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PRESENTATION

Operator

Hello, and welcome to the Repsol Second Quarter 2020 Results Conference Call. Today's conference will be conducted by Mr. Josu Jon Imaz, CEO; and a brief introduction will be given by Mr. Ramón Álvarez-Pedrosa, Head of Investor Relations. I would now like to hand the call over to Mr. Álvarez-Pedrosa. Sir, you may begin.

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

Thank you, operator. Good afternoon, and welcome to Repsol's Second Quarter 2020 Results Conference Call. Today's call will be hosted by Josu Jon Imaz, our Chief Executive Officer, with other members of the executive team joining us as well. Before we start, I advise you to read our disclaimer. During this presentation, we may make forward-looking statements, which are identified by the use of words such as will, expect or similar phrases. Please note that actual results may differ materially depending on a number of factors as indicated in the disclaimer.

I will now hand the call over to Josu Jon.

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

Thank you, Ramón. Good afternoon to everyone, and thank you for joining us today. I hope that you and your families and also your friends are keeping safe and healthy in these extraordinary times we are going through.

In today's call, I'd like to cover the following main topics: Firstly, the key messages on the market environment of the second quarter; secondly, the main operating highlights; thirdly, the financial results; and finally, the delivery of our Resilience Plan and the outlook to the end of the year. At the end of the presentation, of course, we will be available to answer all your questions.

Let me begin by reviewing the main messages. During the first 6 months of the year, the global demand for oil and oil products has been severely impacted by the spread of the COVID-19 pandemic. Our clear priorities since the start of the crisis has been to protect the health and safety of our employees, clients and suppliers, while doing everything in our hands to maintain the continuity of our operations to guarantee the supply of essential energy products and services to society.

After a tough first quarter, our industry has had to navigate a very complex and volatile environment as we enter and charter territory of lower commodity prices and depressed demand. The financial results of the second quarter reflect the full impact of the crisis. The adjusted net income turned negative, but even in this difficult scenario, our business mix was able to generate a positive operating cash flow. The accumulated operating cash flow in the first 6 months of the year was positive in all of our 3 divisions.

Repsol faces this challenging environment in a better financial position than in previous price downturns. Our Resilience Plan for 2020 is delivering as planned. And at this point, we expect to surpass the EUR 2.2 billion of targeted cash savings for the year. And to make sure that we continue having the financial flexibility to resist any potential scenario, we have taken additional measures to further reinforce our liquidity position and financial strength.

Following the payment of the July dividend made effective with a scrip option, we have delivered on our shareholder remuneration commitments for 2020. Our treasury stock position as of the end of June allow us to remove the dilution associated to the scrips of -- the 2 scrips, I mean, of 2020.

And finally, although it is probably too soon to say that we are already past the worst of this pandemic, we are seeing signs of a faster demand recovery than initially expected. Nevertheless, and considering the worst short-term commodity price outlook, the company has registered EUR 1.3 billion post-tax impairment charge against second quarter results after revising downward its oil and gas price assumptions for 2020 and 2021.

Looking briefly at the macroeconomic environment of the quarter, Brent price averaged close to $30 per barrel, a 41% decrease compared to the first quarter of the year and 57% lower than a year ago. At the beginning of the quarter, the combination of high production volumes and the sudden contraction of demand due to the rapid expansion of the coronavirus sent Brent crude to its lowest level in almost 20 years.

Starting in May, the output cuts agreed by producing countries and the gradual reopening of economies, significantly China, allowed for the recovery of the oil price that has stabilized now at around the $40 level. The price of natural gas has also been impacted by the crisis, although to a lesser extent than crude oil with significant drops across most of the regional price references.

In the U.S., we have average $1.70 per million Btu, 15% lower than in the first quarter and 35% below a year ago. In Europe, gas price references like NBP and TTF have traded below the Henry Hub for the first time in 10 years. The Refining Margin Indicator averaged $3 per barrel, a 36% drop compared to the previous quarter and 14% lower than in the second quarter of 2019. Margins were negatively impacted by the weakness of middle distillates and the gradual recovery of the oil price as the quarter progressed.

Moving on now to the operational performance of our businesses. Starting with the Upstream. Operations have been actively managed to adapt to the weak and volatile market conditions. The flexibility of our portfolio allowed for an immediate response to the COVID-19 crisis through instant CapEx reduction and OpEx efficiencies. Investment in the second quarter was 62% lower than the same period of 2019. The unit OpEx was $7.9 per barrel in the Upstream business, 12% below the second quarter of last year. Quarterly production averaged 640,000 barrels of oil equivalent per day, a 10% decrease compared to the previous quarter and 8% lower than in the same period a year ago. Production during the first half of 2020 amounted to 675,000 barrels of oil equivalent per day, 3% lower compared to 2019. The lower production in the second quarter compared to a year ago, which is explained by, first of all, Libya's operation in El Sharara, as you know, remain under force majeure since January. The lower gas demand caused by COVID-19, the temporary field shutdown some production reductions due to lower prices. And these negative effects were partially compensated by the new wells connected in Marcellus and the higher interest we acquired in Eagle Ford.

Exploration activity in the second quarter included the completion of 7 wells, of which, 5 were declared positive, 1 was deemed negative and 1 well remains under evaluation. During the first half of 2020, a total of 8 wells have been completed, of which, 6 have been positive. The positive wells, 2 in Alaska and 3 in the Gulf of Mexico, the 6th one is in Lorito in CPO-9 in Colombia, were among the discoveries anticipated in our May results conference call. Both regions, Alaska and Gulf of Mexico, are core exploration areas for Repsol, where we are building our future opportunity portfolio. In Alaska, we made discoveries in the Pikka Horseshoe formations. In the Gulf of Mexico, the Polok

and Chinwol discoveries are located offshore Mexico, Mexico, the country, I mean, in the Salinas Basin, while the monument discovery is in the U.S. side of the Gulf.

In the light of our net zero emissions commitment, our revised exploration strategy is focused on productive basins where project cycles can be shortened. In this context, during the last quarter, we transferred our interest in an exploratory block in Bulgaria in the Black Sea. Portfolio management actions also included the agreement reached with PetroVietnam to transfer them our stake in the current project and in 2 exploratory blocks.

Going on and continuing now with the Industrial division, the performance of this business was significantly impacted by the effects of the pandemic. In Refining, all our refineries remain in operation, achieving reasonable run rates, although with reduced activity levels. Some of the refinery units were temporarily shutdown as an optimization measure in response to the lower product demand and the lower margins. The average utilization of our distillation capacity stood at 70%, while the utilization of the conversion units reached 82%. The Refining Margin Indicator averaged $3 in the quarter, $0.50 lower than a year ago, mainly due to weaker middle distillates and the strengthening of the Ural spread, partially offset by lower crude prices and energy costs in our refineries. Even in this adverse scenario, the flexibility of our Tier 1 refining system allow us to generate a $0.10 premium in the unit CCS margin over the icator.

The Chemicals business has remained resilient through the crisis, continuing its recovery trend from the lows at the end of 2019. During the second quarter, higher international margins resulting from the sharp drop in the price of NAFTA, were more than offset by the impact of COVID-19 in some sectors. The narrowing of the NAFTA propane differential and the impact of IQOXE plant accident in January. The ethylene oxide plant of IQOXE, a third-party with a high degree of integration with our production in Tarragona, returned to operation in May.

In the Trading business, the second quarter was very strong, helped by the gradual recovery of the oil price, leverage on volatility and the contango charter of the market. Our business in Peru had a solid quarter 2, helped by stronger refining margins.

Now before moving on to the commercial highlights, let me briefly touch on the 2 major pioneering industrial decarbonization projects that Repsol will undertake in our Petronor refinery in Bilbao in Spain. The first project involves building one of the world's largest plant to manufacture net zero emission fuels, using CO2 and green hydrogen generated with renewable energy. The second project is a plant for generation of gas from urban waste, which will replace part of the traditional fuels or liquid raw materials, better said, using Petronor's production process. Both initiatives, in some way, anticipate the refinery of the future and represent a significant boost for the technological and industrial development that is essential in the current context of economy recovery.

Continuing now with the performance of the Commercial and Renewables business. Starting with mobility, sales in Service Stations in Spain decreased by 48% year-on-year as a result of the confinement measures applied since March. By mid-May, the restrictions started step-by-step to ease in some regions, but the mobility between Spanish provinces was not allowed until late in June. So all this effect has impacted the whole quarter. Demand for gasoline and diesel is returning to normal and is now only 10% to 15% below its level a year ago. When I say now, I'm giving you the figures of average July. This compares positively with the 85% demand contraction at the height of the crisis and the 25% reduction that we have in June.

Demand for kerosene remains very weak, though at around 80%, below its level in the same period of 2019. Remember that the drop in April and at the beginning of May was at around 97% in our market. The Lubricants, Asphalts and the Specialties business maintained a robust performance supported by higher margins despite lower volumes. And in LPG business, the higher margins were partially compensated by the milder weather and the impact of the coronavirus crisis. In Gas & Power, we continued to grow our retail client base with a net acquisition in the first half of 64,000 clients, more than a 6% increase since the beginning of the year. Also, Spanish National Commission of Markets and Competition gave Repsol electricity and gas its highest ranked certification, the A level, confirming the environmentally friendly source of the power we market.

In Power Generation, we continue progressing on our road map to reach 7.5 gigawatts of generation capacity in 2025. During the second quarter, construction work started in Kappa and Valdesolar, 2 photovoltaic projects in Spain, with a combined capacity of 390 megawatts. The development of Delta, a 335 megawatts wind farm project under construction since December, continues on schedule. Our pipeline of renewable projects under construction or in an advanced development stage has a combined capacity of 2.3 gigawatts adding to the 3 gigawatts of low-carbon generation capacity that Repsol has currently under operation.

And finally, yesterday, our Board of Directors approved an investment that represents our first international venture in Renewables in

Chile. This will be made through a joint venture with Ibereólica, a Spanish company with a strong background and extensive experience in that country.

This joint venture will manage a balanced portfolio of green and solar projects of up to 2.6 gigawatts in several stages of development, including today, 78 megawatts in operation in Chile and 110 under construction. We also have an option to control the joint venture after 2025. With this movement, we are making important progress towards meeting our stated goal of operating 7.5 gigawatts of low-carbon generation by 2025. The total development of the pipeline included in this transaction will allow us to reach 6.1 gigawatts of generation capacity by mid decade, 80% of the goal. The agreement will be executed through a capital increase of EUR 168 million. The cash out expected in 2020 associated to this transaction doesn't jeopardize their Resilience Plan or its CapEx target, all that is, of course, included in the figures of Resilience Plan we are disclosing today. And it's a clear demonstration of capital allocation towards the energy transition in our company.

Let me now briefly review the financial results of the quarter. The group's adjusted net income was EUR 258 million negative, which compares to a positive result of EUR 497 million in the same period a year ago. The net income amounted to a loss of EUR 2 billion, impacted by EUR 1.3 billion post-tax impairment due to lower short-term price assumption and a EUR 0.3 billion negative inventory effect due to a depreciation of our stocks. The impairment has affected the book value of our Upstream assets. Our revised assumptions in real terms for 2020 and 2021 are now $43 and $49, Brent, respectively; and $2 and $2.7, Henry Hub. The average long-term price assumption between 2020 and 2050 is $59.6, Brent; and $3.3, Henry Hub in real terms of 2020. The adjusted net income of the Upstream division was EUR 141 million negative, EUR 464 million lower year-on-year, mainly due to lower realization prices and volumes, partially offset by the lower costs and amortization rates. In Industrial, the adjusted net income was EUR 8 million positive, which compares to a gain of EUR 177 million a year ago, mostly driven by the lower results in Refining, Chemicals and wholesale gas, together with the negative impact of own use adjustment and non-transcended sales partially offset by the better results in Thailand and in Peru.

The result in Commercial and Renewables was EUR 42 million positive, EUR 86 million lower than in the same quarter of 2019, mainly due to the lower results in Iberian service stations, Spain and Portugal, partially offset by the good performance in LPG in the Lubricants, Asphalts and Specialties business and in electricity and gas. In Corporate and Others, the adjusted net income was EUR 167 million negative, a EUR 36 million decrease over the same period a year ago. The group's EBITDA CCS stood at EUR 0.6 billion in the quarter. Even considering the challenging macro scenario that we have faced, the accumulated EBITDA at CCS in the first 6 months of 2020 stood at EUR 2.1 billion. The cash flow from operation was EUR 0.3 billion in the quarter and EUR 0.9 billion in the first half of the year. Net debt, excluding leases, stood at EUR 4 billion, which compares to EUR 4.5 billion as of the end of March. This reduction was driven by the net positive effect on our debt from the hybrid bonds transactions executed in June.

I'll elaborate further on this when addressing the measures taken to strengthen our financials. Our liquidity at the end of the quarter cover our debt maturities beyond 2029. I have in mind the figure of March 2030, without the need for any refinancing. For further detail on Repsol's results, I encourage you to refer to the complete documents that we released this morning.

And at this point, I want to take you through the delivery of our Resilience Plan and the measures that we have taken to reinforce our liquidity position and financial strength. Firstly, our self-financed Resilience Plan for 2020 is delivering as projected. At this point, we expect to improve over the EUR 2.2 billion of targeted cash savings, which will allow us to maintain our debt in line with 2019 through OpEx and CapEx reductions and working capital optimizations. Starting with the Opex, up to June, we have captured more than EUR 250 million, mostly through fixed cost reductions, reduction of personnel expenses and G&A optimizations. The revised estimate for the year stands now at EUR 450 million, EUR 100 million more than initially expected.

CapEx reductions have captured more than EUR 550 million in first 6 months of 2020. In NAFTA, reductions have come mostly from the cancellation of exploration activities, project deferrals and the flexibility of unconventionals where drilling activity has been drastically reduced.

In the Industrial area, CapEx has been reduced to the minimum level that guarantees the safety of our people and operation. And let me underline that perhaps in safety terms, it was the right decision in order to avoid any kind of development of the infection during the pandemic we have suffered this quarter in Spain. And in Commercial and Renewables, not only have we kept the investment in low-carbon projects under construction or in advanced stages of development but also, we have take advantage of this time to enter the Chilean market as discussed before. Our revised estimate for the year is to capture more than EUR 1.1 billion of CapEx savings, around EUR 100 million over the initial expectation.

Finally, working capital optimization reached more than EUR 300 million up to June. The expected optimization to be captured in the full year remained unchanged at EUR 800 million. With the purpose of actively managing our hybrid bond stock and strengthening our financial flexibility, back in June, we issued 2 new perpetual subordinated bonds for EUR 1.5 billion accounted for as equity as we repurchased 60% of our EUR 1 billion non-core hybrid bond issued in 2015, also accounted for as equity. The net positive impact of this transaction has reduced our net debt by EUR 0.9 billion. So when I was reporting EUR 4 billion some minutes ago, I was taking into account this effect. In addition, our liquidity position was further reinforced with the issuance of 2 senior bonds for EUR 1.5 billion, and by increasing the committed credit lines in more than EUR 1.6 billion in the first half of 2020.

Before moving to the conclusions, I'd like to touch on our updated outlook for the remainder of the year. Starting with the production volumes, we are maintaining our 650,000 barrels of oil equivalent per day guidance, guidance I announced in the last first quarter results presentation in May. Despite our updated assumption that no production will be coming from Libya until the fourth quarter of the year. Remember that in May, I was taking in consideration the possibility of producing in Libya a half of the year. Following weaker refining margin performance and in an exercise of [provisions], given the remaining uncertainties about demand recovery, we are lowering our expected full year average Refining Margin Indicator from $4 per barrel to $3.80. Having already reviewed the delivery of our Resilience Plan, total CapEx for the year is expected at around EUR 2.8 billion. Altogether, the 3 levers included in our plan will enable us to reach year-end with a net debt figure in line with that of 2019, which stood at EUR 4.2 billion. In addition, the net positive effect of our hybrid issuances and partial redemption will put our debt figure well below EUR 3.3 billion, that is the figure of the former, let me say, EUR 4.2 billion of debt we have at the end and taking into account a reduction of this debt for the hybrid effect. So our guidance is to be, as a clear effect of the Resilience Plan, well below EUR 3.3 billion of net debt at the end of the year.

And lastly, there is no change to our main objectives related to the energy transition for the year. We will reduce our carbon intensity indicator by 3% compared to our 2016 baseline and the accumulated CO_2 emissions reduction from 2014 will reach 2.1 million tons in absolute numbers.

To conclude, we are delivering on the objectives of our Resilience Plan, ensuring the robustness of our balance sheet while reiterating our commitment to lead the energy transition in pursuit of our objective to achieve net zero emissions in 2050. Despite, let me say, very tough first half of the year, we expect to withstand the current environment supported on our strengths with a clear priority on health, safety and the continuity of our operations. Our unique track record in previous down cycles, the flexibility of our portfolio and a solid financial situation put us in position to continue building a sustainable multi-energy projects with a reaffirm decarbonization strategy and an industry-leading dividend yield.

The Resilience Plan is performing well, and we expect to surpass the initial objectives set to the end of the year. The plan contemplates a very stringent scenario for the remainder of 2020. And its delivery is now a shared objective for all the members of our organization. We are fully focused in delivering this Resilience Plan we announced in April. Uncertainty remains on the short-term outlook for commodity prices associated with the possibility of new global or regional lockdown measures. But if this situation persists, we expect a high level of price volatility that will put integrated energy companies like Repsol in a better position to face such a scenario. Our prudent view on the 2020 and 2021 commodity prices is reflected in the impairment registered last quarter, even though last year, we were 1 of the first companies to already assume an internal commodity price scenario, consistent with the policies that target the decarbonization of the economy, aligned with the objectives of the Paris Agreement.

Let me underline that back in May this year, Repsol has fulfilled a commitment associated with EUR 500 million green bond issuance carried out in 2017. Our commitment to sustainability turned us into the first oil and gas company to issue a green bond. And in last 3 years period, we have allocated EUR 500 million in eligible projects of energy efficiency and low emissions technology, all verified by an external auditor, of course. The disruption caused by the COVID-19 pandemic is still probably far, let me say, from being solved. But we have signs of a faster recovery of demand and growth we initially expected. And with that in mind, we expect to release -- better say, we will release our updated strategy to 2025 in November. Our ambition to achieve net zero CO2 emissions by 2050 and its strategic implication will be the basis of the new strategic plan. The recently announced decarbonization on circular economy projects are just a glimpse of what is to come in our sector as faster technology evolution will be required to achieve the decarbonization of the industry. Hopefully, we will be able to communicate the new strategic plan in person. But in any case, we will be happy to present it to you virtually if the situation requires to.

With that, I now hand the call back to Ramón, who will lead us through a question-and-answer session. Thank you very much. Ramón?

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

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

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

Thank you, operator. Let me now move to the Q&A session. Our first question comes from Michele Della Vigna at Goldman Sachs.

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

Josu Jon, congratulations on an impressive delivery on cash flow and balance sheet in what was probably the worst macro in memory. I had 2 questions. First of all on Downstream profitability, how should we think about Q3, given that on one side, global refining margins are under tremendous pressure, but on the other side, there's clear signs of a very strong improvement in Spanish demand? And then secondly, on Libya and the El Sharara, in particular, could you run us through what are the key hurdles for a sustainable restart? And how confident you feel that, that can be achieved in the second half of the year?

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

Thank you very much, Michele. I mean, we have experienced a very tough quarter in personal and in business terms, and perhaps is one of the toughest we have known, not only in our sector, even in our societies. Saying that we have in mind for this year in terms of our Downstream business, I mean, let me start with what is happening in the Commercial business. Going to the Commercial business, I remind you that we had a drop in our service stations in Iberia of 68% of volumes comparing with April -- 2019 in April. In May, we had a drop of 51%. The drop was at around 25% in June, comparing with June. And in July, we have as of today, a decrease of 13% in volumes comparing with July, I mean, let me remind you that -- I mean, what we are selling today in July is a 33%, 35% above what we had in January or February, but comparing with July 2019, the drop has been of 13%. So we are seeing a clear recovery in the demand. And we have to take into account that in Spain, we lack the international tourist and visitor. So we are experiencing all that in a society that is not yet, let me say, 100% at its normal activity. So we are quite confident regarding all that.

Going to the Refining, what is happening with the Refining business. Our best forecast in margin terms for the second half is $3.8 per barrel. And our expectation is that we are going to get a $0.5 per barrel premium over the second half of the year. Even in this tough situation in the second quarter, we're -- as you could imagine, we were exporting a lot of our production. So we were losing the CIF and FOB spread. We have been able to have a small -- a short premium, we expect to have $0.5 as average for the whole year. What we are experiencing now in the Downstream, in the refining in July, is perhaps 1 of the toughest situation for the refining because all the inventories store in our -- not in our system, I'm talking about our (inaudible) in Europe and the world, in middle distillates and gasoline and so on are still there. It's true that in gasoline terms, we are seeing a reduction of inventories. But as a consequence of all that, even though the demand is growing in our countries, we are seeing a very low refining margin. The average in July for the Repsol system has been a margin index of $1 per barrel with a premium of $1.8 per barrel. That means that we are getting -- we are capturing a real margin in July of $2.8 per barrel, a very low figure. Our expectation is that in coming weeks, months, because their storage is going to be reduced and the demand is -- step by step is growing, we are going to see this $3.8 per barrel with a premium of $0.5 as average. But saying that, the Downstream is more than refining and service station. Chemical business is performing in the right way. It's -- we are seeing that sales are increasing, that in operational terms, we are performing rightly. Business like trading, Lubricants, Asphalts are evolved the budget we had. And all in all over the whole year, it seems to me that we are going to have -- combining the -- of the downstream, the cash flow from the operations in the Downstream is going to be at around EUR 2 billion over the whole year. For all the Downstream businesses, cash flow from operations, let me say that growth we expect in the whole company in terms of cash flow from operations is at around EUR 3.6 billion over the whole year, 2020. And a relevant part of all that EUR 2 billion is going to come from the Downstream.

And going to Libya, I mean, Michele, the Libyan environment is volatile and complex. And there is a certain degree of international consensus around the need of a new effort towards institutional building. And we hope that the country can advance at consolidating its stability. And in any case, let me underline that the oil production is very important for the country to get the revenues they need to to maintain the welfare of the society. And in this context, neutrality and independence of the NOC and the Central Bank is a very positive tool for the whole country. So I don't have a certainty about that but we are taking into consideration that, I mean, Libya could hypothetically to resume the old operations in the country over this year. But of course, it's not in our hands.

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

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

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

I have 2, please. The first 1 is just, Josu Jon, I wanted to get your thoughts on the dividend. You're obviously trading on double-digit yield. So the market is clearly concerned about it. And I understand the levers you're pulling for 2020. I guess, particularly on the working capital point, as you look into 2021, you might not have as much leeway there. So in addition to that, you're issuing scrip shares at the current share price, which is clearly not sustainable. So I was just wondering, can you just talk about how you're viewing your payout over the medium term, particularly in light of what peers have done recently in cutting dividends? So that's the first one. The second one is on your Renewables business. For your renewable generation capacity, can you remind us what proportion of your capacity has exposure to merchant pricing? And how much is tied to PPAs as we stand today? And how that -- how those proportions move as we get closer to the 7.5 gigawatt target?

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

Thank you, Biraj. So going to the dividend question. I mean, as you know, as you said, in 2020, we are going to maintain EUR 1 per share that was committed in our strategic update '18, '20. And I mean all that was done maintaining our policies, maintaining our commitments, but at the same time, without having to increase the debt of the company this year, 2020. So we are compromising the shareholders remuneration for 2020 without increasing net debt. It's true that this year, and clearly speaking, we are taking one-shot positive effects, coming a part of them from the treasury stocks we had at the end of 2019, we are going to get some -- in structural terms, some working capital that is going to be one shot, but it's also true that we are experiencing a very negative one-shot effect coming from the pandemic. Regarding the next strategic plan, I mean, we are currently working on defining all the strategic guidelines of the company, including the dividend policy. So allow me to be prudent and postpone this discussion until the strategic plan that is going to be released in November.

In any case, Biraj, let me say that shareholders' remuneration is one of the pillars of Repsol's strategy and will be one of the key commitments included in the new strategic plan. I guess it's too early to provide a definition on that. But nevertheless, our shareholder remuneration proposal will be based on 2 points. The first one, being attractive compared to peers, I mean, being in the first quartile of our peers; and secondly, being attractive comparing with the main companies listed in the Spanish IBEX 35. Also, again, being in the first quartile of this index. And on the other hand, all that must be financed with the organic cash generated, not paid with debt. So strengthening our balance sheet, maintaining our financial flexibility on one hand, thriving in the energy transition and having an attractive shareholder remuneration in the first quartile is the triple objective that our strategic plan has to fulfill. And that is the defy we have. We are going to do it. We are going to present the strategic plan under these 3 objectives. And I think that the fuel to feed these objectives will be the performance and delivery from our assets and businesses in cash terms. But Biraj, let me say that we will continue this discussion in November. Thank you.

Excuse me, excuse me, I forget your second question. The second question related to Renewables. I mean all we have in Spain is a pure market. It's fully exposed to the merchant price. I mean we have to take into account that we also have the short position in terms of our commercial power side, the retail business that means that we have, in some way, an integrated position in Spain. What we are taking in Chile is different because we don't have this integrated position. And for that reason, we are going to cover a 70%, 80% more or less of all that through PPA, and 2030 through merchant. Let me underline that all that is going to be dollarized. So U.S. dollar, USA dollar is going to be the currency in all the PPAs we are taking in Chile. So the risk from the currency point of view is low. And from the point of view of the country, you know that Chile is also one of the most stable and where the rule of law is clearly enforced in Latin America, let me say, even in the world comparing even with European countries. Thank you.

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

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

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

I had 2 questions. Just back on the Upstream and the volumes for 2020, the [6 50] that you're sticking with, although, you've pushed Libya back 1/3 within that number. Could you just give us perhaps the moving parts of that? Or how the various countries are going to move from here? Is it returning Norway, Algeria volumes? Or some of the shut-in volumes that you made yourself -- sorry, Colombia and Canada and the Gulf of Mexico, is it those coming back in? Or is it more Marcellus wells coming through? And if it is the countries that were shut in, do you expect those all to come back as they were producing before, please? That's the first question. And then secondly, just quickly, just on your comment there on the certification that you received in Spain for renewable electricity and one of the best rankings in Spain, is -- are you seeing evidence that, that's attracting customers? Are you starting to get extra customer and wholesale contracts on the back of that, please?

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

So thank you, Oswald. Going to your first question, I think that this reduction in production is a mixture of different things. The first one is Libya. Libya, we are going to lose more or less 30,000 barrels per day, 30,000, 35,000 barrels per day due to the shutdown of the operation because of the force majeure situation in Libya. We are -- we have lost some production coming from the lower gas demand in the world. That is a measure of Bolivia, Peru, Indonesia and Algeria. You know that gas coming to Europe or going to Asia has been reduced due to the confinement in many countries because of the pandemic and all that has had a consequence in the Upstream business in terms of production. On top of that, we had some wells and some areas that were shutdown because the economics during of the low price time. And there, we mainly have the Buckskin in the Gulf of Mexico, the CPO-9 in Colombia, some assets in Norway because the regulator construction and so on. And also in Canada, in oil production in Chauvin. And a main part of that is now running. It seems to me, I have in mind that we are running in a normal way in Buckskin, same thing in Norway. We are increasing production in some other areas. And all that start to be, let me say, or let me use the term normalize. And on top of that, of course, we have the flexibility of the nonconventional, the unconventional that is going to be used depending on the gas price and the breakevens in the states. And all that has impacted in negative terms the gas production in Canada, where we have reduced the workovers and the drilling in the area, and we have increased a bit the production in the Marcellus comparing what we had before because we are pushing down the breakevens, and we have had prices to capture quite positive cash in the area. So what we could expect in coming months is going to depend on the evolution of the situation, but let me say that in oil terms, the reduction of production is going to be recovered. Libya is going to depend on external circumstances. And in the unconventional, the gas price is still low. We are going to be prudent in the CapEx we are going to apply. And the gas demand in Indonesia, Peru and so on is also going to depend on the recovery of the gas demand in Asia because you know that a part of the Peru's production goes to the other side of the Pacific. And Oswald, I mean, your point is really interesting because we are starting to offer something different to our customers. I think that we are the only producer among the 5 main electricity producers in Spain and that we are commercializing our products, that we could say that all our production is low carbon. And let me say, all that is a differentiation factor. It's not easy to say what is behind what we are doing, but it's curious that even at such a tough year, we have been able to slightly increase the base of customers we have in Spain. And we are entering in this Low Carbon business with clear goals of having a different product, a product that is going to be sustainable, that is going to be renewable, that is going to be more digital and that is going to be also an integrated product trying to offer a whole energy offer to our clients. And it seems to me that all that is now working. Thank you, Oswald.

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

Thank you, Oswald. Our next question comes from Thomas Adolff at Crédit Suisse.

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

Two questions, please. Just going back to the Upstream. The new guidance you have [6 50], including Libya. If you were to execute Libya, can you perhaps talk about the exit rate in 2020? And what production may look like if CapEx next year stays around the same level as 2020? And then secondly, just a question to clarify some of the numbers you've mentioned around cash flow and net debt, if that's okay with you? You've mentioned your expectation for this year is to generate a cash flow of EUR 3.6 billion. I'm assuming this excludes any of your interest expenses of roughly EUR 500 million for the year? And when we go further down towards net debt, just to clarify on dividend and offsetting the scrip dilution, you are saying that you are not doing any incremental buybacks in the second half of the year. But instead, you're using the existing treasuries from last year to offset the dilution? And how do you expect the average working capital position to evolve for -- by the end of this year? I mean we've had a working capital drag of about EUR 1 billion so far in the first half.

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

So thank you, Thomas. I mean, starting by the financial side, trying not to forget anything you ask. The operating cash flow, I mean, I underline again that our best guidance and expectation for the whole year is going to be at around EUR 3.6 billion, having a working capital, positive evolution over the second half that is going to be at around EUR 600 million better than today. So we expect to put the end -- or to finish the year with EUR 1 billion positive working capital over the whole year. Because this quarter, we have had, I mean, negative impact coming mainly from the contango operation we have in the trading, I mean, trying to capture the margins we have in the market, an increase in the inventories in the refinery of Peru because the drop in the Peruvian market that, as you know, came after the extension of the pandemic in Europe. And the third effect is that because we are reducing in a quite dramatic way the CapEx of the company. I mean, when we compare the payables on the financing we have with our suppliers, we are losing working capital between the 2 years, comparing the 2 years. So all in all, we expect to have a positive working capital valuation of EUR 1 billion at the end of 2020, EUR 3.6 billion of cash flow of activities. In terms of investment minus divestment, we are going to have EUR 1.8 million -- EUR 1.8 billion, sorry, over the whole year. And all in all, we expect to have a free cash flow of EUR 1.8 billion at the end of 2020.

As you said, because I have in mind the figure that we have in our hands 90 million, 93 million shares, that means that we only need 99 -- 96 million, sorry, 96 million to -- for the buyback this year -- 99 million, sorry, that means that we only need 6 million shares that, I mean, it's almost nothing. So taking into account all that, we are not going to need a lot of cash to get the treasury stock we need in the second half of the year.

All in all, when we take the financial commitments we have for the second half of the year and so on, our best expectation and guidance for the debt is going to be below EUR 3.3 billion with the new metrics, taking into account the hybrid. That compares with below EUR 4.2 billion we had in the end of 2019. Is that clear, Thomas?

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

Yes, I got a bit more confused, but I'll speak to IR after the call.

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

Okay. I'm going to go to the Upstream production question and the CapEx you mentioned. I mean, in case of having a price scenario of $45, $50 per barrel, this -- the second half of the year at around the $40, $45 and $49, $50 next year, I mean, it seems to me that the CapEx of the Upstream in 2021 is going to be closer to $2 billion than to the figures we have this year. Of course, all that has to be discussed, and it has to be announced in the discussion of a strategic plan. But this year, we are going to have a CapEx in Upstream that is going to be $1.3 billion, more or less, that is fully aligned what we have in our Resilience Plan. Remember that at the beginning of the year, in the budget, we have a CapEx of at around $2.1 billion. So we are saving $8 billion, EUR 7 billion more or less this year in the Upstream, that could be 65%, 2/3, more or less of all the savings we are getting in the CapEx of the year in the Resilience Plan.

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

Thank you, Thomas. The next question comes from Lydia Rainforth at Barclays.

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

Two questions, if I could. One, just to come back to the renewables project in Chile. It is the first international project on the renewable side that Repsol is doing. How do you think about the returns and the profitability for the international business versus the Spanish business? Effectually, do you need higher returns internationally than you need for the Spanish investment? And then secondly, you referenced a little bit on the slides this idea of the refinery of the future and the involvement of hydrogen. And we have seen the publication recently of the European hydrogen strategy plan. Can you just talk us through the role that you think Repsol or hydrogen will play with Repsol in the future?

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

Thank you, Lydia. I mean, you are right, that is the first international experience in our Renewable business. But technically speaking, I think that it is the third one. Remember, and you perfectly know that we were promoting 3 wind farms, offshore wind farms in Scotland, some years ago. But as you know, we disposed this project in 2016, and on top of that, we have a small project, a floating offshore wind farm in Portugal. But I mean, you are right. That is the first, let me say, significant project we are going to operate. So our targets, Lydia, clearly speaking, double digit. These projects we are now taking in Chile, they are going to have a return in project terms at around 11% and an equity return of at 13%. So that is slightly above we have today in Spain. But we are going to look for these double-digit projects and what we are getting today in Spain is there. And we expect that we are taking in Chile is going to be also there in coming years after operating the projects.

So going to the hydrogen. Let me say because I really like this hydrogen approach. First of all, because hydrogen is not something, let me say, strange for Repsol. We operate the largest hydrogen plant in Cartagena today. Secondly, we have the largest hydrogen consumption in Spain in our 5 refineries in our 2 petrochemical sites. On top of that, I mean Spain is a great country for many things, but let me also say that Spain is the right place to develop the hydrogen in the world in Europe. Why? First of all, because we have sun, we have the right place to develop these renewable projects. But at the same time, we are an island in energy terms. There is no interconnection between Spain and the continent. So the only way we have to develop these renewables projects in Spain is storing them. And the best and most profitable way to restore this power after, of course, the dam and the pumping we have in Aguayo, but we are not going to see new dams in the future to restore renewable energy is, hydrogen. So I think that hydrogen is going to play an important role in Europe, is going to play an important role in Spain, the right country to develop hydrogen for -- not only for the Spanish consumption, also for other countries in Europe, and Repsol is the right player to develop this hydrogen business in Spain.

Saying all that, we don't -- we have to take into account that hydrogen is also the raw material to produce synthetic fuels because combining CO_2 from the streams, we could capture in our refineries and combining all that with green hydrogen in a process that is known, that is official towards chemical process, we are going to produce synthetic fuels that are going to be used in internal combustion engines with a net zero emission level in CO_2 terms along the whole cycle of these products. So we are comfortable doing that. We are building alliances to develop these projects. We are going to invest as a first step in Bilbao. But saying that, hydrogen is not only the only product we are developing in what you rightly define as the refinery of the future. We are starting now to operate. And we are operating refineries of the future in Spain. For instance, we are producing 400,000 tons of HVO today in our refineries. We are going to double this figure to go to 650,000 tons per year by 2020. We are today introducing and using feedstock coming from the policies of plastics, coming from the circular economy as feedstock in our refinery. So we are starting to build another concept of refinery. And all that is not wishful thinking. It's starting to be a reality and its part and it's going to be part of our margins, of our refineries that are going to be less intensive in CO_2. Thank you, Lydia.

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

Thank you, Lydia. Next question comes from Jason Gammel at Jefferies.

Jason Gammel ***Jefferies LLC, Research Division - MD & Senior Equity Research Analyst***

I was hoping if I could actually just follow-up on the answer that you've just given on hydrogen. Fischer Tropsch has historically been a pretty high cost technology, which is why it hasn't been necessarily deployed that widely. So can you talk about how you make the economics of the synthetic fuel plant actually work for you? And then maybe just 1 more very specific on Refining. Jet fuel demand recovery, clearly not as strong as what you've seen for other fuels. Can you talk about how you're dealing with your jet fuel production within your system? Are you able to burn that into the diesel pool pretty effectively or any other methods that you're using?

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

Yes. Thank you, Jason. I mean first of all, putting things in context, we are going to produce in this plant of Bilbao that is perhaps one of the largest in the world, a 50 barrels per day of synthetic fuel. So that is a project where we have to work to improve the economics to scale the project in the future, first of all. So we are talking about technology, and we are talking about an industrial plant that is going to apply to real -- in the real arena what we have developed in technological terms. Secondly, going to the economics. All that is going to depend on 3 main factors, Jason. First of all, the oil price; secondly, the CO2 ton price; and thirdly, the hydrogen ton price and the hydrogen ton price is going to depend on the power price because you know that we produce the green hydrogen through the electrolysis process using renewable energy.

I mean, if you take the models in Spain, and you see that in coming years, for some hours over the day, the merchant price could be close to 0, you have a window of opportunity to reduce the cost of this green hydrogen. Of course, you have to combine all that with the utilization of hours you need to amortize the CapEx you are going to invest in the green hydrogen plant. So perhaps you have to combine green hydrogen with blue hydrogen coming from refineries where you are capturing the CO2. So when you develop all that, true in scenarios where we could see -- let me I mean we have figures, I don't have in front of me these figures, but where -- when you see that we could have EUR 10 per megawatt hour over some hours over the whole day, the merchant price, and you have CO2 prices of $70 per ton, that could be a scenario that could be possible in 2040 in a more decarbonized society, and when you take the current oil prices, you see that these fuels could be competitive in these scenarios. We have a long way ahead of us to work. We have to advance in this concept. But we are ready to do it.

And on top of that, when you are asking about jet, you are putting, I think, that the focus in a point that is very important because, I mean, we have models to decarbonize a part of the light vehicle. I mean, electric vehicle is an alternative that is going to be, let me say, a niche, we could discuss if the niche is going to be a 30% or 40% or 20% of the market in cities. But we don't have a technological alternative today for trucks, we don't have alternative for planes, we don't have alternative for ships. So if we want to have at a decarbonized economy, we have to go further. And we are putting on the table, of course, prudently, knowing that we have to invest and as a sector to develop over that in coming years, we are putting alternatives.

But saying that, if we are able to get CO2 streams in our refineries and capture them to produce these synthetic fuels, we are going to put on the table also solution for some other sectors like paper, cement, steel makers and so on that they don't have technological alternatives to be competitive in a decarbonized economy. So all that is going to be part of the new green deal that is going to be approved in Europe. And Spain is going to be, of course, one of the actors in this green deal. Repsol is going to be and going to be part of this picture where there are technological risks, of course. I'm not going to hide them, but where we have clear competitive advantages to be an actor in this arena. Thank you.

All right. What we are doing with it now, I mean, we have a strong problem, let me say, in March, in operational terms. We even fear that we have the risk to shutdown a refinery due to this problem we have. And we have been able, in operational terms, to produce or to transform diesel jet in middle distillates diesel. And today, in Coruña, Bilbao, Cartagena, the production we have of jet is 0, and in Puertollano and Tarragona, the production is minimized and is adapted to the tiny demand we have currently, we have today. Thank you.

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

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

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

If I could maybe just start with -- I'll start with Chemicals, actually. A year ago, at your Downstream day, you talked about some of the opportunities for growth in Chemicals over the next sort of few years. Josu Jon, I just wanted to ask for an update on what you think about the chemical space at the moment and either the opportunities or risks that you see in pursuing that value chain further? And whether you think the recent COVID impact has sort of changed your view on future Chemicals investment and maybe switching it more into Renewables instead? And I think, actually, if I could just follow that up for the second -- my second question would be, for the rest of the year, you gave -- you've given a refining indicator of $3.8, but I just wanted to ask what the utilization you're assuming for the rest of the year? And possibly some -- if you could add some commentary on what you expect to see for the chemical side of the business as well? That would be very helpful.

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

Thank you. I mean, it's curious because, Alwyn, you are right, chemical business could suffer some negative consequences of the world we are living. But on the other hand, historically growth in the Chemicals business has been linked to GDP. What is happening with the COVID-19, I think that we have seen very good sales, consumption and performances linked to everything related to food conservation, storage pharma and so on. Everything related to protection has been increased due to the situation we have experienced. And the most negative consequence came from the automotive sector. The automotive sector has impacted in our business in -- mainly in a negative way in the OP propylene oxide plant that you know that is used to produce some parts of polyurethanes of cars.

On top of that, the tires are also linked to the rubber, and we have suffered a bit over this quarter in the rubber plants of JV we have in Dynasol. Saying that the utilization rate of our Chemical business, this quarter has been in 2020 in the half of the year an 88%. So that means that it's a good performance, taking into account all that context. And the forecast we have for this year in terms of results of the year for the Chemical business are quite also hopeful and positive. We expect to have an EBITDA of EUR 300 million over the whole year in the Chemical business. It's true that we are going to be prudent related to the expansion of the business, taking into account the context we are experiencing in macroeconomic terms. But saying that, we are analyzing in a very accurate way the possibility to upgrade the refinery -- sorry, the cracker of -- on the chemical site we have in Sines in Portugal, that is a very interesting site. We're upgrading some products, we could have a better margin coming from this site.

On top of that, we are working hard in -- around the concept of circular economy related to our chemical plants. What we announced for Petronor, I don't know, in some ways, let me say, it's a refinery, but in some ways, a Chemical business because what we are doing, polyurethane wastes and producing raw materials to feed our refinery is part of this circular economy concept using plastics as a raw material for some other businesses. So we are going to go on broadly believing in this business. And all that is going to have a positive impact in the results of the second half of the year because we don't have any turnaround plan in this half of the year in the Chemical business.

Thank you. And going to utilization rates of the Refining business, sorry, for the whole year, for refineries, 77% is the utilization rate we expect for the whole year, 92% the conversion, the average of the whole year, and as I said before, Chemicals at around 87%, 88%. Thank you.

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

And can I just drop in? I just -- I know you've taken the impairment on the Upstream business as well related to price.

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

Yes.

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

But could you maybe give us an assessment of any risk there to the Downstream side of the business as well from, yes, from lower-margin on impairment, I mean?

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

I mean, this quarter, in June, we impaired all the businesses of the company. I mean, not only Upstream, also Downstream businesses. At Upstream, margins and adapting, and of course, for the dimension, the most, let me ask, critical was the Refining business. We adapt the margins of the Refining due to the impact of the pandemic and so on. And there is no any asset impaired in this quarter due to this fact. So they passed this test. Thank you.

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

Thank you, Alwyn. Next question comes from Irene Himona at Societe Generale.

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

2 questions for me. So firstly, in the Upstream, in the second quarter your average realized oil price, $25.50, a $4 discount to Brent, much narrower than the $7 we've had in over [10 years]. Obviously, Q2 was quite exceptional. What do we -- what can we anticipate for the rest of the year? I mean, should we expect that discount to expand back towards historical normal levels?

And my second question. You obviously increased your CapEx savings this year. But clearly, as you showed, you're continuing to to invest in energy transition. Now I recall that last year, at the end of last year, when you announced your net zero ambition, you also said you were analyzing a new investment in Spain for a biorefinery at a potential cost of EUR 170 million. So I wonder, in this environment, whether that project perhaps has been postponed into next year or whether it's still on the cards for this year?

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

Thank you, Irene. What we could expect as a crude oil realization price, what we have in our expectation from now on to the end of the year, or better said, the average of the year is at around $4 per barrel versus Brent. So the discount, we call, expect for the whole year is at around this figure of $4 per barrel in any scenario of $40 per barrel approach.

Going to the CapEx savings, I mean we are not deferring any CapEx in the Low Carbon business, we are going to have some weeks effect but I'm talking about weeks because you know that in the confinement period for 2, 3 weeks, the public works and construction activity was contained, was forbidden in Spain. And due to this effect, we could expect, let me say, a maximum of 1 month of delay in some projects, but all that is peanuts in terms of CapEx. It's true that due to a better market in terms of the purchase, the procurement of solar photovoltaic cells and panels and also when -- appliances with equipments, we are going to save some CapEx. And we are going to use these savings to pay the EUR 50 million we have to pay this year in the Chilean project. So we are going to include the Chilean project in the basket of projects we have in our hands respecting and containing the CapEx we had in our Resilience Plan for the Low Carbon business. We are going to continue, as you said, with the biorefinery of Cartagena. We'll have, in September, the investment in engineering project ready to be approved. So this fall, this autumn, we are going to approve this project if the Board, of course, takes this decision. I'm going to propose to the Board this investment.

And let me say this year, all in all, I think that 25% of our CapEx is going to be applied in Low Carbon businesses. And I think that one of the lessons of this pandemic is that we have to go on in this effort of reducing the carbon emission and the carbon footprint of the sector, and we have to go on and to accelerate the energy transition goals, always looking for returns, but Repsol is going to be fully involved and fully engaged in this space. Thank you, Irene.

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

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

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

2, if I could, please. First, I mean, just coming back to CapEx and 1 or 2 of the -- putting together 1 or 2 of the points, Josu Jon, that you've made during the call. I think -- I mean, the further efficiencies that you've highlighted for 2020 are welcome. And historically, Repsol has always been very effective flexing CapEx against commodity cycles. When we look forward, obviously, the sort of the spend outturn has ended up being quite different to the original 2018 to '20 strategic plan. And you obviously have a decarbonization agenda to finance an Upstream business that faces natural underlying decline. So I'm just wondering how long you can keep CapEx sort of below EUR 3 billion per annum before that sort of starts to compromise your medium-term objectives and cash flow? So if you could talk about the projections beyond 2020 and some of the key moving parts that we could think about that would help? And then secondly, just on the hybrids, could you just elaborate on Repsol's -- the way that you thought about the hybrids in terms of the additional issuance in Q2 appetite potentially to do more or where the ceiling is relative to straight debt? And I think you repurchased EUR 600 million of the EUR 1 billion perpetual where the next call, I believe, is 2021. So just to be clear, looking beyond in 2020 net debt, do you expect to have to repurchase the additional EUR 400 million next year?

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

Thank you, Matt. I mean, I couldn't agree more with you. I mean, we don't have the target of being below EUR 3 billion in CapEx terms. This year, we are going to have a CapEx of EUR 2.8 billion. But let me say, if next year, we are where we expect to be something in between $45, $50 per barrel in an Upstream business that is going to go on, investing and creating value for the company, we are going to be closer to EUR 3.5 billion, something in between EUR 3.5 billion, EUR 4 billion of CapEx in 2021. So we are not going to stay at this CapEx level in coming years in case, of course, of being, let me say, in quite a normal situation after hypothetically overcoming the pandemic we are suffering in our countries and in our market. So I couldn't agree more.

Going to the hybrid question. I mean, today, we are confident about our current financial position. We plan to repurchase the remaining EUR 400 million in March 2021, of course. But we are quite confident about the level we have, the financial position, we have. About our balance sheet, we are convinced that we are going to deliver what we are saying, our Resilience Plan and our guidance in debt terms at the end of this year that is going to be below EUR 3.3 billion. And I mean, of course, we are always flexible. We are always open to anything. Preserving the balance sheet of this company and the financial flexibility is going to be always a must that is very important and is going to be always my main priority. But saying that, we are today, quite comfortable with the financial position we have. Thank you, Matt.

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

Thank you, Matt. The question comes from Jon Rigby at UBS.

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

Can I just go to the impairment charge that you've taken. If my calculations are right, and they may not be right because I know you disclosed these pre and post tax, but you're sort of up to $7 billion, I think, post-tax impairments over the last 3 quarters. Can you confirm or reject whether -- how -- actually, can you just say how much of that total impairment charge relates to Talisman? And is acquisition cost related either directly into the fixed assets or from goodwill? And the reason I ask that is I'm interested in understanding what is being written down that's related to organic -- historically organic investment. And to that point, has the change in your view of outlook changed your view about how and when the projects that are sat in your portfolio, how those are likely to be ordered and prioritized? And then the second question, if I can, is just going back to -- thank you very much for talking about the dividend. I know it's difficult when you've got a strategy presentation coming up, which obviously provides an awful lot more context of how you want to allocate your capital. But just sort of philosophically, you obviously have used scrip dividend a lot in the past. And I know that's because there is a strong preference in the Spanish domestic market to take scrip. But over the medium to long term, is it your view that scrip is effectively just a vehicle for paying dividend in an attractive fashion and that the distribution in gross terms has to be supported by free cash flow?

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

Thank you, Jon. I mean going to the first one, I agree with your point that normally, it's more common to impair inorganic assets that organic assets that normally, they have a lower book values. I mean, that's when you are involved in inorganic acquisition, the risk is higher in this sense. What we have in mind the figure, but we could, of course, confirm you this figure is at something in between EUR 4 billion, EUR 5 billion, fits with assets coming from the former Talisman. And on top of that, there are 2 more rational for that. One of the assets that suffer more in the -- in this, not now, but in December, impairments were assets related to gas because the drop of the gas demand and gas expectation in the world. And on top of that gas in North America. So it's quite logical that seeing a larger percentage of assets coming from Talisman in this impairment could happen. So -- but we could, of course, confirm you this figure, Jon, but it's something in between the figure I shared.

The scrip dividend, I mean, we are -- let me say, first of all that it's a general -- there is a general acceptance of the scrip, not only in Spanish retail, that we have had a 70% of acceptance. Saying that, I mean, all that is going to be part of the discussion of the strategic plan. And we'll decide and we'll announce in November if we are -- what is going to be the dividend policy and what is going to be the tool to pay this dividend. So of course, this reflection is open within the strategic plan.

And could you repeat the second question, please, Jon?

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

So that was the second question. I was just asking sort of philosophically, whether you think that however you achieve it by cash dividend, dividend of cash and scrip, a cash dividend and a buyback or however you choose to do so is that the net cash out is supportable by the free cash flow generation of the business?

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

I mean, in any case, what we are going to do now and in the future is either net cash or either a scrip with the buyback of the shares. So the effect is exactly the same. In any case, all that is open. And we are not going to increase the debt to pay dividends. I mean -- and we don't want to use the dividends as a way to dilute our shareholders, Jon. So I mean, I don't know what is going to be the decision in November. It will be cash or it will be a script with buyback. But in any case, it's going to be a cash generation of the company applied to pay our dividends. We don't want to increase the debt of the company in structural terms, and we are not going to use the scrip to dilute our shareholders.

And I forgot -- I mean, what you said about organic, inorganic, I always prefer the organic way to grow because is -- in many cases, is more accretive. Saying that sometimes, I mean, you could see or you could have some inorganic operation that could be interesting. In any case, from now on, don't expect any large inorganic acquisition from -- coming from Repsol. Provisioning our financial balance sheet is going to be a must in these tough times we are experiencing. So you could see perhaps some small acquisitions that could be accretive in the short-term and so on, but not a large acquisition in the horizon. Thank you.

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

Thank you, Jon. Next question comes from Martijn Rats at Morgan Stanley.

Martijn Rats ***Morgan Stanley, Research Division - MD and Head of Oil Research***

I only have one question left, but I wanted to ask you this. You commented on the demand situation improving more rapidly than you initially expected. And you quoted to us these numbers of 68% year-on-year drop in April moderating to a 13% year-on-year drop so far in July. And clearly, that is very encouraging. At the same time, small differences also matter. And in 2008, 2009, global oil demand never really fell more, or even [peaked itself] by more than 2% or so. And even such a small drop had quite large implications for refining margins. So on the one hand, we have this faster-than-expected demand recovery, which at the service is encouraging. At the same time, we're still deeply below the sort of '08, '09 experience, which was quite painful. I was wondering if you could sort of help us understand a bit or if you have a feeling for how much demand would need to improve from here on for it to start to have a meaningful impact on your Refining results? If demand recovery gets stuck, let's say, a 5% loss year-on-year. And it just doesn't recover much more than that. That's still in the big improvement from here on. But it's still year-over-year quite weak. Where are we going to be left in a situation like that when it comes to refining margins?

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

Thank you, Martijn. First of all, going to the demand side. And after that, I'm going to go into the Refining. But going to the Commercial and Service Stations business, I mean a 10% lower demand doesn't mean a 10% less of P&L. What we are doing since 2015 is transforming our business. We are capturing more non-oil margins today, seems to me that 40% more or less of the total margin coming from our service station in Spain comes from the non-oil. The non-oil has performed better over the last weeks down the oil business in our service station. And on top of that, because we are offering a new multi-energy offer because we have digital appliances, we have more than 1 million digital clients today in Spain in our services stations and so on. We are improving also the P&L per every unit of fuel resales. So saying that we have today, what is happening in the transportation sector is quite curious because it's true that we are losing at 13% in the total market, but you have to be into account that Spain that is a second country in the world with more number of tourists over the whole year in summer, and mainly in the summer is losing the whole international tourist sector. That means that if we take Spanish citizen, perhaps we are at the same level or even above we had in 2019. Because the COVID-19 is changing in some way the road transportation experiencing. I mean, in Madrid, for instance, in the city of Madrid, public transport is at 50% below its previous level and private vehicle is only at 10% below. That means that we are seeing the transport in a different way. And all that is going to have an impact in coming years figure. And I mean, I think that all of them are not negative, perhaps some of them could be positive. Going to the -- how this demand is going to impact our Refining business? I mean, first of all, you know that our Refining business is not a Spanish business. Because we have been able to -- Spain almost shutdown as a country in April, we have been able to operate to export and to have a competitive hinterland from our refining -- in our refining system. That means that we have to see the demand in a more global way.

Secondly, we have to see the demand, but we also have to explore marking the offer, the supply because at these margins, the capacity is going to be reduced in -- some European refineries are reducing capacity, some of them perhaps are going to shutdown in coming times, and we have to see the whole equation. We have models, of course, to analyze all of that. And let me say that today, we have some kind of uncertainty to define and to see all that. We are going to analyze all that, of course, in the framework of our strategic update. But it will be perfectly possible for Repsol if we are able, of course, of going on, improving our refineries and the products we produce, if we are able to go on reducing ordinary costs. And if we see a reduction of capacity in the world due to the lack of investment and the effect of low margins is perfectly compatible, let me say, in theoretical terms, seeing a 5% of lower demand with maintaining the margins we have today -- no, not today, not the best example. I mean, over the last 2 years in our refineries. Thank you, Martijn.

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

Thank you, Martijn. Next question comes from Henry Tarr at Berenberg.

Henry Michael Tarr ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***

Just one left. And just to go back to the power business in Spain. I guess as you grow the customer base there, could you give us an indication of the sort of profitability and returns you're seeing in that business? I mean I guess you're targeting the returns that you've talked about of double digits across the renewable space in Spain. But are you making acceptable profits today or are you still in the process of gaining scale and customers, which perhaps leaves lower profitability today with the potential for that to increase as you scale up?

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

Yes. Thank you, Henry. I mean, cash flow from operations, 2019, EUR 90 million. This year, our best expectation taking into account that we are going to have a small negative effect coming from the pandemic, EUR 80 million. We have to take into account that no single kilowatt hour coming from the renewables project we are promoting is going to be this year in 2020. We are producing this cash flow from operation only with the assets we acquired from (inaudible). That -- what I have in mind is that we were -- we paid EUR 730 million for these assets. So in 2019, let me say, in a normal year before, let me say, capturing the synergies, and a lot of things that are going to be there. And perhaps this year, they are going to be a big season for the pandemia. We are -- we captured last year, EUR 90 million of cash flow from our operations.

So today, where is the balance between scaling the number of clients or making profits. We are investing for the future, Henry. That means that today, investing, capturing clients is important because we are going to offer more services, more products and so on in the future. But it's true that we have slowed down a bit this effort because the pandemic and the situation we have experienced over the last 4 months. Saying that we have increased the number of clients we have in this half. But we are going to be prudent. But this year, this first half, we have increasing 6% the number of customers we have, and we are going to go on in this trend, achieving the figure of 10% at the end of 2020 of increase of customers over the whole year.

So all that is not going to change too much our commercial strategy, but it's true that we have had, of course, a negative effect in this quarter. Thank you, Henry.

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

Thank you, Henry. The next question comes from Álvaro Navarro at Mirabaud.

Álvaro Navarro ***Mirabaud Securities Limited, Research Division - Analyst***

I have 2 quick questions. The first one, you are not considering an asset rotation on your Resilience Plan, but you have done 2 operations in Bulgaria and Vietnam. I wonder if you can tell us which cash do you expect from these operations? And if you want to continue with more asset rotations? And the second one is if you can give a guidance in terms of EBITDA for this year?

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

Gracias, Álvaro Navarro. Thank you, Álvaro. So of course, we are going to try to be active highlighting and rotating our portfolio. It's true that, I mean, it's not perhaps the best time in the market to match the expectation of the seller or what the buyer is looking for. So -- but saying that we have been able to close the deal with the Vietnamian government and achieving with PetroVietnam this deal to dispose all the assets that we had in the country. I'm not going to disclose the figure because of the confidentiality of the operation. But I mean you are clever people, and I'm going to give you that there is no -- any material impact on our P&L coming from these operations, so you could work on that.

Going to the EBITDA, Álvaro, I'm not going to give any EBITDA guidance, but I'm going to give you a cash flow from operation guidance, EUR 3.6 billion. The reason for that is because, I mean, growth I said in April, in May, in this lack of certitudes, arena is changing because we have change in oil price. We have change in the refining margin. We have had and we have lost a part of this EBITDA from May to now because of the enlargement of the confinement measures, the lock down in Spain and so on. But what we are doing is every time that the play field change, we change the targets of our Resilience Plan. That means that we have a clear commitment of being below EUR 3.3 billion of net debt at the end of the year. And to achieve this figure, we count with having EUR 1.8 billion of free cash flow and of course, we could see change of EBITDA, but we'll do our best in terms of working with the working capital and so on to get this EUR 3.6 billion as a target written on a stone in the whole people of this company coming from the cash flow of activities in 2020. Thank you. Gracias, Álvaro.

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

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 stay safe.

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

Thank you, everybody. See you soon, I hope.

Operator

Thank you, ladies and gentlemen, that does conclude your conference call for today. Thank you for participating, and you may now all disconnect.