation is covering 60% of the P50 production of this asset. That will be roughly speaking, Jason, the answer to your question.

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

Thank you very much, Jason. Next question comes from Matt Lofting at JPMorgan.

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

Two, if I could, please. First on coming back to your earlier comments, Josu Jon, on demand, to the extent that financial markets are putting something of a burden of proof on resilience of global oil and energy demand here. Are there any areas or subsectors within Repsol's extensive downstream business where you're beginning to see any negative rate of change in demand manifesting?

And then second, on refining, very strong premium over the Spanish benchmark in Q1, which should be congratulated. Looking forward, though, can you talk about what Repsol seeing on light heavy spread trends in the market? And do you see a risk at differentials now as OPEC takes heavier barrels off the market following the recent (inaudible)?

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

Thank you, Matt. I mean what we have seen in the short term is not any negative impact of demand. If we go to our main markets, what we are seeing is that we are recovering in every way, the demand we had before the pandemic. So you can see, as I mentioned before, that in the commercial businesses and so on, we are increasing in a significant way the sales comparing with the year 2022. Saying that, I think that there are reasons to see that.

You mentioned in the second part of your question, what is behind the premium? I mean, one of the reasons, and there are many of them. But one of the reasons behind the premium is that we are exporting less product and we are selling more product in the internal market because Spanish market is growing comparing with, I mean, our market -- [commercial] market is growing comparing with the figures we had last year. That means that we are substituting FOB positions by CIF position. That means that we are helping through this effect to improve the premium of the refining margin. That is one clear reason.

Second one, you mentioned is that we are -- it's not because the spread between heavy to light because this spread is included in the refining margin. What we are seeing is that we are able to get to have more heavy oil than expected. So because we have a significant supply of Maya because we are capturing and getting the heavy oil from Venezuela, on top of that, we have alternatives and options from Brazil, also from North America, Canada and so on. And because this higher supply of that, we are increasing also the premium over the indicator because we are improving the flexibility of our system, processing more heavy oil than expected.

There is a third reason. The third reason is that we are increasing the amount of biofuels we are processing in our refineries. I mean, we are -- we have, let me say, a bio business that is hidden within the refining business in some way. But I mean, we are -- what is behind of this bio business is this quarter a result of EUR 66 million. And all that is behind and is included in the premium of the refining margin. And that is going to go on, that is going to grow in coming months after the start of operation of C43 in Cartagena. We have the flexibility of our system. We have increased a bit the production of middle distillates. I mean, all in all, is behind this premium over the indicator. But going roughly to your questions, I mean, we don't see a negative impact in demand.

In the medium term, we are comfortable with this demand. Sectors like aviation are going to grow and that is going to push a good position for middle distillates in Europe. In Europe, we have a strong short position in terms of middle distillates, and that is an opportunity for Repsol. And going to the premium, I mean I don't know what is going to happen over the whole year. I'm not going to say that we could repeat this $4 per barrel over the whole year. But let me say, I mean, it seems to me that taking all these factors, it will be over the whole year, easier to be close to $3 a barrel of premium that close to $2. But I mean, we'll see over the years.

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

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

Sasikanth Chilukuru - *Morgan Stanley, Research Division - Equity Analyst*

I have 2 left, please. The first was actually a couple of clarifications on the shareholder distribution guidance. You've highlighted additional 50 million shares capital reduction program expected to be announced with 2Q results. Just wanted to check whether this implies all 50 million shares being brought from the market? Or would that also involve a redemption of our treasury shares as we have seen in the first phase. I believe that was around 15 million shares. Also, when I look at other guidance of EUR 2.4 billion of shareholder distributions that you're implying for 2023. For me, at least, this would imply higher than 50 million shares buyback for the next -- second half of 2023, especially when you consider 35 million shares being bought back from the market in the first phase.

I was just wondering how these 2 pieces of guidance, the 50 million shares buyback in July and the potential EUR 2.4 billion of shareholder distributions kind of add up.

The second one was pretty much just a clarification on the financial impact of the settlement of the Maxus litigation. I was just wondering what is the cash outflow? When do you expect it for the remainder of the year. Also what has this left on the energy the Spanish temporary energy levy for rest of the year?

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

So thank you, Sasi. I mean, we don't have many shares in our balance sheet. So that means that, as we mentioned before in February from what is going to be redeemed in July is 50 million shares, 35 million are going to come from the program. I mean, the share buyback program we launched in March. I think that we had, at the end of the quarter, 7 million, 8 million shares from this program. We have 29 million something like that in our balance sheet. 15 million of them are going to be applied, combining with the 35 million coming from the program to redeem these 50 million shares. That means that what we are going to launch at the end of July and a main part of that is going to be bought from the market.

So clearly speaking, because we don't have another alternative. So the main part is going to come from the market. And this EUR 2.4 billion, that is our reference of -- I mean that is what we are going to distribute this year in the worst case to our shareholders. And that is a combination of what we are acquiring now, what we have, the 15 million, we have the 50 million we need to redeem the program at the end of July is also the 50 million -- I mentioned, 50 million shares that are going to be launched at the end of July, plus the dividend in cash.

All in all, EUR 2.4 billion distributed to our shareholders this year. In 2023, all of that. Saying that, I mean, now the commitment. I mean now going what could happen in October, I mean, in the case of seeing in October that the 35% of the cash flow from operations, again, excluding these one-shot effects like Maxus and so on. This figure is higher than this EUR 2.4 billion, we will launch an additional program. In case of having, let me say, 30% of cash flow from operations, lower than this figure, nothing happens. I mean, in that case, we will be distributing 32%, 33% or 35% of the cash flow from operations to our shareholders this year because we have a strong balance sheet to do that.

Going to the Maxus litigation, the impact -- the financial impact is going to be EUR 260 million. That is going to be probably cash out in the third quarter, fourth quarter, probably third quarter because all that has to be I mean, it has to be subject to the court approval that could happen probably in the third quarter. And again, we are not going to take into account this cash-out or cash-out nonrecurrent coming from legal claims and things like that to calculate the cash flow from operation that is going to be used as reference to define the distribution for our shareholders. Thank you, Sasi.

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

Thank you, Sasi. And next question comes from Pedro Alves CaixaBank.

Pedro António Alves - *Banco BPI, S.A., Research Division - Research Analyst*

I have 2, please. The first one on the Chemicals business, which seems to be loss-making over the past quarter. So perhaps it could be useful and update on the demand outlook and perhaps the EBITDA for this year? And if you could share also your first targets or idea of the contribution that in terms of earnings that will come from Finnish given the relevant investments that you are doing there?

And then the second one is just a clarification that if you are or not maintaining the CFFO guidance of EUR 8 billion. Thank you very much.

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

Thank you, Pedro. So it's true. I mean demand has been quite low over the last quarters, affecting all chemical sectors. And all that has caused a significant reduction in margins in the European market. I think that the entire supply chain is trying to keep low stock levels. And consequently, crackers in Europe are still running at reduced rates. I mean what we are seeing is from the second half of March, let me say, a small -- a short recovery of this business. For instance, April has been a bit better than the first quarter. Second half in April has been a bit better than what we saw in the first quarter, in the first half of February. And it seems to me that our EBIT breakeven, this second quarter could be close to 0. That would be the likely scenario. I mean, taking into account growth we are seeing now.

Going to Sunrgyze. I mean, I'm very comfortable with the Sunrgyze investment. First of all, because we are not increasing capacity in Sunrgyze. That is an important fact. We are not increasing the capacity of the cracker in Sunrgyze. What we are doing in Sunrgyze is increasing the margin of the complex because we are building derivative plants. That means that we are going to increase the margin we are getting -- we are capturing for our clients. 90% today of the future production we are going to have in Sunrgyze is going to be focused and is asked by our current clients. That means that, I mean, we are seeing a full capacity of putting this product in the market. And again, in Sunrgyze, we are also improving the stability of our products. That means that we are also adapting the production to a new scenario.

I mean, we are quite comfortable in the long term because, I mean, the energy transition means more plastics because we need lighter cars. We need lighter planes. We need more insulated houses. We need more food. We need to protect this food. We need, I mean, plastics and polymers for farms. I mean that is going to grow with the GDP in the world of 3%, 3.5% year after year.

It's true that what we are seeing now, I mean, it's probably the consequence of the crisis in Asia are lower Chinese demand, probably seen the figures of China in the first quarter that is going to push this sector in coming months because a lot of products of Middle East has come to Europe over the last quarters, putting more pressure to European margins because the demand in Asia was lower. So we are quite comfortable about that.

And let me say that our best guidance for the EBITDA this year in 2023 for the whole business will be something in the range of EUR 50 million, EUR 100 million over the whole year. But I mean we have to see what happen in coming months. But we have a better flavor for next quarter.

Going to the guidance for the whole company, you know that we mentioned the figure of EUR 8 billion for the cash flow from operation. And all that was based on the figure of $9 barrel of refining margin. We are comfortable with this figure. I mean, today, $14 a barrel is -- as of today, the average of the year, it is true that April is lower, but we are comfortable with this figure of $9 a barrel for our refining margin. Henry Hub, the average is $3.4. And what we have in terms of calculating this cash flow from operation was $4 per million Btu and the rest of the guidance and so on is fully aligned with our budget. And we mentioned in February, it's true that the premium of the refining is higher than the figure we had in our budget in February.

So all in all, let me say that I maintain the guidance of cash flow from operations for 2023. Probably, I have to reduce this figure in the settlement figure of the Maxus claim. But again, we are not going to take into account this figure in order to calculate the cash flow from operations that we are going to apply to define the distribution to our shareholders. That means that today, we are exactly in the same guidance in cash terms for the whole year we were in February. Thank you, Pedro.

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

Thank you very much, Pedro. Our next question comes from Fernando Abril-Martorell at Alantra.

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

I have a couple of questions, please, both on refining. So very clear data. you've provided, but just a follow-up on refining premium, I don't know if you can comment on how April behaved on the more challenging situation. I don't know it is still at $4. And linked to this, I don't know what guidance -- what did you include in your guidance for the full year? So just to see how whole things are progressing and if you have any extra cushion here.

And then also, I would like to know you've provided the improvement you've made on the breakeven. I also wanted to know what did you expect to contribute this Cartagena project that if I recall correctly, it will start ramp up next year. I don't know if you can provide any quantitative data in terms of how much this project could increase onto your refining margin?

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

So going to your question. The refining premium, I mean, it's more difficult to calculate to anticipate this premium before the end of the month because you know that, that is -- we adjust the premium -- is the construction of taking the real result compared with the higher margin and this difference is defined in some way the premium. But what we have today in mind is something in between $2, $3 a barrel of premium in April. I'm quite comfortable for coming months because, as I mentioned before, there are some factors behind this premium. One of them is the Spanish market. The Spanish market is performing in a good way. Secondly, the amount of heavy oil, we are able to get in the market and in this sense, it seems to me that this week, we are receiving these days, 1 million barrels additional of heavy oil from Venezuela. We are now negotiating another additional 1 million barrels there that is going to be probably in the second quarter in Spain. And on top of that, I mean, we go on getting a significant amount of Maya and the rest of heavy oils, I mentioned before.

So this factor is also going to be there. The biofuels, you know that we are producing HVOs and so on in our hydro-insufflation units in a significant way. And on top of that, I mean I have to calculate the Cartagena C43 contribution, but let me say that the return of this project is going to be above the 30% of return of the investment is going to be more or less at around this figure, 27%, 30%. So it's going to be a very competitive and profitable project.

And saying that, I mean, I have to check the figure, but I think that [cool] at 0.4%, 0.5%, something like that, 0.6% to the whole refining margin of the company or the whole 900,000 barrels a day we process. But sorry, Fernando, because I have to check this figure, Pablo, Ramon and so on will confirm you exactly the figure. But it could be -- it was the figure I had in mind, sorry.

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

That's perfect. And in your EUR 8 billion cash flow from operation guidance you provided a few months ago, what refining premium did you include?

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

Could you repeat it, Fernando?

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

Yes. Yes. In your EUR 8 billion cash flow from operation.

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

We were taking EUR 1.4 billion that was our budget for this year. For that reason, I said, I mean, of course, I don't have a crystal ball, Fernando that when I say what is happening over the whole year, if we sustain and today is our scenario, perhaps, I mean, for some people, I was very conservative when I said that $9 a barrel would be the refining margin for the whole year. Now perhaps I'm quite bold for some other people, but we are comfortable in the $9 per barrel. But at that time, we have [EUR 1.4 billion] as premium. Today, we see a higher premium over the whole year. And in some way, this view is offsetting the reduction coming from the Henry Hub, but who knows. Again, I don't have a crystal ball.

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

Thank you, Fernando. And next question comes from Alessandro Pozzi at Mediobanca.

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

I have two. The first one is on sustainable aviation fuel. I hope you can still hear me and yesterday, we've seen the European Union committee to binding targets. And I was wondering whether this is maybe pushing the company in accelerating capacity of SAS but also I was wondering whether you're seeing those targets are achievable because 2% in 2025 and 6% in 2030 seems quite demanding, so any view on that will be appreciated.

And also, when it comes to cash flow, you talked about dividend to minorities in the upstream and the way to calculate. I was wondering whether we should expect a dividend every quarter or at the end of the year. So any color around the timing of those dividends will be great to have.

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

Thank you, Alessandro. So first of all, going to Fernando, I take the figure is $0.5 per barrel, the gain that is going to come from our whole refining system coming from the C43 plant that is going to be operative in the second half of this year -- over the whole refining system.

Alessandro, going to your question, I mean, you are right. We are, in any case, accelerating the targets we have. And in this sense, first of all, of course, we are going to put in operation of the C43 in Cartagena, 250,000 tons more or less of advanced biofuels using waste as (inaudible). On top of that, we are producing today, we have the capacity to produce 380,000 barrels -- sorry, 380,000 tons per year of HVO in hydro-desulfurization plants we have in our 5 refineries. And on top of that, now we have a quite ambitious project that is the retrofitting of all the high-pressure hydrogenation plant we have in Repsol. That's we are talking about hydro crackers, and mild hydro crackers and hydro treatment plants from our refineries. That's full impact in Coruna, in Puertollano, in Petronor from the point of view of hydro treatment and in Tarragona and Cartagena hydrocrackers.

The figure I have in mind, I have to check it that we could be. We aim to produce 400,000 additional tons a year after this retrofit could be complete. But again, I have to check the figure. And we are also increasing the ambition in this direction with the FID we took yesterday in our Board supporting the e-fuels plant, e-fuels plants in Bilbao that is a pilot plant, it's a demo plant that is going to produce 50 barrels a day of synthetic fuels. It's the JV we have with Saudi Aramco, and we are preparing the ground through the management of this technology to be able to go in the close future to a potential project that could be -- could have an industrial scale to be prepared by 2030. So you are right, we are propelling the company in this direction.

Going to the cash flow, I mean, this dynamic of dividend every quarter that is what we are going to follow with our partner. But it seems to me, and I have to check with our team, that you are not going to be -- or to see big differences in terms of report in Repsol. I mean you are going to be discussed, that is going to be distributed at 75% to Repsol and 25% to the partner of EIG. But yes, that is going to be developed quarterly.

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

Just one question on the aviation fuel. Of course, aviation fuel is at the moment, a lot more expensive than Jet, do you expect with more capacity those spreads to narrow or you will also remain much at the big premium versus Jet.

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

So I mean, I think in the case of the retrofitting, we are going to develop to produce this self. I mean we don't have a significant CapEx on that. So what we are going to do is to use the current units to have a significant improvement of the margins of the product if we are able to produce self. So surgically, let me say that what we are going to see in coming years due to these new projects is going to be an additional gain to our refining margin. that, of course, I mean year after year, that is recurrent will be included in the budget, and it will be included in the refining margin, that means that the refining margin is -- will be higher in coming years due to this effect. But I mean, I take your point that is going to have a clear effect in the gain on our refining margin..

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

Thank you, Alessandro. Our next question comes from Giacomo Romeo at Jefferies.

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

I think most of them have been answered, but maybe I'll ask one following up on your comments around the evolution of biofuel production and the strong contribution that biofuel business is adding to your premium. I'm just wondering whether do you think this business effectively has reached the size that grant to separate disclosure. And I think whether -- at what point you will think about providing a separate disclosure for the biofuel contribution?

And then the second question is around Upstream volumes. You talked about volumes of 590,000 to 610,000. Now I believe that in the -- on the Q4 call, you talked about 610,000 production guidance for 2023. So I'm just wondering how do you -- how to reconcile the slightly different production level?

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

Thank you, Giacomo, I mean, the evolution -- I mean, the figures I have in mind, today, we will be producing a total of biofuels of 700,000 tons a year, more or less in our refineries. This figure is going to be increased to 1.3, 1.35 by 2025. That is what is in our strategic plan. We have the target of producing 2 million tons by 2030 and it seems to me that we could even increase these figures. And you are right, that is, in some way, some kind of hidden business that is part of our refining that is not easy, let me say, and we have even an internal debate to split and to disclose separately all that because, I mean, what we are doing is in the same units, sometimes mixing the feedstock and so on producing the same product that is more decarbonized.

But it seems to me that is going to arrive. We will need, let me say, some time. But at the end of the road, I mean, we are the first interested guys in having a real disclosure, I mean to say to the market because I know that the multiples you are going to apply to the legacy refining activity is not going to be the same that the multiples you're going to apply to the biofuel activity. So I'm the first interested on that. And we'll do our best to have this disclosed in the close future. But I mean I'm not committing at the line for that Giacomo because it's going to be a complex exercise, but we do our best to do it.

Going to the forecast the guidance better set of the production, the guidance, I remember that was 590,000, 610,000 barrels a day. It was this range in February. The first quarter, the figure has been close to the high range of the figure, 608,000 barrels a day. Our best approach today for the year could be, I mean, the production, sorry, year-to-date, for first month is at 605,000 barrels a day. I mean -- let me say that our best forecast today is fully aligned with the guidance and probably with the upper part of the guidance.

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

Thank you, Giacomo. Our last question comes from Biraj Borkhataria at RBC.

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

So just 2 quick ones. How much Venezuelan crude did you process in Q1? I think you've given the figures for 3Q, 4Q and then Q2, but just for Q1, what was the number?

And then secondly, on a follow-up to the Giacomo's question, when you're looking at optimizing for the mix of gas, LPG, naphtha and so on, what timeline are you thinking about? Do you have to take a view on gas for 1 to 3 to more months? Or is this kind of adjustments made on a daily basis? I'm just trying to get a sense of how responsive that gas demand can be to price?

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

So Biraj, I mean, going to your first question, figures I have in mind, I think that we have processed something close to 700,000 barrels a day of Venezuelan crude oil and it seems to me that we are going to process in the second quarter. I mean the full part of this 1 million barrels that are arriving these days to Cartagena and probably a part -- a part of the rest of the 1 million that is going to arrive in coming weeks. So something close to 1.5 million barrels more or less because probably in time terms, we don't have enough time to process the second million barrels cargo that is going to arrive. But that is an approach, Biraj. It's going to depend on [exact] figure of arriving and the technical process of that.

Let me say that, that is [May], day after day on a daily basis. So the programming we have is changing -- or taking decisions about the operation of the refinery. Of course, we have [finalization] and sometimes, I mean, it's better to sustain 3, 4, 5, 6 days, the same kind of operative. But I mean if we see a dramatic increase in gas prices, we will be ready to change, I mean, in 1, 2 days the fuel consumption of our refineries, of course, depending on the logistics, depending on the product we could have around and so on. But my point is that it's not planned, month after month, that is changed on a daily basis. Thank you, Biraj.

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

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