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## REP.MC - Q2 2019 Repsol SA Earnings Call

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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 R Syme** *Citigroup Inc, Research Division - MD and Global Head of Oil and Gas Research*

**Alwyn Thomas** *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*

**Biraj Borkhataria** *RBC Capital Markets, LLC, Research Division - Analyst*

**Christopher Kuplent** *BofA Merrill Lynch, Research Division - Head of European Energy Equity Research*

**Flora Mericia Trindade** *Banco Português de Investimento, S.A., Research Division - Analyst*

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

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

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

**Luis de Toledo** *BBVA Research SA - Chief Analyst of Oil and Materials*

**Lydia Rose Emma Rainforth** *Barclays Bank PLC, Research Division - Director & Equity Analyst*

**Matthew Peter Charles Lofting** *JP Morgan 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*

**Pablo Cuadrado** *Kepler Cheuvreux, Research Division - Equity Research Analyst*

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

**Thomas Yoichi Adolff** *Crédit Suisse AG, Research Division - Head of European Oil & Gas Equity Research and Director*

## PRESENTATION

**Operator**

Hello, and welcome to the Repsol Q2 2019 Results Presentation. Today's conference will be conducted by Mr. Josu Jon Imaz, CEO. 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.

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

Thank you very much, operator. Good afternoon. This is Ramón Álvarez-Pedrosa, Head of Investor Relations. Welcome to Repsol's Second Quarter 2019 Results Conference Call. Today's call will be hosted by Josu Jon Imaz, Chief Executive Officer, with other members of the executive team joining us here in Madrid.

Before we start, I advise you to read out our disclaimer. During this presentation, we may make forward-looking statements, which are identified by the use of words such as will, expect and similar phrases. Please note that actual results may differ materially depending on a number of factors, as indicated in the -- as indicated in the disclaimer.

I will now hand the call over to Josu Jon.

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

Thank you, Ramón, and thank you, everyone, for joining us today on this conference call. Today, I like to cover the following main topics. Firstly, a review of the key messages on main operational highlights of the quarter. Secondly, a summary of the financial results. Thirdly, an update on the outlook for the rest of 2019. And finally, the Board proposal to implement a share capital reduction to improve shareholder remuneration announced this morning.

Let me begin by reviewing the key messages. During the second quarter, the industry has faced a volatile market environment, market by weaker international gas prices and a challenging environment for refiners in Europe. Even in this context, Repsol has been able to deliver a resilient set of results with a strong operating cash flow generation in both Upstream and Downstream. At the macro level, Brent oil averaged $69 per barrel in the quarter, 9% higher than in the first quarter of the year, but 7% below the same period of 2018. In the gas markets, Henry Hub decreased by 16% quarter-on-quarter and by 7% compared to the second quarter of 2018. Price references in Europe and Asia experienced significant declines, too. Our Refining Margin Indicator averaged $3.50, bottoming out in June at levels not seen since 2014. A combination of a stronger mine and fuel oil, together with weaker middle distillate spreads, impacted our margins negatively. The current CCS margin was higher than the indicator. Finally, the positive impact of a stronger dollar, partially offset the worst commodity environment. Operating cash flow in the second quarter amounted to EUR 1.4 billion, a 70% increase year-on-year.

Upstream continues to be a significant cash contributor to the group, benefiting from the relative strength of the oil price, while reducing its cost base. In Downstream, our weaker refining was compensated by the resilient performance of the rest of the businesses. As of June, the group's accumulated cash flow from operations amounted to EUR 2.5 billion, 47% higher than in the first half of 2018. Operating cash flow more than covered CapEx, financing cost and shareholder remuneration in the quarter and in the first half of the year. Upstream production was roughly flat quarter-on-quarter. As factor in our budget, volumes were impacted by plant maintenance in Trinidad and Tobago. Compared to the second quarter of 2018, cash flow from operations increased by 27% and CapEx was 25% higher year-on-year. On the development side, quarterly activity focused on the efficiency, delivery of projects, sorry, the efficient delivery of projects and the high-grading of our portfolio. In the Gulf of Mexico, the development of Buckskin is start production ahead of its plan has start to update, delivering significant cost savings.

In Downstream, the weaker EBITDA contribution from refining was offset by improved chemicals, a solid quarter in Peru, and better performance in the commercial businesses. The cash flow from operations amounted to EUR 630 million, EUR 436 million higher than in the same period of 2018, which was impacted by a significant working capital build up linked to higher inventories and the increase in oil prices.

In Low Carbon, consolidation of the business continued both in retail and in the low emission power generation. After quarter closing, we are now sign an agreement to develop 3 new renewable projects in Spain, 2 wind farms and affordable power plant with a total installed capacity of 800 megawatts. At the group level, net debt remained flat at EUR 3.7 billion or EUR 7.5 billion, if you like, if we include leases. This figure includes the investment of EUR 0.3 billion in treasury shares during the quarter. Liquidity at the end of June represented more than 1.6x our short-term gross debt maturities. Finally, the Annual General Meeting has in May approve the Board's proposals to increase the annual shareholder remuneration to the equivalent of $0.95 per share in 2019 and to implement a share capital reduction to offset the dilution associated with scrip. In the July dividend, the acceptance of the scrip option remains high at 72%. Later, I'll discuss the agreement taken by the Board to propose a 5% share capital reduction by the cancellation of own shares.

Now let me move on to the operational highlights of the quarter. Starting with the Upstream, second quarter production averaged 694,000 barrels of oil equivalent per day, 1% below the first quarter and 4% lower than in the same period of 2018. Quarterly volumes were impacted by the plant maintenance activity in Trinidad and Tobago. Higher volumes in Libya were partially offset by a lower production in Peru, mostly due to an unscheduled shutdown of the Peruvian LNG plant. Production in Libya is stayed close to plateau for the full quarter, averaging around 39,000 net barrels of oil for Repsol. The situation in the country continues to be complex. In July, operations remain stable until last Friday, when production was interrupted for 2 days. The incident was solved and operations were fully resumed by Monday morning. Turning now to the development activity in our projects. In Buckskin, on to our deepwater project in the Gulf of Mexico, we have reached first oil after the connection of the first producing well. The project has come online 6 months ahead of schedule with more than a 40% cost reduction, and a breakeven 30% lower. This first phase is expected to reach a gross production rate of 30,000 barrels per day. In addition, Repsol reached an agreement with LLOG, the operator of Buckskin, to develop other deepwater assets in the Gulf of Mexico. The agreement involves Leon discovered by Repsol and Moccasin operated by LLOG. Both these properties are less than 20 miles apart, which provides opportunity for a co-development. In Alaska, Repsol an Oil Search enter into an agreement to align ownership interest in the Pikka unit and in surrounding exploration blocks. Based on the recent successful appraisal campaign, a potential decision to enter the engineering phase could be taken during the second half of the year, with a final investment decision potentially in 2020. The partners are considering various development options, including the possibility of an early production with first oil in 2022. In exploration, 7 exploratory and 12 pre-salt wells were concluded. 5 wells were declared positive, 1 is still under evaluation. And the remainder wells were deemed unsuccessful. Our exploration schedule for the second half of 2019, includes the drilling of 8 wells. In Guyana, one of the focus areas for our near-term exploration strategy and exploratory well in the Kanuku block will test the Cretaceous play.

In Brazil, the appraisal of Sagitario's plant to start before the end of this quarter. Finally, in the Gulf of Mexico, the second appraisal of Leon is expected to start before year-end. In Indonesia, we are working on the upcoming appraisal of Sakakemang after having fully analyzed the results of the Kali Berau Dalam discovery well, which confirms its high potential. In July, Repsol signed a memorandum of understanding with PJM on the sale and purchase of the gas. Subject to approval, this is a significant milestone for an early production of this discovery.

Furthermore, this agreement confirms Repsol's commitment in supplying gas for the development of the Indonesian gas domestic market. Let me highlight that earlier this week, Indonesian authorities agreed to extend the production sharing contract for Corridor by 20 years, starting after the expiration of the existing contract in 2023.

Moving now to the Downstream highlights. As discussed before, the Refining Margin Indicator averaged $3.50 in the quarter. This was 34% lower than in the previous quarter and 51% lower year-on-year. Compared to the second quarter of 2018, narrower middle distillate and NAFTA spreads, as well as lower heavy-to-light crude differentials, impacted margins negatively.

The current units -- this year's refining margin was $0.80 higher than the indicator, thanks to the flexibility of our refining system, despite the planned turnarounds complete in the quarter. After the minimums of June, the indicator has recovered to an average of slightly above $5 per barrel in July, helped by a stronger product spreads, partially offset by narrower heavy and medium crude differentials. Plant maintenance in refineries included a turnaround of the coker in La Coruña and of the distillation unit in Bilbao, with no material impact on the utilization of our distillation capacity.

In 2019, we are accelerating the plant maintenance of our refineries to maximize plant availability during the period of maximum impact of the upcoming IMO regulation. In this sense, the turnarounds of Cartagena and Puertollano will start in September and in November, respectively. The chemical business delivered another good quarter of results. Thanks to a stable international environment and improved operational performance. Compared to the same period in 2018, our margins benefit from cheaper feedstock, higher LPG utilization and the absence of significant operational issues. The maintenance program in 2019 of our petrochemical sites includes that turnaround of the cracker in Tarragona on the fourth quarter. Our business in Peru had another good quarter, supported on healthy refining margins.

In the commercial businesses, the result of the mobility business was positively impacted by the start of the driving season. Our expansion in Mexico continued progressing on track with 200 service station operating out of 300 contracts signed.

In Low Carbon, the recently announced projects in Spain are another step in developing and operating profitable low emissions basis. Moreover, WindFloat Atlantic, our offshore floating wind product in Portugal, has reached an important milestone with the start some base turnover of turbine assembly. Our project pipeline, including Valdesolar in Spain, will add 1 gigawatt of additional renewable power generation to our portfolio, achieving 90% of our low emission generation target to 2025.

In the retail gas and power business, we have reached more than 900,000 clients, a 20% increase since completing 7 or 8 months ago, the acquisition of the Viesgo assets. Overall, the results in the second quarter, evidence, once again, the resilience of our Downstream business. While the Refining Margin Indicator decreased by more than 50% year-on-year, the EBITDA of this year, excluding the impact of IFRS 16, decreased just by at 2%. This is due to the flexibility of our refining system and its integration with marketing and other downstream businesses. Our international expansion strategy aims to maintain this resilience and best performance in the future. Turning now to the financial results, I'll summarize the main figures for the second quarter of the year and how they compare with the same period in 2018.

Second quarter 2019 CCS adjusted net income was EUR 497 million, a 9% decrease from the second quarter of 2018. Upstream adjusted net income in the second quarter was EUR 323 million, $37 million lower than in the same period of 2018. Lower prices and volumes were partially offset by lower exploration expenses, the appreciation of the dollar against the euro and lower cost. Accumulated adjusted net income in the first half of 2019 amounted to EUR 646 million, in line year-on-year, despite a decrease of 6% in the price of Brent and the lower production volumes.

Downstream adjusted net income in the second quarter was EUR 311 million, 8% lower than in the same period of 2018. The lower result in refining was partially offset by improving chemicals, a better result in Peru and in the commercial businesses. The accumulated result in the first 6 months of 2019 amounted to EUR 715 million, 6% lower than in the same period in 2018. In corporate and others, the adjusted net income for the second quarter was EUR 137 million negative, and EUR 11 million improvement compared to the same period in 2018.

Of course, as always, for further details on Repsol's results, I encourage you to refer to the financial statements and accompanying documents that were released this morning.

At this point, let me go through our update outlook to the end of 2019. Our strategic update defines a clear path to grow operating cash flow by EUR 1.9 billion from 2017 to 2020 under a $50 flat oil price scenario. Following our results in the first half of the year, we are on track to deliver on the target set to the end of 2020. By year-end, upstream production is expected to contribute with EUR 300 million of incremental operating cash flow. And this represents 75% of our objectives to 2020. RISE that is the efficiency and utilization program in the Upstream division is expected to deliver around EUR 300 million of sustainable operating cash flow improvement, roughly half of the targets set for 2020. The contribution is coming from improved maintenance, reduction in logistics and the commissioning costs and initiatives in gas commercialization. In the Downstream, we expect around EUR 80 million coming from international margins improvement due to IMO to be captured in the fourth quarter, out of the EUR 300 million expected for 2020 in our strategic update. Efficiency and the utilization projects are expected to capture EUR 130 million of sustainable cash flow improvement in 2019, progressing on our road map of generating EUR 200 million in 2020, coming from profitability improvement measures. Low Carbon and expansion initiatives in Downstream will start to positively impact the results this year with an expected contribution of EUR 120 million to cash flow from operations. Finally, in the corporation, we will see a 6% cost reduction by year-end, as the company continues to work towards new ways of working, implementing new processes and ensuring our commitment to reduce cost by 9% in 2020.

Altogether, we foresee an improvement of EUR 1 billion of sustainable cash flow from operations in 2019 coming from these levers out of the EUR 1.9 billion objective to 2020. I'd like to highlight the achievements in digitalization with more than 150 initiatives ongoing, out of which 50 of these initiatives are already scaling up. This transformational process throughout the company is enabling us to develop new business models, engage with our clients through omni-channel experience and continue to work towards operational excellence, both in our industrial sites and upstream projects. Finally, look at our full year guidance. Following the refining margin weakness of the first half, we are revising our average Refining Margin Indicator that we estimate to $6 per barrel in the whole year 2019. As a result, we are slightly adjusting our full year EBITDA of CCS to EUR 7.8 billion, mostly due to the lower refining margin assumption.

Before moving into the conclusions. Let me now discuss the share capital reduction that the Board will propose through the AGM, as announced this morning. Our strategic update for 2018 to 2020, contemplated, first, a self-funded plan at $50 Brent, with a total CapEx of EUR 15 billion from the period. An increased shareholder remuneration to EUR 1 per share, with a scrip option, implementing a share buyback to remove any dilution associated to the scrip. And an increase of the total shareholder return associated to a higher dividend and improve financial metrics. As we have discussed today, we are progressing on track to deliver on our strategic commitments in a more supportive price environment. The results in 2018 and our current estimates for 2019 and for next year, point towards to a higher cash flow generation to 2020 than originally expected. Taking all this into consideration, the Board has resolved to submit for the approval by the 2020 Annual General Meeting, a 5% share capital reduction through the cancellation of treasury shares. At current prices, the associated disbursement would be slightly above EUR 1 billion, and I'd like to underline that this will be in addition to the share buyback and capital reduction to offset the dilution of the scrip. This proposal preserves all our financial flexibility to maintain our organic CapEx and the expansion of our new Low Carbon business. And this fundamentally based on the higher cash flow generation in a higher commodity price scenario compared to the assumptions of our strategic update. The performance of our share price currently very far from Repsol's valuation of its businesses and the liquidity and gearing level of the Repsol group that provides a financial rationale through the purchase of treasury shares.

I like to conclude by reaffirming our path to meet our targets to 2020. And despite a more challenging environment during the second quarter, we remain on track to deliver on our goals for 2019, and the objectives set to the end of our strategic update. Second quarter results and a strong cash flow generation demonstrate the resilience of Repsol's integrated model, not only the balance between Upstream and Downstream, but also with integration within the different businesses in the Downstream segment. We are maintaining roughly unchanged our EBITDA CCS objective for 2019, having factor for a lower Refining Margin Indicator and a slightly lower production figures. We remain confident on the positive impact of IMO for which Repsol is perfectly positioned. The start-up of Buckskin project is an example of efficient delivery, aligned with our focus on short cycle, high-margin brownfield and exploration-led projects. The good news coming from Alaska, Gulf of Mexico and Indonesia, reinforce our commitment to deliver on our 2020 targets. We continue taking steps to thrive in the ongoing energy transition into a less carbon-intensive world, reshaping our portfolio to build the long-term options of the company. And finally, the progress in the delivery of our strategic targets, our financial flexibility and higher than planned commodity prices allow us to propose a share capital reduction that will further increase the value and remuneration to our shareholders, all within the cash allocation priorities set out in our strategy. With that, I'll now hand the call back to Ramón, who will get us through our question-and-answer session.

Thank you.

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

Thank you very much, Josu Jon. In case you run into technical problems during the webcast or conference call, please address any problems to our e-mail address, investorrelations@repsol.com, and we will contact you immediately to try to solve it. Before we move on the Q&A session, I'd like the operator to remind us of the process to ask a question. Please go ahead, operator.

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**Operator**

(Operator Instructions) I'll hand back to Ramón Álvarez-Pedrosa.

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

Thank you, operator. Let me now move to the Q&A session.

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## QUESTIONS AND ANSWERS

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

Our first question comes from Oswald Clint at Bernstein.

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

Josu Jon, two questions. The first one, really, on the Downstream business, more on the marketing side. I wonder if you could just potentially give us the marketing earnings this first half of the year? And specifically, is there any contribution yet from Mexico? And really, around this business, I see all of your sales, your product sales are also down around 4% or so for the first half of the year across all product types. So perhaps and within this topic, you could talk about what you're seeing in terms of demand? And then secondly, I guess, is a question more for next year. But I'm looking at your I guess your carbon emission allowances and the EUR 100 million or so of costs that you had last year? And just -- I know there's some offsets in credits from your emission allowances. But those have now quadrupled in price. And I think about 2020, as some of the allowances roll off, I'm just wondering, is the cost of the carbon going to become a bit of a burden for your business going into 2020. Thank you.

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

Thank you, Oswald. Let me, first of all, say that at this moment, Mexico is in operating result terms in breakeven after 1 year, starting the business there. So we are on track and even performing in a better way than expected in result terms. Our Mexico business and the main result of our marketing business, the mobility business, comes from Spain and from Portugal.

And this quarter, the EBITDA could be at around EUR 200 million in this business. In the case of the carbon emission allowances, I mean, let me say that cost carbon, I mean, it's not a big burden for Repsol, because in our refining and chemical business, we have reduced in a 20%, 22%, 23%, our CO2 emission level in our Spanish plants over the last 8, 9 years.

Today, we could have, let me say, a full exposure in terms of needing -- needs of purchasing carbon allowances, carbon rights at around slightly above 1 million tonnes per year, something like that.

But let me say, we are on track of go on reducing our CO2 emission level in our refineries. We have a quite ambitious project on track to reduce in 25% by '25 the current emission level we have in our plants. That means that we are going to be very close to the breakeven in the short term in our industrial plan. So I mean we are very efficient in energy terms. That is very important, not only in order to reduce the cost of carbon or CO2 tonnes, but mainly because we are reducing in a dramatic way the energy cost of our energy needs in our industrial plants. So that is not a burden today for Repsol. Thank you.

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

Our next question comes from Thomas Adolff at Credit Suisse.

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**Thomas Yoichi Adolff** - *Crédit Suisse AG, Research Division - Head of European Oil & Gas Equity Research and Director*

A couple of questions for me, please. Firstly, just on your 2019 guidance. You tweaked your EBITDA guidance somewhat. Just wondering if there's any contingency buffer or is this your best estimate? And within that, what upstream production is assumed for 2019? Secondly, just going back to the additional buyback, should I view this as a one-off or can it be more recurring, maybe not necessarily at that run rate, but some form of a commitment to return more via buybacks on a more sustainable basis? And then maybe finally, just specifically on this incremental buyback plan, are you confident that this can all be funded organically without using the balance sheet. And in that scenario, what sort of a CapEx organic -- inorganically is assumed.

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

Thank you, Thomas. Going to the EBITDA guidance, I mean, we are assuming upstream production, something between 715,000, 720,000 barrels per day for the whole year. I mean if you take the EUR 3.7 billion of the first half in EBITDA terms, I mean, and taking into account that we are forecasting a higher refining margin in this half of the year and the production of the upstream is going to be at around 30,000, 35,000 barrels per day higher in the second half comparing with the first half, mainly coming from the Buckskin coming from the Marcellus, coming from Peru and so on. Taking all that, that is the rationale behind this EBITDA guidance. I mean going to the buyback, I mean, what is the rationale, first of all? I mean, in this half, with low refining margins and a half of the period with our Libyan production, we have been able to invest more than EUR 1 billion, maintaining the debt in a low level of EUR 3.7 billion. And our best guidance today, at current oil prices, after building the inventory level, we need -- at these prices, consuming their working capital, we needed this to achieve a cash flow from operations, 1.1 billion above our strategic estimations at the end of 2020.

I mean, on top of that, due to efficiencies as the Buckskin project execution shows, the Upstream business CapEx execution in the period 2018, 2020 could be EUR 1 billion below our strategic guidance, I mean seeing more because we are prioritizing the return in our Low Carbon business, and this return is going to be building our own capabilities and through greenfield projects. I mean probably a part of this CapEx, the CapEx, the EUR 4 billion committed to the expansion of Downstream and Low Carbon business would be committed but not executed at the end of 2020. So we will be EUR 2 billion or EUR 3 billion below the debt level forecast by the end of 2020, that taking account this net-debt-to-EBITDA ratio that in our strategic cap goes below 0.7% at the end of the strategic plan. I mean let me underline that there is plenty of room for this decision that our Board took yesterday. I mean, in any case, we are going to prioritize organic growth projects as much as we can. I mean Leon, Moccasin, CPO-9, Sakakemang, or the development of 1,000 megawatts of greenfield renewable projects is a good example of that. But I mean, I said from the very beginning to you, if we see room after boosting growth to additional buybacks, we will do it. I have repeated this message many times. And let me say that I'm very comfortable today proposing this additional buyback. But let me also underline is that first net new and real buyback in Repsol history because, I mean, the rest of the buyback, the buyback after the history and so on, they have at the end offsetting the dilution coming from the scrip. This is a net new and real buyback. And I'm going to say more, I mean, that is one short, of course. But if we have a similar cash situation next year and if we see that the cash flow from operations is above our expectation, I mean, I've analyzed to propose an additional buyback to our Board also if we have the same conditions. And let me say, I mean, I have a concern because the dilution our shareholders experienced from 2012 to 2016. And let me underline. I do my best to partially offset this dilution, redeeming a part of those issued new shares in this period of time, always under the principle, of course, of financial discipline and always prioritizing the organic growth we could have with returns that could increase the value of the company and the value of our shareholders. I mean I think that the third is combining the cash flows and CapEx is answer. Thank you, Adolff.

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

The next question comes from Chris Kuplent, Bank of America.

**Christopher Kuplent** - *BofA Merrill Lynch, Research Division - Head of European Energy Equity Research*

A similar question, I think, if I may, a bit more -- a bit more detail. If you are keen, as you just answered on potentially buying back more shares, can you perhaps comment about any appetite to raise the EPS. How do you feel about currently a 7% dividend yield or more. Are you basically saying for now, returning cash to shareholders via buybacks is a more profitable route as you see it? So I appreciate you've given us EPS outlook guidance for 2020. But just a bit more color in terms of how you prioritize between the 2 ways of returning cash back to shareholders. And lastly, you mentioned already upside to your 2020 cash flow from operations outlook, perhaps you can give us a little bit more detail because, of course, famously, that existing outlook was based on $50 Brent. So on what basis are you making these statements that you can see more than 1 billion upside to that existing guidance, please?

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

So I mean, let me say, first of all, that as you said, Christopher, I mean, there are a lot of options to increase the remuneration of the shareholders. But I think that today, the share buyback is a practice adopted by most of our peers. And we believe that is the best way to increase value for our shareholders under the current market conditions. I mean we can't ignore that today our dividend yield, taking into consideration the current share price is very close to a 7%. And in some case, I mean, buying or buying back new shares, we are, at the same time, increasing the earnings per share of our shareholders, and we are increasing the value of the share of Repsol and the value for our shareholders. We think that is the most efficient way to do that. I mean the estimation we are taking to calculate this operating cash flow is mainly the current oil price basis. Plus, the refining margin, we are taking in this second half of the year, plus our estimation of the IMO effect for 2020 and the increase of production coming from the upstream. I mean if we take all of that, today, our best estimation for the period 2018, 2020 is that this -- I have in mind a figure, I think that otherwise correct me please, Antonio, that we had EUR 16.8 billion as cash flow coming from the operations in the whole period of 2018 to 2020. We are going to check the figure now because I have in mind this figure. And our expectation today, achieving the figure of EUR 17.9 billion of cash flow from operation over the whole period. On top of that, I mean, I also underlined before the expectation about the evolution of the CapEx figure. But the main rationale comes from the cash flow from operations. So thank you, Christopher.

**Christopher Kuplent** - *BofA Merrill Lynch, Research Division - Head of European Energy Equity Research*

Just a quick clarification, if I may. Your views on the IMO impact for 2020 haven't changed from what you previously disclosed, correct?

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

Is an increase of $1.5 per barrel for the whole period of 2020 due to the IMO effect that we think that even now that you know that there is some kind of a volatile expectation about the IMO depending demands we are, taking into account the 50% of heavy oil feedstock we have in our system and the 55% of middle distillates production we think that $1.5 per barrel, gaining the refining IMC is a quite a prudent guidance for 2020.

**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 - Director & Equity Analyst*

Two questions, if I could. The first one, just coming back to the buyback, that does seem a change in the way that you're thinking about things. Can I just ask in terms of where are you comfortable with gearing going to? So where do you think we'll be gearing to the end of the year? And where would you be comfortable with that gearing level going, if you were to do additional buybacks? And then the second one, just -- would you mind just talking about the Downstream as it is right now, in particular those light heavy crude spreads and how you see that changing towards the IMO implementation? Because as an observation things haven't played out this year quite as, I think, many of us expected it to.

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

Thank you, Lydia. I mean, first of all, our best expectation this year, in terms of net debt in December is at around EUR 3.2 billion, EUR 3.3 billion of net debt at the end of 2018. So in terms of gearing, if we take the current -- I mean, with no buybacks, the forecast we have at the end of 2020 was an EBITDA, I'm talking about the strategic update, by 2020, at around EUR 8.8 billion, more or less. And net debt of 6.1%. So the net debt EBITDA ratio rose at around 0.7% in our expectation in the strategic update. I mean, today, we don't have any, let me say, a concern regarding the EBITDA figure, but regarding the debt, under the basis, I said before, we could have a EUR 3 billion less in debt terms. That means that we will be without any kind of action at around EUR 3.1 billion, EUR 3.2 billion of debt at the end of 2020, with an EBITDA of EUR 8.8 billion that means at around 0.4%. So I mean, we are comfortable being below 0.7%, 0.6%. I'm going to say more. The average of the sector could be at around 1, 1.1x the ratio. So we have a plenty of room in terms of financial flexibility doing that. What is the strategic outlook about spreads of heavy crude oil. I mean, we are experiencing, let me say, Lydia, a quite volatile environment, and in refining margin terms. I mean, this morning, checking our system. This week, we are at $6.3, $6.4 per barrel. In the whole average of July, we are slightly above 5% this month. And 4.5% has been the average of the first half and even some weeks we have achieved a figure of $2 per barrel in May, June. I mean, our expectation regarding the second half of the year is a bit better. We are seeing that already in the middle distillate spreads that are today at around $16, $17 per barrel, increasing in a quite clear way the refining margin and I'm going to say more. We are starting now seen and a slight improvement of these spreads in terms of heavy crude oil. I mean, last week, we could have a $5, $5.5 of discount. And today, we grew half our -- $1 more in discount terms, almost $7 per barrel. It seems to me that if we take in a serious way the IMO, and I think that, that is going to happen, I mean the discount on fuel oil, a high sulfur fuel oil is going to happen. And linked to that, that phenomenon, we are going to see a wider spreads of heavy crude oil. Anyway, as I said before, we are quite prudent and only taking the effect of the middle distillate side and seeing the heavy crude oil at around $7 per barrel, we will achieve an improvement of $1.5 per barrel because the IMO effect over the whole IMC of Repsol. Thank you, Lydia.

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

Thank you, Lydia. Our next question comes from Alastair Syme at Citigroup.

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

I had a couple of questions just on some of the Upstream portfolio development activity you've done this quarter. One was on Alaska. I noted that Oil Search said in their press release that they have the intention to sell down their stake in Pikka from 51% to 35% ahead of project FID. So I just wanted to find out whether that's your intention to try and keep to do the same, to keep you ownership in Pikka in line? And then the second question was on the Corridor PSC extension that you mentioned earlier. I'm sure that terms are going to be confidential, but can you kind of help frame for us what sort of concessions you've made to get the project extension, or the contract extension?

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

So first of all, going to the Alaska project. I mean, we have entered Repsol and Oil Search, I mean, into likely set of agreements to align ownership interest in the Pikka unit and its surrounding exploration blocks owned by the companies. I mean, in my perception, to align the interest of all the players in the huge way in the Pikka and the exploration block surrounded the area was very, very important. And now we are working together, the 2 companies, analyzing and studying the terms of the development decisions we have to take in the future. But from the Repsol side, we are very comfortable with the percentage we have today in Alaska. I mean, we don't have any kind of intention to divest or to dilute our share in the Alaska project. And today, I mean, mainly based on the successful appraisal of drilling campaign we have had this winter, it's likely that a decision will be taken to enter in their feet, that means in the engineering project, in the second half of 2019. I mean our first approach today is after this stage to approve a potential final investment decision for the project within 2020.

And as part of this technical evaluation, the partnership, I mean, both companies, we are considering several various development options. And one of them, perhaps one of the most probable include an early production of in Alaska with first oil in 2022. So that is the best approach for that. Regarding the terms of the Corridor, let me underline that Corridor is an important player for Repsol. I mean, mainly because it's going to give us a stability, and as I mentioned, to our activity in Southeast Asia. And on top of that, we have discovered Sakakemang that you know that Sakakemang is one of the most relevant discoveries in the last 2 decades in Indonesia. We are today a preliminary estimation of a list to TCFs of recoverable resources, and thanks to the extension of Corridor, we are going to have room to one early development of Sakakemang, and today, a quite reasonable and prudent target will be to have the first gas of Sakakemang by 2022. I mean, taking into account that, on top of that, we are going to be able to combine and to get synergies, using facilities from both projects and so on, that is going also to improve the economics of both sides, the Corridor project and the Sakakemang project. In this extension, Repsol is going to have at around 22%, 21%, 22%, 21.6% strictly speaking, and the economic conditions includes a $250 million bonds. Plus $250 million of exploration commitments over the time because the extension is going to achieve -- these figures are, of course, gross, that is not the 21.6% of Repsol. And we are going to invest a minimum of this figure. But let me say, if we see opportunities, we are going to invest more because we are achieving the extension of the project until 2043. Thank you very much, Alastair.

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

Can I just clarify on Corridor, do you think entitlement production in, say, 2025 will be higher than it is today then as the function of raising the gas volumes?

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

No, the production is going to be slightly below the figures we have today. In any case, I mean, I'm going to -- I don't have to -- now the exact figure in mind, because it's going to depend, of course, on the exploration side. I mean, if we are able to add barrels, and we are going to put all our effort there. We could have a similar production we have today. I mean if we are not able to add these new barrels coming from the exploration, we could be slightly below. But I mean, let me say, we have a quite positive experience in exploration side in Indonesia in this area, and we are going to put all our best to try to maintain the current production we have in Corridor from 2023 on. Thank you.

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

Thank you, Alastair. Next question comes from Biraj Borkhataria at RBC.

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**Biraj Borkhataria** - *RBC Capital Markets, LLC, Research Division - Analyst*

Two, please. First one on production guidance. One of the things you mentioned, or one of the areas you mentioned in the second half of '19 was ramp up -- ramping up in production in Marcellus, which I was a little bit surprised by, given where U.S. gas prices are. So could you just clarify where production was in the first half of this year and what you're expecting for second half? And then the second question, I know you've gone through this a couple of times. But just to clarify on the 5% share cancellation. Have you effectively bought back most of these shares already and is sitting in treasury, and you'll look to cancel them post the AGM? Or are you -- is the entire 5% based on the incremental buyback from today over the next year or 2?

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

Thank you, Biraj. Going to your first question. If you take our figures of this first half, you could see that the realization price of the Marcellus gas has been $3.1 per million of BTUs in this period. Today, after CapEx, our breakeven in cash terms, is at around $2.4 per million of BTUs and we are working hard, pushing down this figure. And having a higher production in the Marcellus is going to be also a way to be more efficient, increasing, or reducing better said, the breakeven in price terms in the area. So I mean, that is -- we have because we have perhaps one of the best midstream in the area, we are one of the most efficient operators in the area. And in terms of netbacks, we are a first quartile in the Marcellus, so even at these prices, we are getting money in the area after CapEx.

Going to the share buyback. I mean I know that this issue of -- the execution of the new shares is quite complex in technical terms. So I'm going to try to clarify and not to create more, or to put more confusion in this issue. I mean, first of all, let me underline the fact that in coming 12 or 14 months, we are going to need more than 220 million shares in France. So almost a 15% of the total amount of shares Repsol have in December 31. I mean, we are going to need these 220 million shares to redeem the commitments related to the 2019 buyback linked to the scrip, to the additional net buyback, the 5% we'll propose to the next AGM and to the 2020 buyback linked to the next scrip. So that means that there is plenty of room for new independent buyback programs launched under the current regulation. And of course, depending on market conditions. Our first step will be in coming days or weeks, launching a new program to buy the shares we need to redeem the new shares coming from the 2019 scrip, that is going to be the first step in coming days or weeks. And on top of that our aim is to arrive to the AGM, having in our hands the shares needed to execute the AGM decision of this additional 5% buyback. I mean, I'm going to add that in the meantime, and at these prices, you may understand, we will be open, taking into account the undervaluation of the stock price to keep going a significant number of treasury stock in the balance sheet of the company, of course, always under the limit defined by law but let me say, it's a good investment. I mean, we are investing with no risk. And with that 7% of return and we could finance ourself in the market, clearly below 1% for coming 10 years. So I mean, we are not going to doubt or to hesitate to keep going a significant number of treasury stock in the balance sheet of the company. Is that enough clear, Biraj?

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**Biraj Borkhataria** - *RBC Capital Markets, LLC, Research Division - Analyst*

Very clear, thank you.

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

Thank you, Biraj. As next question comes from Michele Della Vigna of Goldman Sachs.

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

And congratulations on the good results despite the difficult macro environment. Two questions, if I may. The first one is about production. Could you give us the moving parts of how we get to around 750,000 barrels per day of production in 2020? And then secondly, going back for one moment to IMO. Are you already starting to see demand for IMO compliant product? And what do you think you can achieve in terms of refining margin premium in the second half of the year?

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

Going to the second -- to the -- they have reached in terms of production for 2020. I mean, today, we are, let me say, comfortable with the 750,000 barrels per day, but I'm going to add a disclaimer. I mean, we could see some volatility variation depending on the gas production in Venezuela. So -- but having 10 more or 10 less, 10,000 less or 10,000 more, in 2020, depending on the gas on Venezuela, I mean, it's not my concern today. Because as you could imagine that is not the best option in terms of cash -- of cashing the production. I mean, saying that, we are quite comfortable with this gas production in Venezuela, because in the first 6 months, or better said, 7 months of the year, we were paid in our -- for 45% of the bills of the gas of Venezuela. And the main production is going to come mainly from the Marcellus; from Norway, the Yme project is going to be there; from Peru, in some way, because the production has been lower in 2018 and 2019. And we have some minor projects. The Duvernay, that is slightly growing. And that is behind the rationale of this production in 2020. And I mean going to the IMO, I feel that -- I mean, a lot of things will happen related to the IMO. But I think that the more close we are, or the closer we are from January 1, the more conviction we have that the IMO is going to happen. And the main part of the fleet in the world is going to be compliant with their products. And being compliant means installing the scrubbers. And we know now that, that is going to happen only in a 12%, 15% of the fleet, not more.

And on top of that we are going to have 2 options and the 2 options are to include middle distillates. I mean, this low sulfur gas oil as product or going to a very low sulfur fuel oil, that could happen. I'm not going to say that the very low sulfur fuel oil is not going to be an alternative. My point is that it's going to be a more expensive alternative. Because to do that first of all, you need a light crude oils with a low sulfur content. And these products are going to be very expensive, believe me, from January on. And secondly, you need to blend this fuel oil with some other products like the VGO, the Vacuum Gas Oil, and so on, but let me say again, they are going to be, in this context, very expensive. So doing expensive things to put a product in the market. I mean, it's good news for Repsol because that means that we are going to have plenty of opportunities to get high margins for the products we are going to obtain, producing with heavy crude oils, a middle distillates in our fully converted conversion system. So that could happen that I see as a great opportunity for our refining system, the IMO scenario, because we own the 8% of European distillation capacity that we operate, and we own 1/4 of the total coking capacity in Europe. What is the premium for -- I mean, that is going to depend, of course, on the operation, it's going to depend on margins. You know that when you have higher margins, I mean you are more adaptive to the programmation you have, that means you are going to capture, perhaps, less premium, that having a lower margin than expected and being more flexible. But today, my first approach and what I'm going to act to the refining business. I mean, the objective of this refining business is going to be in the current $0.8 per barrel as premium. Thank you, Michele.

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

Thank you, Michele. Next question comes from Flora Trindade of BPI.

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**Flora Mericia Trindade** - *Banco Português de Investimento, S.A., Research Division - Analyst*

First one on exploration costs in Upstream this year, the level, of course, is much lower than last year. Should we assume a lower level than the full year last year in our estimates. What could justify this lower level? Or it should be in line with last year? And then secondly, you discussed a lot on the IMO, on the impact. I was just wondering, do you see any risks of a part of these pressure on refining margins we are seeing since the beginning of the year being more structural than short term? And if so, any risk of the final impact of the IMO being jeopardized by this structural pressure on margins.

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

Flora, it seems to me that -- I mean, the exploration expenses related to exploration success. I mean, the CapEx is going to be similar to the CapEx of the last year, slightly below $600 million, $580 million is today my best approach in the budget. But because we have had a quite successful exploration campaign and a pressure campaign in the first half of the year with the Pikka, with Sakakemang, with the Gulf of Mexico and Blacktip, with Telesto in Norway and so on, so what you see as exploration costs in the P&L is lower because the exploration success over the period because, I mean, if we have our success, of course, all that is capitalized and not a charge in the a stray well in the P&L. I mean, we are going to have additional wells this half in Guyana, in Bolivia, in Indonesia, in Norway, and depending on the -- and in Brazil, and the Sagitario price and depending, of course, of the success of these wells or not. I mean, we will see a figure or a different figure in the P&L, but the CapEx is going to be similar to the CapEx of last year -- of this first half, sorry. And the CapEx of the whole 2018 year.

And I don't think so, I'm talking now about your second question about the IMO because, I mean, it's true that we have experienced a quite, let me say, a tough period in the second quarter in margin terms, I mean, I don't have a crystal ball, let me say that I don't know what will happen in the future. I'm trying to elaborate my best to understand what is happening. But vertically, today, we have our 9 IMC margin indicator of $6.4 per barrel, we are above $5 in July, and it seems to me that the IMO effect is going to appear with all its intensity, in my perception, in the last quarter of 2019. So my perception would be that this IMO effect is not going to jeopardize the -- or it's not going to be jeopardized but as I said by the low structural margins over the first half of the year. So I see a positive effect and today, we are seeing in our forecast or guideline -- guidance for 2020, Repsol, $8.2 per barrel in our whole refining system, including, of course, the IMO effect. Thank you, Flora.

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

Thank you, Flora. Our next question comes from Irene Himona of Societe Generale.

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

I had 2 questions, please. Firstly, is it possible to talk a little bit about the Spanish retail picture because your -- in Q2, your product sales are down 8% or 9%, but then you indicated better sort of marketing profit. So are you losing market share, perhaps, in less profitable segments? Or is it fewer retail stations, if you could clarify? Secondly, looking at cash flow in the first half, you generated about $1.8 billion, $1.9 billion of operating cash flow, around 10% of that or 9% is from dividends received. I wonder if you can talk about the affiliates that are paying that dividend? Is it Brazil? Because the year-on-year improvement is quite spectacular, it's up about 3x.

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

Thank you, Irene. I mean let me first of all to say that the Spanish retail market is growing, it's still growing. It's growing slightly. What do you see in our product sales in the second quarter of '19, each related to 2 effects. The first effect is that distillation in the refining business has been slightly below the previous quarter under last year and has nothing to do with the market but with a low margins, that you know that we maximize the conversion production. But in the distillation side, we maximize the volume. That means that we distillate until the last barrel that is adding a positive margin and having the top in margin in negative as it goes in the whole period. I mean the target program in the refineries was to maximize the distillation to fulfill the conversion capacity. So we were distillating a lower amount. And secondly, the large picture in the mobility sales in terms of reduction was in the wholesale side. I mean we try to optimize the margin in all the channels. So the wholesale market, depending on the alternatives coming to the Spanish market from imports, compete with our trading alternatives through expert or to move our products to some other places. So in an enterage of low margins is quite normal to see more imports in our market that competes with our wholesale a channel, but not with the service station business. I'm going to say more in the service station business, thanks to the nonoil, we are increasing the result, we are increasing the number of customers. We are increasing the services we are providing, and we are entering in new businesses in our services station business. Saying that, I mean, we lost a 0.5% because of commercial policy, a commercial practice in this period, 0.5%., the sales figure in our service station business in the whole period. Thank you, Irene. Sorry, the second one. I mean is -- I check that this morning, I have to realize, because it's a technical issue coming from the application of the IFRS 16 rule to some affiliates and mainly coming from Brazil, from [AROQ] in Russia. But this, let me say that technical application of the IFRS 16 rule. Thank you, Irene.

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

Thank you, Irene. And next question comes from Jason Kenney at Santander.

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

Just looking for some clarification on tax rates. I think you saw 42% in the quarter. I was expecting slightly lower than that. It has been reasonably volatile over the last few quarters. So maybe a full year guidance on where tax rates could go? And then from EBITDA, the $7.8 billion for 2019. Could you split out what you think the Upstream could contribute?

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

Okay. Jason, thank you. I mean, going to the tax rate, the whole period expect for the year could be at 50%, more or less the average for the Upstream business, 25% average for the Downstream business. And I mean, depending on the basket of results of 2. These 2 businesses, we will be at around 40% for the whole company. I mean, being in the 39%, 40%, 42%, 43% depends on the basket Downstream/Upstream. And the basket you have of products and countries within the Upstream. So -- but what we expect at the end of the year, is this 50% for the Upstream, 25% for the Downstream and 40% for the company, more or less. Thank you. And sorry, the split of EBITDA for the whole year. I mean, we are talking about EUR 7.8 billion for the whole company. That means that EUR 4.8 billion, more or less, could be the Upstream and -- sorry, EUR 4.9 billion the Upstream, EUR 3.1 billion the Downstream and the difference between the addition of these 2 businesses. And the guidance, I said before, of EUR 7.8 billion is going to be the EBITDA consumed by the corporate side. So thank you, Jason.

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

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

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

Just one left, actually, related to CapEx. And I think, Josu Jon, earlier you indicated there was also some signs of headroom emerging within the strategic plan and then the sort of the EUR 15 billion 3-year spend. Could you just sort of clarify on the basis of organic CapEx, the EUR 11 billion, the extent to which you still expect to spend that EUR 11 billion versus headroom emerging and where you see 2019 organic spend versus the prior guidance, which I think was EUR 3.8 billion, as I remember, for the full year.

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

I mean, thank you, Matt. I think that it's going to be mainly, I mean, 95% or almost organic. I mean, we don't have any organic in mind, but I'm going to add. I mean, we could do things in the Upstream side, rotating and upgrading our portfolio. I mean, buying, acquiring an asset in a place where we could have good, let me say, business expectation, or we could capture a basket of tax credits we could have in the country and so on and a bit before or later, disposing some assets in some other place. I mean we do things like that in a practice of rotating and upgrading our portfolio in the Upstream. But what we are seeing mainly is organic. You know that I'm trying to maintain this view that not is starting the inorganic side, I mean, is many times is easier to get returns and results, developing the organic side. So it's going to be mainly organic. But as I said before, we could see a small acquisition of assets in our framework in our policy of upgrading the Upstream portfolio. And going to the Downstream and the Low Carbon and so on, I mean, we have seen small inorganic acquisition, like the JV of Bardahl was at around EUR 40 million. I can't remember the exact figure. Now the 40% of Bardahl and so on, but what is related to the Low Carbon business. I mean we could see us more, let me say, opportunistic capabilities, acquisitions and so on, but it's going to be mainly organic in the way, because we are building our own talent pool, we are building a first-class team in Repsol to manage the renewable generation business. You know that -- I mean, for the best, in this case, I mean, we are a Spanish company, and Spain has been in the first quartile in the world developing renewable capabilities in the past. So thanks to this approach, I mean, we have the capacity to attract the best talent today in the world to work in Spain, to develop the basket of projects we have in our hands. So it seems to me that it's going to be mainly organic. Thanks. And in -- sorry, in 2019, it seems to me that the figure is going to be a bit lower, that the -- the CapEx I have in mind as guidance for 2019 is EUR 3.5 billion for the whole year. Thank you.

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

Thank you, Matt. Next question comes from Alwyn Thomas at Exane BNP.

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**Alwyn Thomas** - *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*

Can I actually just follow-up on Matt's question, please, regarding CapEx, particularly regarding the EUR 4 billion expansionary CapEx from 2018 to '20 that you've allocated. Could you just maybe guide us on how much you've allocated now with the announcement of the 2 of the solar plans. And it seems to me of that remaining budget, it seems like there's a lot to be allocated either for the rest of this year or 2020 in particular. And you said before, you expect that to be mostly -- most of the CapEx to be more organic. So should we expect a big organic sort of uptick for next year as you build-out, particularly the chemicals business, where I know you have a EUR 1.5 billion expansionary plans there. So maybe could you just -- just comment on that? And then just secondly, just a couple of quick questions. The RISE, EUR 0.6 billion improvement you talked about in the Upstream. It seems like a pretty big number for 1 year uptick on this year. So maybe -- I appreciate you've had maintenance and issues this year and you've got projects ramping up, maybe can you just break out what it is exactly driving that? Is that OpEx related or CapEx related? And maybe just a quick one to follow-up, the high realization in the Marcellus on gas prices. Is that due to the midstream agreements that you've got?

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

So I mean, going to the CapEx expansion. I mean, our best expectation today will be -- I mean, to be -- I mean, to allocate, and that could change, of course, depending on the development of projects and so on, but my best approach today is that EUR 2.5 billion out of this EUR 4 billion are going to be allocated at the end of 2020. But saying that a part of this EUR 1.5 billion additional is going to be committed, not allocated. I try to rationalize. We approved 1 billion -- sorry, 1 gigawatt in 4 projects. Project in 2 wind farms in Spain, plus all the solar, plus the Sigma project also in Spain in Cadiz. So taking these 4 projects, we estimate that we could invest, let me say, it's more or less in these 4 projects at around EUR 800 million rough -- roughly. EUR 400 million of these projects are going to be executed in CapEx terms, something in between 2019 and 2020, but some of these projects, one of them, the wind farm is in the Zaragoza area is going to be produced in the last quarter of 2020. But a part of this CapEx from the other projects is going to be executed in 2021. So technically speaking, we are going to allocate more or less our best approach EUR 2.5 billion out of these EUR 4 billion by 2020, at the end of 2020. That goes behind the CapEx reduction in the strategic plan I explained at the beginning of this Q&A area. In chemical -- in the chemical areas. Today, we are analyzing 2 of the -- 2 or 3 projects, I mean, we could see something in the, let me say, in the mid-term, in 2020. But in any case, we are talking about projects that they are not going to be materialize, let me say in CapEx terms. I mean, we could expend EUR 100 million to EUR 200 million, additional EUR 100 million to EUR 200 million in 2020, but that is -- the dimension of the figures we are speaking about. Going to the realization gas price in Marcellus. Does the midstream influence on -- could you repeat the question, please, could you repeat the question about the Marcellus, because I didn't take note of that, please?

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**Alwyn Thomas** - *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*

No, it was just -- you realized a very high price relative to spot in the Marcellus. And I was just wondering whether that was partly due to your midstream agreements and how that works?

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

So I mean, the realization price is a mixture, is a mixture, of course, of geology, is a mixture of the operational performance, it's a mixture is also a factor. The midstream, we have and the transport, we have because you know that in the Appellation area, the pressure of prices is quite high, but if you have the transport contracts to put this -- you've seen the Tennessee of the Empire pipeline, we could transport discussed to have where we have better realization prices. I mean, taking all that today, the breakeven in cash terms in the Marcellus in Repsol production, including all that is, is something between $2.3, $2.4 per million of BTUs. Thank you, Alwyn, sorry for not understanding at the first glance your question.

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**Alwyn Thomas** - *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*

Yes. And sorry, just my last question. The other question was just on the EUR 0.6 billion improvement in the Upstream through the RISE projects that you have going on. I'm just wondering if you could maybe give a bit more detail on what -- how you break that down.

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

So this EUR 600 million of operational cash flow in the Upstream business due to RISE, I mean, EUR 300 million of them they have been captured this year, including '19, and 300 additional million euros, they are going to come in 2020. And more or less, all that is OpEx. We are talking about EUR 600 million. And it's not your fault. It's perhaps our fault, because, I mean, we are creating a confusion mixing RISE and mixing the operational cash flow coming from the operation. I mean, in the Upstream business, I'm going to try to clarify and not to put more confusion on that, sorry. If we take the EUR 1 billion in cash improvement from the operations in the Upstream business for the whole period of the strategic update, EUR 600 million of them are going to come from efficiencies, digital and so on and EUR 400 million for new organic production. From this EUR 600 million that are new margins or OpEx. So cash flow from operations, EUR 300 million, they have been captured in the period of 2019, or they are going to be captured this year. And a half, EUR 300 million, next year in 2020. And if we go to the RISE program, we have to add an additional efficiency in CapEx that over the whole period 2018-2020 could be roughly at around EUR 300 million or EUR 400 million of additional savings.

But this last part is not containing the operational cash flow because it comes from the CapEx side. I mean, it's behind the efficiency in the CapEx. Thank you.

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

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

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

So I have a question on your Upstream. It seems to me that a lot sort of moving parts going on. You talked around, as I understood it, a strategic approach to the Upstream, which was to be relatively conservative on spending, focus on high-quality, high grading. And I think you talked about the perimeter for production rising to the 750,000 barrels a day, but you didn't really indicate much of an ambition to go higher than that when you last laid out the strategic plan. But it seems to me is that during that time subsequently, you actually expanded the opportunity set that you have with the discoveries. You've obviously moved forward Alaska, I mean, discoveries in Indonesia, the discoveries in the Gulf of Mexico, et cetera. So to some degree, you have some choice emerging. Is that the right way of thinking about it that the choices that you have to spend investment dollars on have broadened? And if it is the case, what is your approach going to be? Are you going to seek to fund all of those? Are you going to make some choices. And if you are to make some choices, what are the criteria that you're going to apply to what you fund, what you don't fund, and, potentially, I guess, is what you divest?

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

So thank you, Jon. I mean, of course, we are working, and you know that time quite boring about this kind of issues in my answers, because we have a framework and the framework is strategic plan and I'm going to work following the path we defined in the strategic update. That means that I have a target of 750,000 barrels per day in 2020. And I said before, we will have 10,000 more or less, depending on the Venezuela situation and so on, but that is not going to change the whole picture. Of course, we will present our strategic plan after the close in -- on finishing this one at the end of 2020 or the beginning of 2021. I mean, we will see but I mean, I don't have in mind the ambition to go above 750,000 barrels per day. I mean my focus is higher margins, higher cash coming from our Upstream business, better projects, very focused. I mean because if you -- very focused in good projects, because if you have the pressure of adding more and more and more barrels, the risk is to lose opportunities. I want to have choices in our hands. And having choices means that we have organic projects on track, we could have opportunistic small inorganic operation to complement or to improve the portfolio we have, but the full focus of our Upstream business and our business in this sense has a clear, and let me say, objective and target, and that is to get higher margins, higher cash, better projects, a better portfolio and the ambition to go above this figure in terms of barrels is not going to be there. And I have the opportunity to fund new things, I'm going to prioritize the upgrading of the portfolio over the increase in the number of barrels. So thank you, Jon.

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

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

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

Earlier this month, you announced you're developing 2 new wind projects and a photovoltaic project. Can you give us any indication as to the level of returns do you expect from those? And perhaps, the returns you're seeing available in renewables more generally?

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

So I mean, the renewal projects we announced all of them, they have a return of the project around 9 -- something between 9%, 10%. And in terms of the IRR, linked to the financial structure of these projects, all of them are so deliver, all of them are above 10%, 11%. That is the return we expect from the wind farm in Zaragoza, the second wind farm in the Spanish high place close to Valladolid in the Burgos area, and the solar farm in the area of the South West part of Spain in Cadiz. So deliver. So the return on the project at around 9% and the rentability of equity above 10.5%, 11%. Thank you, Peter.

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

Thank you, Peter. Next question comes from Luis de Toledo BBVA.

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**Luis de Toledo** - *BBVA Research SA - Chief Analyst of Oil and Materials*

I guess one question regarding the profitability of the North American. Is it all related to gas prices or there's been something affecting negatively the profitability in the quarter?

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

So Gracias, Luis, thank you. And what is behind the profitability of North America is the price of gas, gas prices as you perfectly mentioned, even tougher in Canada and in the area of Alberta due to the high eco price and so on done in the states where, thanks to the first quartile and very good assets we have in the Marcellus, the situation is better there. Thank you, Luis.

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

Thank you, Luis. And next question comes from Pablo Cuadrado of Kepler Cheuvreux.

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**Pablo Cuadrado** - *Kepler Cheuvreux, Research Division - Equity Research Analyst*

One quick question on Venezuela, can you update us is the level of receivables or if something had changed during the quarter. I guess, the situation was improving, at least in the last quarters. And if you guys just compromises, the situation remains under control? And if you can share the level of receivables has been stable or not, that would be great.

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

Thank you, Pablo. I mean, regarding Venezuela, of course, I reaffirm, again, our willingness to continue with our businesses in the country, where, as you know, we have stayed there for more than 25 years. And our main priority, our main objective is to protect 150 workers we have current in the country. And of course, guarantee the safety of our operations in the country. Of course, in this complex situation, where we are operating with full compliance to local and international laws and policies in force in the different countries where we operate. And we are continuously analyzing and monitoring potential changes that could change our activities. I mean, it's true that it's not an easy business today, an easy business environment, but during the first half of the year, we have received a reasonably regular crude oil cargoes in payment of debt. And our production is in line with the budget related to Cardón for that, as you know, is the gas production in the JV we have with ENI. We have received 4 cargoes in the half, plus 1 more in July, that represents the 45% of the billing of the period that -- I mean, it's not, but taking into account, improving the figures we had last year. And over this period, the Petroquiriquire has receive a cargo by month. I mean, roughly, they committed 7,000 barrels per day. Thanks to this, let me say, a control situation in financial terms, the exposure to Venezuela has been reduced from $522 million at the end of 2018, to $447 million at the end of this half of June 2019, and the receivable side has been more or less stable. But I mean, the situation, taking into account the complexity of the country has been in the terms I express now in dollar. Thank you, Gracias.

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

Thank you, Pablo. That was our last question. At this point, I will bring our second quarter conference call to an end. Thank you very much for your attendance and have very nice summer.

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**Operator**

That concludes the conference for today. Thank you for participating. You may all disconnect.

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