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PRESENTATION

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

Good afternoon, and welcome to Repsol's Second Quarter 2023 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 over to Josu Jon.

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

Thank you, Ramón. Good afternoon to everyone, and thank you for joining us today. I'll start with a review of key messages before moving to the business performance and results. At the end, I'll update our outlook to the end of this year 2023.

As usual, after the presentation, we will be available to answer your questions. Starting with the main messages, the second quarter has evidenced the strength of Repsol's transformation, having delivered another set of solid results and cash generation in a volatile and less favorable environment. Coming from the changes triggered by the invasion of Ukraine, the energy markets are gradually adjusting to the economic context.

Although the evolution of the macro is impacting results, second quarter earnings remained above previous normalized levels. The operational performance was in line with expectations allowing us to continue progressing towards long-term objectives and the delivery of our strategic commitments.

The adjusted income was EUR 827 million, a 56% reduction compared to the first quarter, mostly due to softer gas prices in North America and a contraction of refining margins that nevertheless were still above previous cycles. Cash flow from operations reached EUR 1.7 billion, 7% lower than in the previous quarter. The negative impact of the weaker commodity price scenario was largely compensated by a significant unwinding of the working capital build up for the first quarter. The accumulated cash flow from operations in the first semester stood at EUR 3.5 billion. Net debt closed at EUR 0.8 billion, a 9% reduction compared to March and 65% lower than December 2022.

In line with other rating agencies, Fitch recognized our strong financial situation and disciplined capital approach upgrading resource credit rating by one notch to BBB+. Repsol has finalized pending litigation on two significant legal disputes affecting the company in addition to the agreement about Maxus' reach in the first quarter. The settlement agreed with Sinopec in April, subject to the satisfaction of conditions and a long-running arbitration process regarding our joint venture in the U.K.

With regards to shareholder remuneration, we remain committed to distribute around EUR 2.4 billion for our shareholders in 2023 through a combination of dividends and capital reductions. Last quarter, we canceled the 50 million shares committed earlier in the year. After quarter end, we paid the second dividend of 2023 for a total of EUR 0.70 per share, an 11% increase compared to 2022.

In May, our AGM approved a EUR 37.5 per share dividend to be paid in January 2024. Moreover, as you may have read this morning, we have announced the cancellation of another 60 million shares before year-end for a total of 110 million shares redeemed in 2023. For this purpose, the Board has agreed the implementation of a new 50 million share buyback program starting today, with the remaining 10 million coming from treasury shares and shares held through derivatives. Once this second capital reduction is executed, the number of outstanding shares will stand at 1.2 billion shares lower than the share count when the scrip was implemented in 2012.

Considering the 200 million shares canceled in 2022, this will make for a total of 310 million shares redeemed since the release of our strategic plan. This figure is, roughly speaking, more or less, equivalent to 20% of our share capital as of December 2021 and well over the original target for the 5-year horizon of our strategic plan. Finally, having captured the favorable commodity context to accelerate our transformation and with most of the main targets to 2025 already met, we expect to provide you with a strategic update in the first quarter of 2024.

Before that, I appreciate to meet many of you in another addition of our ESG Day to be held in London on the 3rd of October. Let me now briefly review the evolution of the main macroeconomic indicators in the quarter. Brent crude averaged $78 per barrel, a $3 decrease quarter-on-quarter and $36 below the same period a year ago. The Henry Hub averaged 2.1 $/Mbtu, 38% lower than in the previous quarter and 71% lower than a year ago, affected by lower demand due to mild temperatures and higher production levels. Repsol's refining margin indicator averaged $6.4, around $9 lower than the first quarter and $17 lower than a year ago, impacted by lower middle-distillate spreads and also the narrowing of heavy crude differentials.

Lastly, the euro continues to strengthen against the dollar, averaging $1.09 per euro during the quarter.

Moving now to our business verticals. The Upstream division maintained a positive momentum, thanks to the contribution of new projects and the streamlining of its operations, increasing the returns and the resilience of the business. Let me remind you that we maintain a strict profitability requirements for the new investments aligned with a conservative $50 Brent and $2.5 Henry Hub price deck of our strategic plan, protecting our projects against potential low scenarios. The adjusted income was EUR 0.4 billion, 57% lower than in the same period of last year, 2022, and 14% lower than in the previous quarter. Year-over-year, the contribution of higher production was more than offset by weaker oil and gas realizations and higher costs.

Production volumes averaged 596,000 net barrels of oil equivalent per day, 10% above the same period in 2022. The accumulated production to June average 602,000 barrels equivalent a day, in line with full year guidance. Year-over-year, quarterly volumes benefit from the startup of new wells in unconventionals, the contribution of new assets in Eagle Ford and higher production in Libya and a higher gas demand in Venezuela, which compensated the asset disposals of 2022 under logical natural decline.

The development activity remains focused on the efficiency -- efficient, better said, delivery of our key projects. Starting in Brazil, Repsol and our partners approved the development of Campos-33 in the pre-salt which comprise the Pão de Açúcar, Seat and Gávea discoveries. The project is expected to start production in 2028, contributing around 25,000 net barrels a day of gas, oil and condensates. Repsol currently produces around 40,000 net barrels a day in this country.

In the Gulf of Mexico, we have consolidated our position by increasing our stake in the Blacktip project to 50% with an estimated 200 million barrels of recoverable oil resources. The FID is expected in the next 2, 3 years, contributing to the objective of maintaining a stable production of 30,000, 40,000 barrels a day in the Gulf. Our exposition to unconventionals, the Gulf of Mexico and Alaska confirms the United States as one of our key growth areas within our upstream portfolio. In unconventionals, we continue to closely monitor the gas pricing situation with a flexibility to adjust operations subject to market conditions. We are currently running 1 rig in Eagle Ford and only one in the Marcellus.

In the U.K., our agreement with Sinopec includes the acquisition by Repsol of their 49% stake in the JV becoming 100% owners of our North Sea business unit. Under the agreed terms, both companies will immediately suspend and at completion settle the long-running arbitration proceedings in relation to Sinopec's acquisition of its stake from Talisman. On a 100% basis, we expect our U.K. production to reach 40,000 barrels a day. Having full control of the operations will allow Repsol to identify additional synergies, optimize the ambitious commissioning road map and generate more opportunities to develop contingent resources.

The transaction we have an estimated $1.1 billion net cash flow impact for Repsol considering the cash available in the JV that will now be fully consolidated in our accounts. Settlement of the arbitration is expected to occur before the end of the year and cash out in 2024.

Repsol and Sinopec will continue our broader strategic collaboration, including our joint venture in Brazil, as shown by the recent approval of Campos-33. The Industrial division continues to maximize value in the current scenario while progressing in the decarbonization of our sites. The adjusted income stood at EUR 144 million, 73% lower than the previous quarter and 71% lower than the same period a year ago. Year-over-year, results were negatively impacted by lower refining margins. The ongoing weakness of chemicals and a lower contribution of trading partially compensated by higher results in wholesale and gas trading. Refining margins have gradually decreased from the exceptional levels five years ago, largely as the uncertainty around this supply has diminished.

Nevertheless, second quarter margins remain healthy. Diesel spreads average around $19 per barrel, which compares to the almost $50 of a year ago and $33 in the first quarter this year. So far, in July, the average spread for diesel has been around $25 and $28 for gasoline, say, improving in a significant way, the refining margin along this July. The margin indicator averaged $6.4 per barrel, which compares to the $15.6 achieved in the first quarter and $23 a year ago, mostly due to the narrowing of middle-distillate spreads. The indicator averaged $11 in the first 6 months of the year, 2023. Margins reached the year loss by the end of April due to, first of all, elevated levels of diesel inventories and also the return at the time to operation of French refineries.

In May, they began a gradual recovery supported on the strengthening of gasoline and lower energy costs. The premium generated in the actual margin was $0.20 over the indicator, negatively impacted by, I mean, you know that we were in the midst of a turnaround season. So the turnaround of Cartagena, the (inaudible) maintenance in Coruna and a less favorable environment. The average utilization of the distillation capacity was 80% and the utilization rate of the conversion units reached 90%.

During the quarter, we completed all the remaining planned maintenance for 2023 should allow us to maximize plant availability for the rest of the year. So we expect a normal full operation from now on through the end of the year. Our refineries continue to process Venezuelan crude accounting to around 4% of the total crude input and during the second quarter, we received three new cargoes for a total of 3 million barrels of oil.

In Chemicals, the margin indicator was 31% lower year-over-year and 44% over the first quarter of 2023. The demand situation remained weak. As expected, seasonal uptick in some sectors didn't materialize. Looking forward, market seems cautious about a significant demand recovery before the end of the year. And this situation may prompt the industry to focus on inventory management, limiting plant operating rates. With regard to the transformation of our industrial sites, the European Union through its innovation funds granted Repsol EUR 62 million for 150 megawatts green hydrogen electrolyzer in Tarragona, with startup expected in 2026.

In SAF -- in sustainable aviation fuels aligned with our ambition to play an important role in the decarbonization of the aviation sector. We have reached an agreement with Ryanair to supply 155,000 tons of sustainable aviation fuels between 2025 and 2030. Additional alliances have been closed also with Gestair and Vueling. Finally, yesterday, we took the FID for the retrofitting of one of our units in Puertollano, which will allow us to increase our renewable diesel production by 200,000 tons per annum by the end of 2025. Repsol currently has a production capacity of 700,000 tons of low carbon fuels. The upcoming C43 project in Cartagena, and this retrofitting of Puertollano will produce 100% renewable net zero emission fuels and what is important, these two projects are going to improve in a significant way the premium of our refining margin. Our service stations are already being adapted to offer these fully segregated products providing an alternative no-emissions mobility option for internal combustion engines.

In the customer vertical, the evolution of our traditional business continues. In 2023, we expect to achieve a record of EBITDA, demonstrating the stability and resilience of this division. The adjusted income was EUR 148 million in the quarter, 160% over the same period a year ago, with all businesses contributing to the improvement. In mobility, the higher margins as a result of lower discounts were partially compensated by lower sales in the Spanish service stations and direct sales.

In April, we launched a new connected energy program for our clients in Spain built around Waylet. This program links discounts to a multi-energy product portfolio. The Waylet mobility app reached 6.4 million clients in June progressing towards the objective of having 8 million digital clients in 2025. In retail, electricity and gas year-over-year, second quarter results benefit from cheaper energy sourcing costs. In July, we completed the acquisition of a 50% stake in CHC Energia, adding more than 300,000 new customers, delivering our strategic objective to 2025 of having already 2 million customers of electricity and gas in Spain.

Moving now to low carbon generation, the power generated by Repsol reached 1.9 terawatt hour, 6% lower than in the previous quarter. The adjusted, you have to take into account that we had a turnaround of one of our CCGTs (inaudible). The adjusted income was EUR 12 million, 65% lower than in the previous quarter and 76% lower than a year ago. Year-over-year, the higher production in wind and solar couldn't compensate for the lower pool price and lower CCGTs production. As I mentioned, one of our CCGTs was in the maintenance season over the period. The development of our renewable pipeline in Chile continued with the startup of the Elena project, our first solar farm there. Together with Atacama and CaboLeones wind farms, our installed capacity reaches more than 200 megawatts in the country.

Globally, Repsol currently has 2 gigawatts of renewable capacity in operation and 1.2 gigawatts under construction. We remain confident on reaching or even surpassed 2.7 gigawatts of installed capacity by the end of 2023. And one of the main contributors to this growth will be a Frye solar project in Texas, which is expected to start operations during this quarter.

To finalize, let me add that this week, the European Investment Bank has granted Repsol a EUR 575 million loan to support the development of our renewable generation projects in Spain, supporting our renewables road map to 2025 and to 2030.

Moving now briefly to the financial results. In this slide, you may have a summary of the figures that we have discussed when we're reviewing the performance of our business. For further details, I encourage you to refer to the complete documents that were released this morning. Let me now review our update outlook to the end of the year.

Looking forward, we expect uncertainty and volatility to continue, emphasizing the importance of our strong financial position. In refining, the margin recovery has consolidated in July and our estimated full year average indicator remained unchanged at $9, supported on sustained middle-distillate spreads, strong gasoline tax and lower energy costs. In annual terms, we expect to generate a healthy average premium of around $2 per barrel, the annual average, I mean, driven by higher availability of heavy crude oils and the contribution of biofuels. In Upstream, the good operational performance of previous quarters has continued in July. Year-to-date, production has averaged around 600,000 barrels per day, aligned with our expectation to produce an average of 590,000 to 610,000 barrels in annual terms, probably in the high range of this production.

The expected cash flow from operation in 2023 now sits at EUR 7 billion compared to EUR 8 billion before. The reduction is mainly driven by the negative evolution of gas prices, more or less EUR 300 million less than expected for the whole year. The settlement of Maxus litigation, another EUR 300 million comparing with our previous guidance, lower results in chemicals and of course, euro-dollar exchange rate. This revision is going to impact the shareholder distributions of the year. Our sound financial position with a gearing ratio of below 3% provides flexibility to maintain our commitment to distribute EUR 2.4 billion in 2023, above 30% of the cash flow from operations. The dividend of $0.70 per share paid in January and July, together with the 50 million shares redeemed in June and the additional 60 million shares that we expect to cancel before year-end comprise our total remuneration for the year.

The organic investment remains at EUR 5 billion with around 35% going through carbon initiatives.

To conclude, our performance in the second quarter highlights Repsol's progress towards becoming a more sustainable and profitable company, able to deliver improved results and cash generation also in less supportive macro scenarios. We aim to be a balanced company, a company that invests in the legacy assets that support cash flow generation and also a company which invests in the transformation that will support its future and I think we are doing all that in a sensible way, building our multi-energy offering, investing in our industrial capacity and developing a low carbon platforms, all while guaranteeing upstream production levels for coming years.

Last quarter, all four business verticals continue to deliver according to the expectations, managing what we can control to capture the most value of this volatile scenario. The refining environment is gradually coming back from the unprecedented situation of last year. Still, we see refining margins at healthy levels as exemplified by the diesel spreads that we still have today. And this refining margin that we have experienced over the last 10, 15 days that could be something in between $9 and $12 a barrel.

Our solid financial frame built in previous quarters allow us to face uncertainty, providing flexibility to deliver on our capital allocation priorities and cope with changes in the commodity cycle. Capital discipline remains at the heart -- at the center of our decision-making, keeping strict profitability requirements for new projects, making them resilient and profitable in any future scenario. Despite a lower commodity price context, mainly associated with gas prices, our shareholder distribution commitment through a combination of buybacks and dividends remains unchanged.

Finally, having delivered most of our strategic objectives to 2025, we will provide you, our analysts and investors with an update of our strategy and projections in the first quarter of 2024. With this, Ramon, I hand now the call over to you. Thank you.

QUESTIONS AND ANSWERS

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

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

Operator

(Operator Instructions).

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

Thank you, operator. Let's move on now 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*

Thank you for the time. First question, I want to ask about Venezuela. I think you mentioned in the results higher gas demand in the quarter, helping your production. But I also see the Venezuelan oil minister talking about potentially striking some new gas development deals maybe as soon as year-end to bring on more gas in the country. Is this a live discussion? Is this something you're working on? And could that start to become part of the plan for CapEx and volume growth within the years ahead, is the first question, please.

Secondly, you mentioned the upgrade from Fitch, the BBB+. I think it's been probably 20 years since you've had that type of rating with them and the balance sheet is pretty strong. So I did want to ask around M&A, and on your appetite for deals. There's been a little bit of linkage with Repsol with some larger deals, let's say, in the last couple of months. But I know the strategic update is coming in early 2024. But doesn't feel like you have any large gaps in the portfolio, unless there's some strategic change coming. So perhaps you could just talk around M&A appetite here, please.

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

Thank you, Oswald. I mean, first of all, let me say that in Venezuela, we are fully focused in optimizing our current gas production operation in Cardon. We are fully focused on that. We are being paid by these oil cargoes that -- I mean, 3 million barrels were transported to Spain, the first -- the second quarter, sorry. And we expect to have an additional 1 million barrel cargo this July, and that is now our full priority in Venezuela, optimizing our gas production in Cardon, of course, always aware of trying to reduce the bottlenecks we could have for production. I mean, there is room for a little increase of this production, de-bottlenecking the current plant, and we are going to be fully focused on that.

Of course, we are following in a very accurate way, what is happening in the country, any opportunity that we could see regarding the future, but let me say that financial currency is one of our main pillars regarding our exploration and production activity all around the world, but also in Venezuela. Going to your second question, that was related about the -- I mean, you know that I like the financial patency of the company. I know that I'm going to upset my communication team also that today, but I'm fully focused on trying to be the most boring CEO in the world. But let me say that when I say boring, I'm trying to define boring as being prudent and being predictable. So we are, of course, open to evaluate any possibility that may support our transformation journey. But I mean we are trying to accelerate some businesses.

We have announced acquisition of Asterion, a development platform with 7 gigahertz some months ago, impacts in Eagle Ford. We have good examples of this small acquisitions like Hecate, Asterion, Acteco, Enerkem, but let me say that if someone is expecting a big acquisition from Repsol, that is not going to happen. I mean the only surprise I'm going to give you and it's going to be our focus and a positive alignment in the transformation of the company, but also in the distribution of proceeds and dividends to our shareholders and preserving the balance sheet and the financial strength of the company. So always trying to analyze opportunities to transform the company, but I mean, you can't expect big acquisitions and things like that in the current economic arena in Repsol.

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

Our next question comes from Lydia Rainforth of Barclays.

Lydia Rose Emma Rainforth - *Barclays Bank PLC, Research Division - MD and Equity Analyst*

Two questions, if I could. The first is on just listening to the strategy presentation. Josu Jon, I'm very happy to be back asking questions. But does having sold minority stakes in the upstream and on the renewable side limit what you can do strategically within that and partly linked to that in terms of the net debt numbers, is that why you want to keep the net debt level where it is at this point? And then the second one was just much more long term around the green hydrogen. Clearly, we've got plans from Repsol, but also a number of Iberian competitors. Do you actually see the construction capacity being there and being able to deliver on the margins?

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

Yes. Thank you, Lydia and welcome back. I mean -- going to your first question about the two partners we have either in the upstream business, in this case, EIG and our partners in the renewable business, (inaudible) and EIP. I mean I want to underline the fact that in both acquisitions, the partners both supported and we're fully aligned with a strategic plan we had previously approved for both businesses. So I mean, we have great partners in these businesses, fully aligned with the strategy we previously defined and we don't have any risk, let me say, of misalignment with our partners in strategic terms, neither in the upstream nor in the renewable business.

So we are going to follow the road map that we presented to you in 2020 in both businesses. Saying more, I mean, in the case of the renewable business, there is a road map to the 2030 year that has also the support of our partners in this road map and in this ambition of building 20 gigawatts in operation by 2030. Green hydrogen, I mean, first of all, I mean, we are going to start with a small production in coming weeks, 2.5 megawatts in Petronor, I mean it's not material in production terms. And probably in coming months, we are going to take the two first large electrolyzers in our system. Probably Petronor and Cartagena, we are analyzing these opportunities. I mean, if the economics are there, we will take in this case, FID.

But I'm going to be very clear. I mean, we'll take these FIDs, if we see that a double-digit return is there. And that could be possible because you know that this green hydrogen produced and introducing the products of our refinery is not competing with the green hydrogen was previously produced is going to be part of the molecule that is going to be included in the fuel. So it's going to be, let me say, an advanced biofuel that is going to have the regulatory support of the current European directive. So I mean, I think the numbers are going to be there. We are going to do our best to have these returns. And in case of seeing and having this returns, we will take FID and in this case, let me say that they are going to contribute to improve our refining margins also in a significant way. Thank you, Lydia.

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

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

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

Yes, Biraj?

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

Sorry. Can you -- hope you can hear me. A few questions, please. Firstly, on the production guidance, guiding to the top end of the annual guidance. Could you just walk me through the moving parts, first half to second half? And what's driving your confidence to get to the top end?

And then a couple of questions on the downstream. On your refining margin premium, obviously, the premium shrunk significantly, Q1, Q2. Is this just a light, heavy spread coming in? Or could you just walk me through what gives you confidence on that $2 premium for the year? And then finally, on sustainable aviation fuel, so the deals that you've signed so far, can you give any color or comment on the sales margin relative to kerosine or renewable diesel?

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

So thank you, Biraj. I mean, going to your first question, I mean, the production guidance, roughly speaking, the second quarter or second half is going to be exactly the same that in the first half. I mean it's going to be quite stable. We are going to see some increase in the unconventionals coming from the campaigns we have developed mainly in Eagle Ford and a bit in the Marcellus. And also, we are going to see an increase in the Gulf of Mexico coming from the start of operations in Shenzi North.

So I mean some added barrels that, in some way, are increasing our confidence of delivering in the right way, the guidance we are giving you for the second half of the year. I mean going to the refining margin premium. I mean, first of all, let me say that -- I mean, I talked about $9 as a good forecast of guidance. I mean, I think that the probability of being slightly above that value in the whole year is greater today than the likelihood of being below $9, mainly seen what is happening in the market over the last weeks. As I said before, we have -- we are seeing day after day and over the last 2 weeks, the refining margin perhaps all above $9 a barrel and some days close to $11 or even $12 a barrel. So I'm, let me say, quite confident about delivering -- fulfilling the forecast we are seeing in the market for the refining margin.

And going to the expected average premium, I'm also very confident about the $2 a barrel. I mean you have seen that the premium this quarter was, as we expected before, quite low, $0.2 a barrel, but we have to take into account that in this period, we had the turnaround of the hydro treatment -- hydrocracker area of Cartagena that you know is our main refinery. We also have, in the first half, the (inaudible) treatment turnaround of Coruna and other refineries. The shutdown of one of the true distillation units in Coruna. I mean, the maintenance season in Repsol is over for the whole year. That means that we are going to capture all that.

On top of that, we are, I mean, day after day working and all that, I mean, making room to improvements in the efficiency and digitalization plans of our refineries. We are and we see room to have a favorable incorporation of heavy crude oil in a significant percentage to our system. I mean, all the cargoes we received in the last two months that we are going to process plus what we are going to receive in July and so on. So I'm quite confident about that. And let me also add the importance of the contribution of buyers of biofuel production in this premium and that, let me say, is going to be the beginning of a new story in Repsol's refining because, I mean, at the end of the year, we are going to start operating what we call the C43, that is the all-purpose advanced biofuels plant in Cartagena.

And this plant is going to have EUR 175 million of EBITDA to the company next year in 2024, and it's going to add $0.7 a barrel to the premium of the refining margin. So that means that for next year, we are going to have a new $0.7 premium, adding to this premium, we have a year after year. On top of that, yesterday, we took the FID decision of the retrofitting unit of Puertollano, what we call, the [U614] unit. This retrofitting that is converting hydrodesulfurization unit to run new advanced biofuels unit. Some others call bio refinery to do that. I mean, in our case, the difference is that we are not shooting down any of our refinery. I mean, we are going to operate the former refinery plus the new unit, the new bio refinery and investing EUR 120 million from 2025 on, we are going to add a new EUR 80 billion of EBITDA to our system, so a new $0.32 a barrel of premium.

That means that, I mean, in coming years, we are going to be able to increase in a significant way this refining margin premium, thanks to this bio-advanced projects that are going to add new -- a new life, let me say, to our refining system transform to be very competitive, but also more sustainable.

So going to your question, I mean, fully confident about the $2 a barrel. And in the case, I mean, your last question in some way is answered. When I say that what we are seeing, in regulatory terms, there is plenty of room to see an increased market of staff in coming years. So for instance, Cartagena is going to be prepared to have a main part of its production, this C43 unit, I mean, to do sustainable aviation fuel. In the case of Puertollano retrofitting, that is going to be possible, but it's going to be more focused on HBOs. So -- and we are seeing significantly, in production terms, a clear higher margins in these kind of products that growth we have today with the mineral conventional products. Thank you, Biraj.

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

Just one quick follow-up. In the past, you've talked about kind of through the cycle, I think, $0.7 per barrel premium. So am I right in putting all your comments together, you're talking about structurally an extra dollar on top of that through the cycle, is that fair?

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

No. I mean when I -- I'm talking about the $2 premium I'm talking about this year 2023, that, as I said, there are not only the addition of biofuels, there are also the, structurally, what -- the percentage of heavy crude oil and, so on and market conditions. So I don't want to replicate -- I prefer not replicate this $2 premium for next years because I don't know what market conditions are going to be. What I say is that if we expect next year an ex premium, I mean, we'll have to add this $0.7 a barrel to this premium coming from the contribution that the C43 plant in Cartagena. So being more clear EBITDA. Cartagena from this quarter, last quarter, is going to add in annual terms, EUR 175 million of new EBITDA through our refining system. Thank you.

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*

Hello, can you hear me?

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

Irene, I'm here.

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

Congratulations on the strong results. My first question is, you refer in the press release to an agreement you signed in the second quarter with Halliburton to automate and standardize your well designs and increase efficiencies. I just wanted to ask in terms of your new 25% E&P partner now sitting on the Board, is this the sort of value added that perhaps they bring to the table? And more generally, what benefits is your E&P seeing so far from that cooperation? And then my second question, in mobility, you had 5% lower product sales in Spain. I presume that was a combined effect of probably the end of the discounts and weaker Spanish GDP. But I just wanted to ask how you see the outlook for Spanish demand and your product sales in the second half of the year, please?

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

Thank you, Irene. I mean, going to your first question, first of all, let me say that we are really happy of having a partner as EIG in our E&P. They are sharing with us, let me say, some kind of complementary business issue. I mean, they have a broad view about the sector worldwide, the financial market, also the -- I mean, they are giving us a lot of clues about the M&A market in the E&P and so on. And I mean I'm sure that more than a check we received some months ago. We are starting to see real value in the contribution that EIG and in the Board, we have in the JV, they have, I mean, first-class people to this business. So from this point of view, I'm really happy with the partner and the contribution. In this specific case, you were asking about Halliburton. I mean we were working before. And in this case, this agreement has -- is not related, let me say, to the contribution of EIG. I mean it was worked -- our people was working in this agreement that demonstrated some way, the effort we try to do to protect activity and cash generation in the procurement process. But this case is not related to the EIG contribution.

Going to your second question, I mean, my first point is that I mean we have to take into account that last year, we had an extraordinary sales campaign in the second quarter that was fully related to the intensive discount campaign we developed over the last second quarter -- last year. I mean if we compare the market evolution, I mean our sales in volumes are clearly above what we had the year before. But it's true that we are reducing in a 6% our sales, 5%, sorry, in the year in the second quarter, because we have more focus on having a strong cash generation. And in some way, we change the framework of the discounts we had last year.

Now we have a different kind of discount, more related to a multi-energy offer. We maintain discounts with Waylet being up from [EUR 5 to EUR 20] liter, but that depends on the level of commitment from clients; car, electricity, heating or solar generation at home. So all in all, what we are seeing is that we are taking this level of the position we have in the service station, also to grow as we are growing in a significant way in the electricity and gas retail market in Spain. So -- and what is important, I mean, the forecast of EBITDA we have in the whole commercial businesses, supply and businesses of Repsol for this year, 2023, is going to be above EUR 1.1 billion. That is a historical figure. I mean, 5, 6 years ago, we had an EBITDA at around EUR 750 million in the whole customer business to Repsol. And that is more or less the proof that we are entering new businesses, adding new clients and all that is giving us a positive growth of EBITDA. In Spanish market terms, we are more or less at the same level of consumption we had in 2022 in the whole market. Thank you, Irene.

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

Thank you, Irene. Our next question comes from Pedro Alves at CaixaBank BPI.

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

Good morning. Can you hear me?

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

Yes.

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

Just two, if I may. It's related to your guidance of CFFO and the downgrade to EUR 7 billion. So it's EUR 0.6 billion roughly explained by the natural gas prices and Maxus litigation and the rest from chemicals and f/x. So I was wondering if you can provide us a little bit more color on your assumptions for chemicals -- of the EBITDA for this year compared to what you were expecting previously?

And also in terms of working capital, what is embedded in your cash flow guidance because you had quite a good release in the second quarter. So if you can provide also your expectations for the evolution of working capital for the rest of the year?

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

Thank you, Pedro. I mean as I mentioned, when we talk about the cash flow from operations, guidance changed from EUR 8 billion to EUR 7 billion. More or less, this reduction comes from EUR 300 million from the -- what is the gas prices change, EUR 300 million comes from the Maxus settlement, EUR 300 million from -- is related to the euro-dollar ratio and the rest is a main part of -- could be related to the chemical business. I mean, let me say that we are seeing a weak demand in the European market and in the global market for chemical products.

That's curious because, I mean, we are seeing a very different environment in economic terms. In our mobility products, we are seeing a market that is very positive in terms of growth, in terms of sales and what we are seeing in growth is the chemical products market. And the demand for commodity petrochemicals in Western Europe remained weak. Low demand is affecting nearly all chemical sectors, I mean, automotive, electronic, comfort, household goods, industrial. And probably this low demand is related to the inflation and the cost of living. I mean we have seen a general drop in consumption, but it's curious. Everything I'm saying about the chemical business is not happening in the mobility business, where we are seeing a different scenario. I mean, demand is there. Sales are pretty good, also in aviation, in fuel for trucks.

And I mean, probably that is curious but perhaps it's related to some kind of post-pandemic behavior. I mean, when we were -- during the pandemic, we trended to buy house appliances, physical objects, iPhones, I don't know what. Now the same purchase capacity that probably is lower because families are suffering, the inflation, are suffering the interest rates and so on, is applied in traveling, in going out and visiting France, visiting relatives. I mean -- and all that is very positive in economic terms for the mobility sector and it's also positive for, let me say, (inaudible) also for an economy in comparative or relative terms, like Spanish economy that is more focused on services than on the industrial sector.

So all in all, we are taking advantage of this ways in our mobility businesses. And going to your question about the chemical business, the best guidance I could give you today is that the EBITDA of the year could be close to zero this year. So that will be the best guidance for the chemical business for Repsol because, clearly speaking, we are not seeing any improvement now in the chemical products in this starting phase of the second half of the year.

Going to your working capital question, it is embedded in our guidance. And taking into account the increase we had in inventories and working capital terms in the first quarter of the year that has been partially released in second quarter, as you could see in our balance sheet, what we expect in the second half is to release an additional amount of EUR 600 million, more or less, while we speaking in working capital terms. And this EUR 600 million figures for the second half of the year is already embedded in this EUR 3.5 billion, more or less, cash flow from operational guidance forecast I gave before for the rest of the year. So in this figure of EUR 7 billion of cash flow from operation is embedded, the figure of EUR 600 million release of working capital for the second half we expect -- I mean, when I say we expect in case of having flat commodity prices from now on to the rest of the year, of course.

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

Thank you, Pedro. Next question comes from Kim Fustier at HSBC.

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

Kim, are you there?

Kim Anne-Laure Fustier - *HSBC, Research Division - Head of European Oil & Gas Research*

Yes, sorry. Hopefully, you can hear me now. My first one was about reports of a potential big farm down of some of your wind and solar assets in Spain worth something like EUR 700 million to EUR 800 million. I mean that would be a material cash inflow and your balance sheet is already very unlevered. So just wondering how you would look to recycle the capital? And then secondly, in the Marcellus, I think you've dropped to one of your two rigs. Was that always planned? Or was that because of low gas prices and then at what Henry Hub gas price would you potentially consider putting a rig backhaul?

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

Thank you, Kim. I mean, first of all, let me say that, I mean, this asset rotation in the renewable business is part of our business model. You know that we are fully committed in having a double-digit returns in this business. And we are delivering on that. To deliver on that, what we say is we take in every stage, a pipeline. We develop the project. We invest managing the engineering, the operation, the maintenance and when the asset is operating and having security -- a secure PPA for a significant part of this production, what we say is to divest 49% to an investor normally, it's a financial investor, that is acquiring the risked renewable assets.

So paying a higher multiple for this asset. So growth from, I mean, in the last processes, we have captured returns. I talk about double digit, but returns of 15%, 20%, more or less, after this asset rotation operations, again, is part of our business. So now we are launching a new process. A process worth 600 megawatts more or less, roughly speaking, of Spanish assets are there. And what we are looking for is exactly the same. We are trying to rotate this derisked assets to increase the return we are capturing in this business.

So what we are doing with the capital is again going on investment in this business, that as I said, is showing the capacity to get clear and ready returns for the company. I mean -- in the case of the Henry Hub, I mean, let me say, roughly speaking, for instance, in the Marcellus, in the three rigs we had, we could have a breakeven in terms of net present value. I mean at 10% value creation that in all cases, we're below 2.7 $/Mbtu, 2.8 $/Mbtu. In the case of the first rig, I think that was closer to 2.1 $/Mbtu, 2.2 $/Mbtu and the most expensive, probably depending on the contracted time, closer to 2.7 $/Mbtu, 2.8 $/Mbtu and the second one was more or less in the middle of this range.

So what we are seeing for coming months and what I think is not relevant. The most important thing is to see what the market and the futures market is showing for coming years could be -- I mean, for instance, the American EIA is forecasting something between 3 $/Mbtu and 4 $/Mbtu for next year, 2024.

So theoretically, you could see, I mean, why are not you introducing a new rig? Let me say, first of all, we have a capital application product policy related to the E&P. Secondly, I mean, our experience is telling us that we have to take the whole cycle, and we have to try to have a stable production that is crucial to guarantee that the cash and the returns are going to be there. So even seeing that today, we will be able to put a new rig and theoretically, we'll have the prices sustaining the returns for this rig. We prefer to be prudent in terms of capital allocation policy and reducing a bit in this arena, the capital commitments we are taking in the American unconventional. Thank you, Kim.

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

Thank you, Kim. Our next question comes from Alessandro Pozzi at Mediobanca.

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

Just wanted to go back to the refining side. And you mentioned the Spanish indicator to be around maybe $10, $11 in the last couple of weeks. I was expecting actually a bit more given the strength in gasoline and diesel crack spreads. And I was wondering how much of a headwind, the tight, light, heavy-light spreads are at the moment for your -- for the refining -- let's say, for the refining operations. And the second question on refining is you mentioned a premium of 0.7% from the new investments in biofuels. How exactly do you get to that number? And what are the assumptions behind it? And final question, upstream is really strong in the quarter, also thanks to a lower tax rate. I was wondering whether this is more a one-off? Or should we assume a lower tax expense in the coming quarters as well?

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

Thank you, Alessandro. I mean, growth we are seeing these days and the figure I have in mind, sorry, I can't check it, but it's around $10.5 or $11 a barrel of discount of heavy oil comparing with Brent. So -- and we are -- having with these discounts, we are having these days, these $10, $11, $12 a barrel of refining margin in our refining business.

So that is what we have today in the market. And what is true and is supporting in some way the additional premium we are having this year is also the capacity we are having of processing a larger amount of heavy oil comparing with what we expected before. So I mean we are being able to sustain a significant part of heavy field stock to our refineries.

Going to your, I mean, this $0.7 a barrel, the improvement in premium coming from the C43 on purpose plant of Cartagena, the assumptions that we have behind that is EUR 175 million of EBITDA. That more or less fits with an expectation of having a margin of -- equivalent margin of HBO or UCO at around $1,000 a tonne.

So that could be more or less the prudent assumption we are we are taking. I mean, if you compare this figure of EUR 175 million with 260 million, 165 million to 170 million barrels we are processing year after year, the $0.7 a barrel comes from this figure.

Going to your question about the lower tax rate and so on. First of all, this is an adjustment in the upstream tax situation coming because at the end of the year, in some countries, there is an adjustment or some kind of regularization regarding the tax we paid last year. So in this case, in the upstream, it's related to some Northern African countries, Indonesia and some others. So it's one-off, of course, because it's related to these differences. But being one-off, it doesn't mean that it's not going to happen in coming years. I mean that will happen because we try, of course, to optimize our operation and optimize everything. But being accurate is one-off, and going back to the third and fourth quarter, I mean, you are going to see, let me say, rates that could be close to a 40% on the high 30s. So they are going to be, let me say, more normal. But again, it's one shot, but we try to have a lot of (inaudible) in the road to try to improve our cash and try to improve our P&L. (foreign language) Alessandro.

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

Thank you, Alessandro. Our next question comes from Ignacio Domenech of JB Capital.

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

Can you hear me?

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

Yes, Ignacio, go ahead.

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

Okay. Just two questions from my side. The first one is coming back to the mobility business. We've seen volumes coming down this quarter, but I believe the contribution is slightly stronger now. So I was wondering what are the dynamics here if you are seeing a higher contribution from non-oil EBITDA and maybe if you could give us a sense of how this contribution would be growing throughout the year and maybe into the next year?

And my second question is on the total distributions of EUR 2.4 billion that you seem to be very committed. I believe in (inaudible) this morning you were mentioning a maximum net investment of EUR 850 million on the new buyback program you are launching. So I was wondering if the net investment is below this figure? If there's flexibility to increase the program probably in Q4 or later in the year?

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

I mean, going to your first question, I think that the normal contribution margin is the current one. What happened last year, in 2022, is that we applied a policy in our service station focused on having strong discounts for our clients due to the situation that market and society goes expanding in that year.

Remember that we applied almost EUR 450 million or EUR 500 million of discounts in our service station last year reducing in some months to zero, our margins, in order to be close to our clients. I mean, what we are seeing now is a normal development of our business that is going to follow in coming months. So in terms of EBITDA, EUR 1.1 billion is today the guidance we have for the client business. We have to take into account that we talk about clients, we are not talking only about mobility business. I mean we have some other businesses that are growing in a significant way. For instance, the Gas & Power business, what we call the power retail business, lubricants, asphalts, specialties, LPG and so on.

So all in all, EUR 1.1 billion that is going to be historical for our company -- for these client businesses of our company. I mean going through this EUR 2.4 billion, our commitment is to distribute this amount that is higher than 30% of the new expected cash flow from operations. So roughly speaking, we talk about EUR 2.4 billion, and this figure is, in some way, fitting with what is [EUR 110 million] of shares acquired over the whole year, 110 million shares. The 50 million, we redeemed in June plus the 60 million we are going to redeem at the end of this year, 50 million of them coming from the purchase program we are launching today.

So all in all, this [EUR 100 million] shares plus the $0.70 dividend of the year, I mean, we have the figure of EUR 2.4 billion of distribution. That could be at the end of the year, I don't know, EUR 2.35 billion, EUR 2.38 billion or EUR 2.43 billion, but it's going to be there. I mean, in case, that is a central scenario. I mean, of course, I don't think that, that is, let me say, the most likely scenario, but in case of seeing, I don't know, some kind of disruption in the price of commodities in coming months and having a cash flow from operations of EUR 9 billion at the end of the year, of course, in that case, our commitment will be to distribute a 30% of the expected cash flow from operations. But I think that today, taking into account that we are distributing a 33%, 34% with what we expect as cash flow from operation at the end of the year, EUR 7 billion, I think that, that is going to be probably the figure -- total figure of distribution for this year. Thank you, very much, Ignacio Doménech.

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

Thank you, Ignacio. That was our last question. At this point, I'll bring our second quarter conference call to an end. Have a very nice summer. We hope to see some of you on our ESG Day on 3rd of October, and thank you very much for your attendance.
