

CHAPTER 3

Sustainable Growth
Strategy for value generation

STRATEGY FOR VALUE GENERATION

Our 2017-2021 strategy maintains the objectives and commitments set out in the previous plan: maximising shareholder return and value creation, maintaining our financial robustness and achieving sustainable growth over the long term. In this plan, we have included Abu Dha-

bi as a priority area for the development and expansion of business units, taking account of the interests of our shareholder. To achieve these objectives, we have planned a series of actions that rely on the strengths we have built on over recent years.

“Our strengths for future growth”



- **Integrated business model.**
Gives us greater capacity to deal with situations of crisis and ensure long-term sustainability.
- **Financial robustness.**
Generates dividends and constant growth.
- **Extensive experience and know-how.**
Provides us with value added in the execution of projects on a worldwide level, in all our businesses and geographic areas.
- **Leadership** in chemicals and reference company in the refining sector.
- **Successful expansion of our businesses** in Latin America, one of the main growth markets.
- **Research and development.**
Contributes to the continuous improvement of our operations and the development of new projects.
- **Attracting talent.**
To attract and retain the best professionals.
- **Support of our sole shareholder.**
Provides us with long-term stability and synergies with other Group companies.

EXTERNAL FACTORS

PRIORITY OBJECTIVES

STRATEGIC ACTIONS



EXPLORATION AND PRODUCTION

- Low crude oil prices.
- Agreements for moderation of production.
- Increase in development costs of exploration projects.
- Higher growth in demand for gas compared to petroleum.
- Technological progress.

- Resilience against low prices and sustainable growth in the long term.
- Streamlining of our operations.
- Replacement of reserves and strengthening of our position in key regions (Abu Dhabi, Latam, North Africa).
- Focus on projects under development.

- Cost reduction programme and rethinking of investment and development plans adapted to new price environment to achieve greater efficiency.
- Reserve replacement in key assets such as Algeria, Abu Dhabi and Latin America, through the extension of existing contracts and selective mergers and acquisitions.
- Sustainable long-term growth, through the design of a portfolio that increases reserves (by reducing dependence on exploratory success, and incorporating projects under development).



REFINING

- Slow recovery and stabilisation of demand for petroleum products.
- Increased competitiveness of refineries in Russia, the Middle East and the US.
- Refining overcapacity in Europe.
- Regulation: Increased regulation of biofuels in Spain; implementation of IMO in 2020.

- Protection of refining margin.
- Improved process efficiency.
- Shift of portfolio towards higher value-added products.
- Adaptation to increased biofuel demand.

- Redesign of our product portfolio to manufacture more light products, with higher added value and demand.
- Consolidation of value chain optimisation plan, with the aim of improving efficiency of work processes.
- Adaptation to biofuel regulation.
- Gradual exploration of international opportunities.



DISTRIBUTION AND SALE

- Recovery in demand for petroleum products in the short term and stagnation in the long term due to rising efficiency, and the emergence of alternative fuels or changes in transportation habits.
- Shortfall of petroleum products in Africa.
- Increase of biofuel regulation in Spain.
- Technological progress.

- Consolidation of our market position.
- Improved internal efficiency.
- International growth opportunities: North Africa and Portugal.
- Marketing Optimization.

- Adaptation of product and service offerings to customer habits and competitive environment, with the aim of consolidating our market position and improving competitiveness.
- Implementation of new process optimization projects that help reduce costs and increase efficiency.
- Explore opportunities outside Spain that can diversify exposure to the domestic market.



EXTERNAL
FACTORS

PRIORITY
OBJECTIVES

STRATEGIC
ACTIONS



PETROCHEMICALS

- Major growth prospects of chemical products, closely linked to economic recovery.
- Recovery of the phenol market following the stabilization of the Chinese economy and the recovery of the construction industry.
- Increase in demand for LAB compared to replacement products due to low oil prices.

- Maintenance of leadership position in phenol and surfactants.
- Downstream expansion and diversification.
- Opening of new activities, technology innovation
- Planning of new projects in the United Arab Emirates.

- Consolidate leadership position in the LAB and phenol businesses through internal investments or mergers and acquisitions.
- Expand current business with diversification towards higher value-added products in the alcohol value chain, through the phenol and acetone value chain.
- Explore opportunities to continue business expansion.
- Presence in Abu Dhabi through synergies and joint projects with the Mubadala Group.



GAS AND POWER

- Overcapacity of electricity production facilities.- Higher consumption of coal over gas in electricity production.
- Higher growth in demand for gas compared to petroleum.
- Increased opportunities in renewable energies.

- Seeking gas business optimization by ensuring product supply.
- Reducing the regulatory impact on electricity
- Business expansion to new markets.
- Analysis of investment opportunities in renewables in Spain.
- New opportunities in the gas value chain.

- Adaptation of the electricity business to the sector's new regulatory framework.
- The gas business unit will focus on the contractual flexibility of Medgaz and on business expansion through new markets and alternative uses of natural gas.
- Assess opportunities in renewable energies.
- LNG Project in Abu Dhabi.



TRADING AND BUNKER

- Increase in business opportunities.
- Oil and product prices on the international market.
- Greater regulation (IMO).
- Geo-political situation.

- Development of a sole entity, sustainable over the long-term.
- Exploration of logistical positioning in new geographical markets with high growth potential.
- Optimization of strategic assets.
- Business expansion.

- Development of sole entity activity, sustainable over long term, initially relying on Cepsa's operations system.
- Development of blending capacity at Cepsa facilities.
- Explore new Trading markets in Asia.
- Expansion of Bunker business in LNG market.