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PRESENTATION

Operator

Hello, and welcome to Repsol's Third 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 Third 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 carefully. 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 disclaimer. I'll now hand the call over to Josu Jon.

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

Thank you, Ramón. Good afternoon, and thank you all for joining us today. I hope that you are keeping healthy and well. In today's call, I'd like to cover the following main topics: Firstly, the key messages of the quarter; secondly, the main operating highlights; thirdly, the financial results; and finally, the delivery of our Resilience Plan and update outlook to the end of the year.

I know that today is a busy day for the sell side, with 3 of our peers also releasing quarterly results. So I'll make my best to go straight to the main points. And of course, at the end of the presentation, we will be -- enough time to answer your questions.

Let me begin with the key messages. Our performance in the third quarter continued to be affected by the disruption created by the COVID-19 pandemic. Demand for oil and oil products remained weak, although there were signs of a slow partial recovery of the global economy.

Oil prices improved significantly quarter-on-quarter, helped by positive economic indicators. Most gas prices references recover as well, benefiting from a tighter market. Refining, however, had to face a very challenging environment from a combination of depressed middle distillate spreads and narrower heavy to light crude differentials. Under this scenario, the adjusted net income returned to positive territory coming from the losses of the previous quarter. More important, the cash flow from operations was EUR 1.3 billion, which compares to the EUR 0.3 billion of the second quarter and the EUR 0.9 billion generated in the first half of 2020. Organic free cash flow in the quarter was EUR 0.8 billion, of which EUR 0.5 billion corresponded to the Upstream division. This strong cash performance validates the robustness of our Resilience Plan that is delivering well and is on track to surpass the EUR 2.2 billion of target cash savings

for the year through OpEx and CapEx reductions and working capital optimization.

The operating cash flow more than cover investments, dividends, interest and other cash outs of the quarter. Net debt, excluding leases, stood at EUR 3.3 billion as of the end of September, a EUR 649 million reduction from June. Bear in mind that in terms of measuring against our objective to maintain net debt in line with the end of 2019, we'll exclude the EUR 0.9 billion positive impact of the hybrid bonds transaction executed in the second quarter.

The liquidity at the end of the quarter cover our debt maturities until 2036 without a need for any refinancing. Moreover, we took advantage of market conditions to issue an EUR 850 million bond maturing in 2024 with a coupon of 0.125%, the lowest interest rate ever obtained by Repsol that was settled in October. We also completed our shareholder remuneration commitments for the year following the implementation of a successful buyback program to purchase the remaining 23 million treasury shares required to cancel the shares issued with this year's scrips. The share capital reduction for the corresponding 99 million shares was executed in October, resulting in a final share capital of 1,527 million shares.

Looking into the performance of our businesses. Upstream operations and productions continue to be actively managed, adapting to the market environment. In industrial area, the refining margin indicator turned negative for the first time under our current configuration. Nevertheless, the flexibility of our system allow us to generate a significant premium over the indicator and a positive CCS unit margin.

Commercial and Renewables remain, once again, resilient through the crisis, increasing its contribution to cash and results compared to the previous quarter, even in our renewables investment phase. And despite the temporary adverse environment, we are making further progress in our commitment to lead the energy transition by adding new generation capacity to our renewable portfolio by becoming the first biojet producer in Spain and by taking the final investment decision for our new advanced fuels production plant in Cartagena.

Let me now review the operational performance in the Upstream. Third quarter production averaged 616,000 barrels of oil equivalent per day, 4% lower than in the second quarter and 13% lower than in the third quarter last year. Average production in the first 9 months averaged 655,000 barrels per day, 7% lower than in the same period of 2019. Compared to the third quarter of last year, the lower production is explained mainly by the shutdown of Libya, the lower gas demand due to the pandemic and to the voluntary shutdowns and production reductions of some fields as a response to the low price environment.

On October 11, we received positive news from Libya with the restart of production in El Sharara after the force majeure situation was lift. If the security conditions, of course, are maintained, we expect volumes to ramp up gradually until reaching the plateau capacity of 300,000 barrels per day. And let me underline that, as of today, production stands at around 160,000 barrels per day, more or less 20,000 net barrels for Repsol per day.

Development activity for the quarter included the start of drilling operations in the Matapal field in offshore Trinidad and Tobago. And the Matapal, this project will develop the resources discovered by the Savannah exploration well and is on track to achieving first cash in 2022.

Going ahead now with the Industrial division. In refining, the margin indicator was negative, as I said, at minus \$0.10 per barrel, a strong reduction from the \$3 achieved in the previous quarter and the \$5.50 in the same period a year ago. Compared to the second quarter of 2020, the margin indicator was negatively impacted by weaker middle distillate spreads, which were at their narrowest in more than 20 years, the increase in the price of Maya and the recovery of the oil price. These effects were partially offset by stronger gasoline differentials. But despite this very challenging scenario, our assets remain among the most competitive in Europe with all of our 5 Spanish refineries staying under operation and achieving run rates in line with the previous quarter.

The utilization of the distillation capacity stood at 70% and the utilization of the conversion units averaged 84%. And let me underline that all of our 5 refineries, all of them, they have a positive cash net margin this year, 2020. The actual CCS unit margin was positive in the quarter, generating a \$1.8 premium over the indicator, thanks to a higher optimization of our crudes and product baskets and higher sales to the domestic market.

In Chemicals, international margins were below the second quarter as the increase in the price of naphtha was not totally compensated in the price of products. During this quarter, third quarter, the widening of the naphtha propane differential increased the feedstock advantage of European flexible crackers like ours. Let me underline that although the pandemic has impacted the demand for consumer goods, the demand for petrochemical products has remained resilient, helped by the growing needs for packaging and health care applications despite the negative impact of COVID-19 in other sectors like automotive or construction.

I'll focus now on 2 important decarbonization initiatives and the progress to reduce the CO2 content of our operations. In August, we delivered the first batch of biojet at our Puertollano Industrial Complex, becoming the pioneering company in the manufacturing of this sustainable aviation fuel in Spain. The first batch consists of 7,000 tons of aviation fuel with a bio component. And this production will be extended to other Repsol facilities across Spain.

In October, we reached another milestone in our expansion plans for low emissions advanced biofuels, following the investment approval for the new plant in Cartagena. This plant, the first of its kind in Spain, will produce advanced biofuels from recycled raw materials and will enable a reduction of 900,000 tons of CO2 emissions per year. This facility represents an investment of EUR 188 million and is expected to enter into operation in the first half of 2023.

Now moving to Commercial and Renewables. The mobility business continued the recovery it started since the height of the crisis. Sales in our service stations in Spain were 13% lower than in the same period in 2019, a significant improvement compared to the 48% year-on-year reduction we had in the previous quarter. Demand for gasoline and diesel in Spain gradually returned to normalized levels. And as of September, it was 10% below its level a year ago. Demand for kerosene was still very weak in September at around 74%, below its level in 2019.

The Lubricants, Asphalts and Specialties business continued to maintain a solid performance throughout year-on-year, supported on its international expansion. In electricity and gas, we continued the growth in retail even in a competitive environment. In power generation, the Delta wind farm in the region of Aragon is already supplying the grid with its first megawatt hour of 100% renewable energy following the connection of the first turbines. And finally, the agreement with Ibereólica in Chile that represent our first international venture in renewables has been complete last week or 2 weeks ago.

I don't want to forget mentioning that as part of our commitment to achieve net zero emissions, we have implemented an initiative that will allow our LPG and service station clients to offset the CO2 emissions cost for using our products through -- by participating in reforestation and hydroelectric projects. This is another step offering -- in this process of offering a sustainable energy that adds to the A label certification of the electricity provided by Repsol.

Let me now briefly review the financial results of the quarter. The group's adjusted net income was EUR 7 million positive, which compares to EUR 522 million in the same period a year ago. By division, the adjusted net income of the Upstream was EUR 51 million, EUR 167 million lower year-on-year, mainly due to lower realization prices and volumes, partially offset by the lower costs and amortization rates.

In the Industrial area, the adjusted net income was EUR 67 million negative, which compares to a positive result of EUR 223 million a year ago, mostly driven by the negative impact of COVID-19 in Refining, Peru and Chemicals.

The result in Commercial and Renewables was EUR 169 million, EUR 16 million higher than in the same quarter of 2019, primarily driven by the good performance of mobility, lubricants, asphalts and specialties.

In Corporate and Others, the adjusted net income was EUR 146 million negative, a EUR 74 million decrease over the same period a year ago, mostly due to lower results in exchange rate positions.

The group's EBITDA CCS stood at EUR 0.8 billion in the quarter. The accumulated EBITDA CCS in the first 9 months amounts to EUR 2.9 billion. Cash flow from operation, as I said before, amounted to EUR 1.3 billion in the quarter and EUR 2.1 billion accumulated to September. For further detail on Repsol's results, I encourage you to refer to the detailed documents that were released this morning.

At this point, I want to take you through the delivery of our Resilience Plan that is performing over the initial estimates. Starting with the OpEx initiatives up to September. We have captured more than EUR 350 million. The biggest drivers have been Upstream OpEx and lower personnel expenses. Our current estimate for the year is to capture EUR 500 million, around EUR 150 million over the initial target. CapEx reductions captured around EUR 1 billion in the first 9 months, mostly through the cancellation of exploration activity, the deferral of upstream projects and CapEx reduction in the industrial area. Our revised estimate for the year is around EUR 1.2 billion of CapEx savings, EUR 200 million over the initial expectation.

Finally, working capital optimization reached more than EUR 400 million to September. The expected optimization to be captured in the full year are now EUR 700 million, around EUR 100 million below the original target. Following the delivery in the first 9 months, we expect to improve over the EUR 2.2 billion of targeted cash savings in 2020. And this will allow us to maintain our net debt below EUR 3.3 billion by year-end.

Looking now to our updated guidance. Average annual production is now expected at around 640,000 to 645,000 barrels of oil equivalent per day, already factoring the restart of production in Libya that, as I said before, start or was resumed on October 11. Full year refining margin indicator is now expected to average between \$2.2 and \$2.5 per barrel. In October, the indicator has averaged around \$1.50, helped by stronger middle distillate differentials and our reduced pressure from imports into Europe. The high inventory situation remains unsolved, however.

In the mobility business, we are currently evaluating the impact on demand from the declaration last week of the state of alarm in Spain. Let me say that as today, the reduction comparing with last year October is at around 15% of volumes. Total CapEx for the year is projected at around EUR 2.5 billion. Under these assumptions, we will end the year lowering our net debt, achieving the main financial objective of the Resilience Plan. We'll provide you with our outlook for 2021 and beyond in the presentation of Repsol's new strategic plan to be released on November 26.

In this slide, you have the agenda of our Capital Markets Day. During the 4.5 hours of the event, we will provide you a thorough review of our road map to 2025. And we are going to include to present 2 cases, 2 business-focused presentation to detail our plans for the Upstream business and our customer-centric strategy. Increasing profitability by taking advantage of the opportunities arising in the energy transition will be one of the axis of this new strategy. And all our businesses, Upstream, Industrial, Commercial and Renewables, will all play active role in the transformation of Repsol into a sustainable and multi-energy provider.

We reaffirm our commitment to achieve net zero CO2 emissions by 2050, offering an attractive remuneration to our shareholders and all while maintaining a strong financial position and control debt.

So to conclude, despite the negative impact of COVID-19, an impact that will most probably persist in the near term, we have continued progressing towards achieving the targets set in our Resilience Plan, having delivered on our shareholder remuneration commitments and reiterating our ambition to lead the energy transition. But the pandemic is not gone. Recent events indicate that more obstacles in the way of an economic slowdown can be expected in the next few months. Our priority remains to safeguard the health, safety and the continuity of our operations. And the strong cash flow generation of the third quarter makes us confident on withstanding the crisis -- this crisis supported on our strengths, leverage on the flexibility of our portfolio and solid financial situation.

The short term is going to be tough. But we will work during the next years to transform Repsol into a stronger, more profitable and competitive company, one that puts the client at the center of its strategy and is capable of extracting value from its legacy businesses.

And let me underline that decarbonization is not just renewables, it's not just electricity. We firmly believe that the future of energy is dual, with electricity and low-carbon fuels going hand by hand. The projects in Puertollano and Cartagena, together with the previously announced net zero emissions fuels and gas from waste plants in Bilbao, demonstrate how we are walking the talk in pursuing our objectives, promoting new technological routes in our path towards carbon neutrality. All forms of decarbonization are valid and complementary. And incentivizing their contribution will accelerate the energy transition and help us as a society achieve a faster economic recovery that is so necessary under the current circumstances.

2020 will be a bad, unprecedented year. We will remind it as a nightmare in our lives. For Repsol, it will be a year in which we suffer the consequences of the pandemic in our businesses and in our share, but also a year in which we continue working on our transformation, delivering on our commitments and finishing with our debt figure below 2019. After such a year, the strategic plan that we will present next month will begin with a new phase for Repsol.

In 4 weeks' time, I hope that you will join us in the presentation of our new strategy. And I hope that we will be able to meet with many of our investors in our, of course, back to our road show. Please don't hesitate to contact Ramón and the IR team if you have any queries.

I'll now hand the call back to Ramón, who will lead us through a question-and-answer session. Thank you very much for your attention.

QUESTIONS AND ANSWERS

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

Thank you very much, Josu Jon. In case you run into technical problems, please do not hesitate to contact us through our e-mail address, investor.relations@repsol.com, and we will contact you immediately to try to solve it.

Before moving on to the Q&A session, I would like the operator to remind us of the process to ask a question. Operator, please go ahead.

Operator

(Operator Instructions)

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

Thank you, operator. Let me now move on to the Q&A session. Our first question comes from Irene Himona of Societe Generale.

Irene Himona Societe Generale Cross Asset Research - Equity Analyst

I had 2 questions. So firstly, in your cash flow statement for the third quarter, there's EUR 316 million from divestments. I wonder if you can please say what that relates to. Secondly, can you talk a little about the economics of the biorefinery you just launched, either project IRR or return on capital that you expect?

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

Okay. Thank you, Irene. The rationale of this divestment, you could see in our figures in this third quarter, is related to the transaction agreement related to the blocks we have in Vietnam, linked not only to the Ca Rong Do rig, but also to exploratory blocks we had there paralyzed and shut down, as you know. And this agreement goes line with PetroVietnam on June 12. And we are going to receive an amount as a compensation that we said that was not going to have any impact in our P&L, a significant impact, but of course, is going to have a significant impact in cash. And we have received the first 2 payments of that agreement, that more or less could be at around 60% of the total amount agreed. And we expect to receive the pending 40% in due course before the year-end.

And in addition to this figure, that is, let me say, the figure related to the transaction, to the compensation in the deal related to these blocks, all the cancellation costs and interim payer costs, so the costs incurred until the license amendment, are being reimbursed by PetroVietnam as agreed. So I mean, we had a quite rational, quite meaningful agreement, and PetroVietnam is proceeding to pay the compensation we signed with them.

Going to the biorefinery in Cartagena. First of all, let me joke a bit, Irene. I mean, we have today, 5 refineries, biorefineries in Spain. Because I think that -- and it's important to underline this concept because today we are producing 380,000 tons per year of HVO in our 5 refineries. We are producing today HVO in Bilbao, in Coruña, in Puertollano, in Cartagena and in Tarragona. And through debottlenecking processes, we are going to increase this HVO capacity. These 5 refineries did a figure close to 600,000 tons per year of HVO by 2025.

On top of that, now we have invested in a new plant in Cartagena, that perhaps the most important fact of this plant is that we are going

to use -- supply economic wastes, recycled waters and oils to -- as raw material to produce advanced biofuels. So this investment is going to have a CapEx at around EUR 188 million and is going to add to our production 250,000 tons per year more. That means that with the projects we have now on track, we are going to produce 850,000 tons per year of HVO by 2025. And the return is close to 30% of investments, something in between 27%, 29% is the figure I have more or less in mind. Thank you, Irene.

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

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

I've got a few questions just on refining and retail. Obviously, as it relates to retail mobility, Mexico outside of Spain is actually the key growth market for you and maybe even Peru, if you wanted to include another country. There have been a number of negative headlines recently. Obviously, the government not being as open as before. How is that affecting your operations and your growth ambitions in the country?

Secondly, in refining, obviously, you're a highly complex refiner and you benefit from discounted crudes in Mexico and Venezuela. There are some headlines suggesting that this may be a bit more difficult going forward and that you're looking into sourcing a Canadian heavy crude. Maybe can you comment on that and how the pricings differ as you see it?

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

Thank you, Thomas. I mean, first of all, I'm going to give you more or less the figures of the decrease in -- of our service station businesses in the different countries where we operate. In Spain, the real figure of September was at around 10%. In Portugal, 8%. In Italy, in September, we increased [not 2%] sales comparing with 2019. And in the case of Mexico, the reduction in September was at 16%, mainly due to the pandemic.

Today, we have 250 service stations in the country. We are -- contracts today on track to open or to achieve the figure of 330 service stations in coming months. And the main driver, let me say, Thomas, to slow down a bit our growth in the country, is the current situation in terms of business environment, the volumes, the pandemic and so on. So we are being prudent because of that reason.

But let me say, I mean, Mexico has, as any country, its debates, its complexity, but it's a stable country. Mexico is part of the NAFTA treaty. Mexico is a friendly country for businesses. And I mean, over any kind of political debate and so on, we rely on Mexico. But saying that, I mean, the business environment today, all around the world and particularly when someone is growing in a business like service station, I mean, force us to be perhaps more prudent we were some months ago about our growth pace.

Let me say that the Canadian heavy oil is not new for Repsol. I remember, I think that it was 3, 4 years ago, we were the first European company importing and processing Canadian heavy oil in Europe. And the rationale for that is, first of all, I mean we, as feedstock, use a significant number of crude oil every year, 50, 60, 70 different quality of oil every year. It's not -- I mean, it's known that today, we are experiencing and seeing a restriction in the offer of heavy oil in the market. So we have reason more to be more active, looking for new opportunities in the market.

So Mexico, of course, and the Maya is a clear alternative for Repsol. But on top of that, we are analyzing and buying some other heavy oils in the Mediterranean basin. And the West Canadian heavy oil is another alternative that fits in a good way with our refining system and in logistic terms. I mean, we have 2 refineries in the Atlantic Coast that -- with cokers, Coruña and Bilbao, that are quite close, let me say, in logistic terms to the American East Coast. So it's a real alternative. And we are going to explore this kind of heavy oils, of course. And on top of that, we are going to analyze some other alternatives. Thank you, Thomas.

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

Thank you, Thomas. Next question comes from Michele Della Vigna at Goldman Sachs.

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

I had one conceptual question on cash distribution to shareholders. And I understand if you will want to give a more specific answer on the strategy presentation. When I look at the way you have reacted to the current incredibly difficult macro environment, you've done what everybody would expect from a company to do in this situation, focus on the balance sheet and try to continue to pay the dividend.

Now one of the things that have happened is the market has turned incredibly bearish on oil companies. Your share price is close to EUR 5. I'm wondering, from a practical perspective, any buyback would be hugely accretive at these levels of share prices. And I wonder if that tactical driver should be taken into consideration. Like when you think forward about your cash distribution to shareholders and perhaps come before the dividend or even before some of the balance sheet strengthening that you are implementing. I just wanted to get your strategic point of view of how effectively the share price impacts your decision on cash distribution to shareholders.

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

Thank you, Michele. Interesting reflection about the strategic plan and the dividend of the company. But I mean you are going to allow me to be prudent and postpone this discussion until the strategic plan is released in November 26, and be sure that this discussion is going to be part of our discussion that day. I mean you know that shareholders' remuneration is one of the pillars of Repsol's strategy, and be sure that will be one of the key commitments included in the new strategic plan. And this plan is going to cover the period 2021 and 2025. This event is going to be the right moment to provide a definition on that.

But I mean, I may anticipate that our shareholder remuneration proposal is going to be based on 3 pillars. It will be attractive compared to peers and main companies listed in the IBEX 35. On the other hand, it must be financed with organic cash generated, not paid with debt in simpler terms. And what is also really important, it has to be compatible with strengthening our balance sheet and maintaining our financial flexibility. And I mean this remuneration is going to be attractive.

And let me say that what you said makes sense. But I mean I prefer to wait and to discuss about all that in 4 weeks. Sorry, Michele, for not being more explicit, but I'm sure you are understanding my [pronouncing]. Thank you.

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

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

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

Could you say for the biofuels expansions, what proportion of your feedstock is second gen or third gen? And do you have any exposure to palm oil? And also related to that, do you sacrifice any production in the traditional refinery system in order to produce the biofuels? Or is this all on top of current capacity?

And then second question is just on production volumes into 2021. The 616,000 you produced in third quarter, you probably get a bit more back from Libya. Could you talk about the key moving parts into 2021? Just trying to get a sense of where volumes will shake out there.

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

I mean today, Biraj, more or less the main part of our production today is first generation production in biofuels. In 2023, at the beginning of 2023, 60% is going to be first generation and 40% more or less is going to be coming from wastes and from a circular economy.

Are we reducing the production of the refining system versus biofuels? I mean, we are, of course, optimizing the basket. That means that we are going to distillate as much as -- as far as we are capable of getting positive margins. As I said before, if you analyze the European refineries, perhaps a figure close to 50% this year in 2020 is going to have negative cash margins. And the 5, not only the altogether, but the 5 refineries of Repsol individually, all of them are going to have net -- positive net cash margin this year. So that means that we have competitive refineries.

But let me underline that we are, in some way, Biraj, transforming these industrial sites because today the concept is changing. What we are entering in our refineries at feedstock is not only oil. Is today, is oil; is, of course, palm oil, some oil are vegetable oils, products

coming from the simpler economy. Today, we are using a feedstock products coming from the [processes] of plastics. So hydrocarbons that we are able, taking them as feedstock to put them in specification producing diesel and gasoline today, using these wastes. Bio grass is starting to enter in our refineries as raw material. I mean hydrogen is going to be the close future. You know that we launched the first hydrogen project in Bilbao and in Petronor. Hydrogen that is going to be green hydrogen to produce as raw material after reducing to CO, to carbon monoxide this -- the CO2 coming from our reforming plants, and this combination is going to give us a synthetic feel. I mean all that is part of a transformation.

For that reason, I said that today, we could say that we are starting to manage 5 biorefineries where all is, and is going to be for years, one of the main raw materials of these refineries. But this concept of industrial site is going to be part of a circular economy where wastes, recycled products, vegetable oils and so on are going to be part of this picture.

And surely, Biraj, you asked me also about the volumes in the Upstream for 2021?

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

Yes. Just any sense of guidance for 2021 volumes would be helpful.

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

So we will be -- I mean, our best approach today will be at around 630,000 barrels per day, but that is going to depend also because let me say, flexibility is the key issue on that. I said in the first quarter presentation that we are going to prioritize cash over volume. You are seeing that all that is happening. We have a clear free cash flow after CapEx in our E&P business. We are pushing the breakeven of the business down. We are not losing future productions. We are deferring CapEx. And that means that when the oil or gas price could be improved, we are going to have and we have the projects to accelerate this production.

I'm going to put you an example. We are in the Marcellus. We are today pushing the breakeven down. We are at a level of \$2 per million of BTUs more or less, and we are pushing down this breakeven. So if prices are there, be sure that we are going to start drilling in the first quarter of 2021. And this kind of processes could, of course, change the picture about the production.

And in the opposite sense, I mean, if oil prices are not at the right levels, we are going to slow down our CapEx. So flexibility is the key. And we are going to do our best to maximize the value creation in this business and also to prioritize cash over volume in the Upstream business of this company. Thank you, Biraj.

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

Thank you, Biraj. Our next question comes from Matt Lofting at JPMorgan.

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

Just one, please. It seems that the progress on -- or execution on the Resilience Plan is trending very well. On the CapEx side, saw some additional modest savings announced this morning, which I think now equates to EUR 1.2 billion for the full year. With that in mind, could you talk about how much of that balance reflects transitory or rephasing-based CapEx reduction versus what is more sustainable efficiency gain related?

And with that in mind, when we look forward, if the environment remains challenging, how long can Repsol keep CapEx at sub EUR 3 billion per annum before you sort of start to see a more meaningful adverse effect in terms of medium-term production, cash flow impacts and/or constraints on the ability to invest in energy transition relative to what you'd like to do?

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

Thank you, Matt. So first of all, let me say that what we are gaining in terms of OpEx is going to be recurrent and is going to be there to stay. I'm going to prepare the 2021 budget of the company, taking this OpEx gain as a base to grow further. That means that -- I mean, the OpEx gain, a reduction of EUR 500 million, EUR 520 million a year, is going to stay there, and we are going to try to go further because we want to be competitive in the future. So OpEx reduction has to be unmasked.

Related to the CapEx. Perhaps, if we take the EUR 700 million reduction in the CapEx of the Upstream, EUR 500 million could be deferrals that we are going to execute in coming years, depending, of course, of the environment of the business, the oil and gas price and so on. And perhaps, we are saving EUR 200 million a year. A part because we are giving up the activity in the frontier areas in exploration terms. That means that both we have in mind in this business in the frontier area, so geography is not going to be there in the future. So we are saving this CapEx, this money that is going to be structural.

There are, of course, some efficiencies in terms of execution of the project. So EUR 200 million of this CapEx could be structural. And EUR 500 million are going to be deferred to either next year or in 2 years, depending on the business environment. And as I said before, I mean, we are not going to be upset by production and by sustaining these kind of figures. I mean we are going to be fully focused on value creation and on cash. And if we have to sustain and to reduce the CapEx level to do that in a bad business environment and price environment, we'll do it. But be sure that we are not losing any future barrel of the company.

So if tomorrow, we have the conditions because, I mean, the gas price, I think it's happening in the United States, is going up, we are going to take advantage of the projects we have to be focused in making value for the company. And of course, all that is going to be reflect in more volumes.

Going to the -- your last question was related to the renewable expansion out of Spain. I mean our first step was Chile. You know that we signed a deal in July. We have some projects that are in production, some of the projects that are ready to build a pipeline with a different degree of advanced. All in all, 200 -- 2,600 megawatts where we have a stake of 50%. But the way we are structuring this business is not going to be a cash-demanding business. First of all, because we have a JV, we have 50% with a partner. We are advancing in getting commercial PPAs to develop these projects. We are going to have prior finances and debt related to these PPAs that is not going to impact in the debt of the company. And all that is not going to affect the net debt of the company.

This year, the impact in the debt of the company is going to be EUR 55 million. And that -- and all that with projects that are, of course, increasing the capacity of Repsol to succeed in this business. And perhaps, let me give you a clue because what we are doing in Chile perhaps is a part of what we are going to have in coming years in the renewable business. We are, of course, working on the best financial structure that could allow us to boost the return on equity, being and getting the double-digit while maintaining the operation for Repsol. And this might include potential JVs partnerships, deal costs, why not, even a potential IPO in the future of this business. And with this potential structure, we could achieve a twin target.

First of all, we are going to reduce, in a relevant way, the cost of capital of this business for Repsol, and that is pretty important when we are combining in the same company and we are having and managing the same company -- businesses with a different cost of capital. And at the same time, we are going to have the potential structure to get the return on equity we expect from this business through increasing the leverage as well as maintaining, of course, the capital employed in the business. So all that is going to be part of the international expansion of Repsol in the renewable business.

You know that in Spain, we have the short and long position because we are part of the market. But through getting commercial clients, we are going to replicate something similar in some other countries, not impacting in a very negative way in the debt of Repsol, getting higher returns. And I think that Chile could be a good example of what is going to be the international expansion of Repsol in the renewable business in the future. Thank you, Matt.

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

Thank you, Matt. Next question comes from Alastair Syme of Citi.

Alastair Roderick Syme Citigroup Inc. Exchange Research - Research Analyst

Josu Jon, can you talk about the practicalities of running a refinery in this environment? I mean, you've had several months now of practice. And I just want to talk about the constraints on kerosene, given that demand is still down 75%. How much are you managing to put in other product streams? And are you building kerosene inventories?

And then my second question is really just have any update on the Singapore International Arbitration Centre. I'm just wondering if proceedings have been delayed this year by COVID and where you stand in terms of what news you expect to receive next or when.

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

Thank you, Alastair. First of all, I mean, the practicality of running our refinery was really challenging and was very difficult, let me say, at the beginning of the pandemic. In March or April, let me say, and I'm going to be very transparent, I fear the second half of March of being able to go on running our refineries in a moment where people was getting infected. We were and we are a critical infrastructure. An important part of the Spanish economy and the services provided in such a challenging time were dependent on our refineries, and we were coping with a problem where we don't have the time or the tools to solve it.

And that, fortunately, when we start having the test and so on in the first week of April and we were overcoming all the problems of quarantines and so on, the problem was more or less solved and managed. Today, fortunately, I mean, we are -- the current situation has nothing to do in operational terms with that experience we leave in April and March. And not only because the volumes, because, I mean, today, fortunately, we don't have any kind of problem, we have people to run our refinery in a normal way.

Going to the volumes, it was challenging, of course. Because as you mentioned, the first 2 weeks of April, we see -- we saw at that time, a drop in volumes of 75% in our domestic market in gasoline -- and mainly gasoline and diesel, this combination. Of course, kerosene, I remember that the drop in April was at 97%.

At that time, I mean, first action was to try to get rid of any kind of kerosene production. So we got and we achieved that target. First of all, shooting down a plant, ISOMAX plant in Tarragona. And in operational terms, we were able to convert, let me say, this kerosene mainly in some other kind of middle distillates, diesel and so on. So we solved that problem.

In volume terms, we had a strong problem with the gasoline. Because the gas oil, the diesel, thanks to the transport trucks and so on, had some higher volumes. And you know that in Europe, we have a very -- a strong deficit in middle distillate. So we have the Mediterranean, French market, in our borders. So we have markets for this middle distillates. And in the case of gasoline, I remember that at that time, we had to shut down our FCCs in Coruña and reducing in a dramatic way the production in Bilbao and in Puertollano.

So now the environment is fully different because, of course, we have a reduction of volumes. But even now, the reduction today, this month has been about 15.5% of the total volume in the Spanish market. That is a significant figure, but could be a volume that could fit more or less with the production we had 4 or 5 years ago in the Spanish market. So that we are -- let me say, even in this kind of environment where every people is talking about lockdowns and so on, and it's true, but let me say that the intensity today, I don't know what is going to happen in the future because in this pandemic, it's better not to be a forecaster.

But taking into account the current situation, the lockdown intensity mobility terms we are seeing now has nothing to do with what the experience we suffer in March and in April. So we are managing. We have the markets to export gasoline. We have the capacity to play, let me say, in operational terms with the gasoline and naphtha. The petrochemical business is running in a positive way because packaging, health care and so on is driving the demand. And the demand of middle distillates, I mean, is okay. Could be a bit lower than an average year, but we have a strong deficit in Spain.

So today, of course, is challenging, is a strong task for our people, operating refineries, but nothing to do with the nightmare we suffer in March, April and even in May. I mean, today, the constraints are more or less, let me say, quite normal.

Going -- I mean, the Singapore Arbitration Centre, you know that we announced that Repsol was analyzing possible actions against the partial award and expect -- that we expected to challenge it before the Singaporean courts. All that goes included in our information of the full year 2019 results. I can now confirm that the challenge was filed before the high court in Singapore in April. We expect this process to take several months until a decision is issued.

And meanwhile, I can also add that there are, for the time being, no new partial awards issued by the tribunal or more information

coming from there. So -- and due to, as you could understand, Alastair, due to our confidentiality obligation, that is all I can inform today. Thank you.

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

Thank you, Alastair. The next question comes from Alwyn Thomas at Exane BNP.

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

A couple of quick questions from me. Firstly, I wonder if you're able to talk about the 2020 dividend. I know you're not going to give any guidance on the forward-looking dividend until the -- until you give the outlook at the Strategy Day. But particularly on 2020, what -- whether there's any rough hints on what the full dividend will be or the interim dividend.

And then secondly, you've made pretty good exploration success this year, particularly in North America and elsewhere. I just wonder, going forward, as a company, you're drifting more towards the green side of things, how do these exploration potential development opportunities fit within your -- the sort of outlook at the moment, given a greater shift in investor preference towards green investments rather than oil and gas investments? How do you think about that?

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

Thank you, Alwyn. I mean, first of all, our yesterday's announce about the scrip modality to pay January's dividend. I mean, is there -- is the commitment with the delivery of the commitment we took with the market and is not a guideline to conclude that we are going to go on using the scrip option in the next strategic plan period. It's only a decision about what is going to happen in January, nothing more. And it's the result of the authorization about this year that was approved in our annual general meeting. So we'll release the new policy about our dividend on November 26.

The amount of this interim dividend is going to be decided by Board by the end of -- the Board by the end of November, and of course, is going to be included in the logic behind the strategic plan. And I'm sure, Alwyn, you'll understand -- I mean, sorry, so sorry for not being more transparent about that, that you'll understand I'm not going to say anything additional about this dividend today.

So going to your second question about exploration successes. Yes, it's true. I mean -- and we are going to go on exploring. I mean exploration is going to be part of the future of Repsol. But we are changing our mindset about exploration because the world is changing. The world is going to need oil and gas in the future, no doubt about that. But we have to think about 2 things. First of all, the size of this exploration, the volumes that are going to be discovered. And second one, the speed we are going to need to put the resources in operation. And third, the cost.

So for that reason, we are taking the decision about exploration that they go in that direction. First of all, we are not going to be in the frontier areas, and we are going to concentrate our exploration in areas where we have clear capabilities, where we know the area and where we have facilities, either production and so on, to guarantee that we are going to have synergies and we are going to have the returns, and we are going to be able to put these resources in operation in the short term.

So we are going to speak and to talk about that in November. We'll do our best to explain this strategy. But there are 2 effects. First off, the first effect is that the intensity in dollars per barrel of the barrel produced, I mean, of our exploration is going to be lower than it was some years ago. And secondly, the geographies of our exploration is going to be more focused on some areas on some basins. But we will talk about that in November. Thank you, Alwyn.

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

Thank you, Alwyn. Next question comes from Jason Kenney at Santander.

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

Just really a point of clarification. I think the previous target for biofuel production was 600,000 tons by 2030. And earlier in the call, you mentioned 600,000 tons of HVO by 2025. And obviously, then you've got the 250,000 tons being added on top with the advanced biofuel. So that's by 2025 as well. So I'm just wondering where the 2030 target is going to shift. Are we looking at greater than 1 million

tons per annum by 2030? I appreciate you've got the strategy presentation coming up, but there's a number of numbers flying around in the conversation today.

And then secondly, just on the net debt level. I take the point that it's in line with the EUR 4.2 billion already, excluding the hybrid bonds. And then earlier, you did mention that it's likely to be lower year-on-year. I mean, are we looking significantly lower by the year-end, do you think? Just to steer there, if possible.

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

Okay, Jason. I mean, first of all, you are right. We are changing our previous target. And I explain all that more, perhaps, clearly, in the presentation, the strategic update or strategic plan. But I'm going to anticipate some things in line with my previous comment.

I mean, first of all, today, we are producing 350,000, 380,000 tons of HVO per year. On top of that, we are going to produce 250,000 tons per year from 2023 on in this advanced biofuel plant we are building in Cartagena. On top of that, we are bottlenecking our HVO production capacity, so the hydro treatment capacity we have in our 5 refineries today. And from this way, we are going to increasing 250,000 additional tons per year our HVO capacity by 2025.

All in all, it seems to me that we are going to be close to 8,000 -- sorry, 800,000 tons per year in 2025. And on top of that, we are producing -- we are going to produce more or less 150,000, 170,000 tons of advanced ethanol by that year. So all in all, 1 million tons per year could be today the most accurate figure to fit with what is going to be the biofuel production of Repsol in our 5 refineries by 2025. And what we have now on track perhaps is going to allow us to achieve a figure close to 1.3 million, 1.4 million tons per year by 2030.

So what I'm saying now about 2025 is fully based on projects, actions, budgets and commitments we have today. And we have some of technological exploration about the figure I'm giving now about 2030. But we are going to put a bit more of clarity about all that in November.

Your second -- I mean, it's going to be -- let me say that it's going to be slightly lower than it is today. I mean, we are going to do our best. First of all, let me be prudent, Jason, because what we are seeing these days and these weeks is, in some way, is new. We don't know what is going to happen and what is going to impact -- how it's going to impact. We have uncertainty, volatility. But be sure, I mean, I'm going to be my best.

First of all, to -- and now that a part of my Executive Committee is here with me in the conference, we are going to do our best to increase the OpEx effort by the end of the year. We are going to do our best to have an improvement of working capital over the whole year north of EUR 900 million, but perhaps increasing EUR 100 million more, achieving the figure of EUR 1 billion. We are going to try to optimize, of course, this working capital. And all in all, taking into account that we could have some negative effects coming from the current business situation in Europe, I think that we are going to be slightly below EUR 3.3 billion in our debt at the end of the year. That is my best forecast, taking into account the information I have today. Thank you, Jason.

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

Thank you, Jason. Next question comes from Joshua Stone at Barclays.

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

I have two questions, please. Just following up on the working capital there. You are guiding to quite a large step-up in optimization in the fourth quarter. I wonder if you could just talk a little bit more about where that's coming from and to what extent that positive effect will stick around next year.

And then secondly, on the biofuel plant again. These recycled raw materials, are you able to talk about which feedstock you're referring to here? Is it sort of Part A from the European regulation, so it's forestry waste and things like that? Or are we talking about the Part B, be that animal fats and used cooking oils? And then where are we looking to source this feedstock from? Will you be looking at the domestic market or going further afield?

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

Thank you, Joshua. I mean, what is going to be sustainable is the EUR 700 million of improvement we are going to get this year coming from the measures applying the framework of the Resiliency Plan. I mean, in case of, let me say, achieving or getting the figure of EUR 1 billion in the improvement of the working capital over the whole year, EUR 300 million are going to come from this, let me say, play -- combining the price change activity and so on. But EUR 700 million this year is the target we have, are going to be structural and are going to be recurrent, and they are going to be there to stay. A part is going to come from the refining stocks. I mean, thanks to the digital and so on, we are reducing the structural stocks we need to operate our refineries. Thanks to, I mean, a more flexible planning, programming and so on. So all that is going to stay. And we have more optimization coming from trading the payment way of our bills, changing in the accounts of the receivables and so on -- of the periods of payment, all that is going to stay. So EUR 700 million are going to be sustainable and recurrent.

In the case of the biorefinery, of course, all that is going to be subject to European regulation. What we are defining is in the framework of what is called RED II European regulation. We are taking advantage also of the opportunities of prioritizing the use of wastes as raw material in our refineries in this concept of circular economy that makes sense, that is positive, that has been pushed by European authorities and also by the Spanish authorities. And the feedstock in the case of the new Cartagena advanced refinery, I mean, our main part is going to be from our local market, from the domestic market. We are talking about the industrial wastes, we are talking about industrial oils, we are talking about recycle vegetable oils. And perhaps we could take advantage because you know that Cartagena has a very performant and important logistic position as one of the main ports and hubs in the Mediterranean area. We are going to take advantage, of course, of any opportunity of importing oils and products in the market. I mean we are going to make an arbitrage and having all the opportunities of feedstock.

But our main part is going to be involved in the concept of a circular economy within Spain. And in some way, that fits with this reflection I did before. The concept of refinery is changing. I mean the refinery -- we are not building the refinery of the future. We are starting to have and to operate refineries that are already part of the future. And the wastes are today and are going to be more and more part of the feedstock we are using our refineries to produce our products.

So I don't see, let me say, the refinery only as a concept that produce diesel and gasoline and is going to be, let me say, have a problem of demand in coming 15 years and so on because the mobility picture in Europe is changing. I mean, our refineries are going to produce, of course, biofuels with a net zero-emission over the whole cycle. But they are going to produce in the future hydrogen, they are going to produce using renewable energy. And we are going to produce also some other products that are going to be part of this concept of circular economy. Thank you.

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

Thank you, Joshua. Next question comes from Alessandro Pozzi at Mediobanca.

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

The first one on commercial. It's been the bright spot probably for Q3, supported by mobility. You mentioned transportation fuel was down just 10% in September. But since then, over the last few weeks and days, we've seen more and more restrictions taking place in Spain and Italy. I was wondering how do you see mobility going into November? And you're saying that commercial could have another good performance in Q4. That's my first question.

Second question is on refining margins. Clearly, Q3 has been an unprecedented quarter but you still managed to pull out a very good premium. How we should think about premium in Q4?

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

Thank you, Alessandro. I mean, first of all, let me be prudent because, I mean, growth we are seeing day after day, you and me, in the European arena is changing. So I don't know what is going to happen in 2 weeks. I mean, what we are seeing now in Germany, in France and in Spain and in some Spanish region, in some other countries. So I'm going to be prudent. My -- and that is my personal view.

I think that the concept of lockdown in the European countries is going to be quite far from the concept of lockdown we experienced in

March and April with the best knowledge we have today. Because, I mean, mainly talking about the Spanish situation, that is the situation, I know better than some others, some other situation, I mean. We have seen restrictions to the mobility, of course. Our authorities are doing all the forms to contain the pandemic and that is logical, is important because health has to be the priority in such a scenario. But it's also true that the mobility to work, the mobility to go to school, the mobility to go to university and so on, today, is going to maintain and to keep going its position in Spain. All that was not part of the picture in March, April and even May.

Saying that, what we are seeing now is the average of October could be at around 16% of decrease. Our best forecast for the whole month, October, comparing with the 12%, 13% we had in July and August and the 10% we had in September, that means that mobility has been negatively impacted in a 7% comparing with the figures of September. I don't know what could happen in November and December. But it seems to me that we are going to see a quarter with volumes that are going to be perhaps slowly below in relative terms, the third quarter, this fourth quarter. Perhaps with reduction closer to 18%, even 20% over the whole quarter, depending on what is going to happen.

And let me only add 2 facts. First of all, the non-oil businesses is going better, is getting better than in previous months. And in the non-oil that you know that is more or less 40% of our margin, the drop is going to be at 10% more or less comparing with the 2019. And on top of that, our OpEx are lower. I mean when we are talking about this EUR 520 million, you have to take into account that we have reduced in a significant way the OpEx of this business. That means that all in all, I mean we are not going to be perhaps in the figures we saw last year. But let me underline that we have a resilient business that is making results and is making cash for Repsol even in this tough situation. Thank you, Alessandro.

And the premium. The premium -- you mean the premium of the refining business. I mean I don't know what is going to happen in the fourth quarter because it's going to depend on the evolution of the margins and so on. But let me say that this October, we are having a spread, a premium over the margin index of about \$0.8 per barrel. That is the premium in October. I don't know what could happen in November, December. But I mean October is there. Thank you.

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

Thank you, Alessandro. Next question comes from Mehdi Ennebati of Bank of America.

Mehdi Ennebati BofA Merrill Lynch, Research Division - Research Analyst

So 2 questions, please, on my side. First one, maybe just to come back on the co-processed HVO and what return do you expect from that. Because you said that your new plant in Cartagena will have a return of 27%, 28%, but this is not co-processed HVO, this is real HVO. What about the return of the co-processed HVO? I am asking because you cannot really get the molecule of HVO, which is co-processed, sorry. It is mixed, in fact, with your other oil petroleum products. So does it have a real value or not really?

And another question as well regarding the production, the nameplate capacity that you gave. You said roughly 1 -- 850 kilotons per year of HVO production. Does it mean that you expect to produce relatively quickly at 100% utilization rate, especially in your Cartagena biorefinery, or no? I am asking because some of your peers have been ramping up for 18 months. So just wanted to know if you expect a relatively quick ramp-up.

And another question regarding the production guidance that you gave. You said 630 kilobarrels of oil equivalent per day in the Upstream, okay, depending on some variables. Just wanted to make sure, does this 630 kilobarrels of oil equivalent per day guidance takes into account Libyan production? And if yes, what amount of Libyan production for next year?

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

So thank you, Mehdi. I mean, first of all, the return of this Cartagena plant, as I said before -- of this investment will be at around 27%, 29% of return of this investment. On top of that, we are -- we expect to produce 250 kilotons under 100% utilization of rate. But you know that in these kind of plants, you always have, after some years, debottlenecking and so on. That means that perhaps in some years, we will be able to increase even the utilization rate above 100%.

Saying that, the rest of HVO, I mean, let me tell my own experience because when we started producing HVO in Repsol in 2013, I was at

that time leading the refining business of the company, and the process was developed with a very tiny investment. That means that changing operational procedures, using -- reducing the use of hydrogen for some other uses we have in the refineries, using the spare capacity we have in the hydro treatment plants and so on, we were able, with that tiny investment, to achieve this figure of 380,000 tons per year of HVO. So the payback is -- I mean it could be less than 1 year for this kind of production.

And in the case of this debottlenecking that I'm going to say now, I mean, because perhaps I have used the same figure for both, but it's different. So we are going to debottleneck our 5 refineries to increase 250,000 tons more of HVO production by 2025. So all in all, we have the 380 kilotons we have now, plus the 250 of the plant of Cartagena, plus 250 of the new HVO we are going to produce debottlenecking the current 5 refineries and the current plants we have. All in all, we are going to have an HVO production that is going to be above 850,000 tons per year by 2025.

And in the case of this debottlenecking, the payback is going to be also below perhaps 1 year, so -- because we are going to require very low investment levels. So what we are doing are molecules that are the same molecule and the mineral one. That means that we could use 15%, 18% of this HVO to produce our diesel depending on the arbitrage of prices. And we could have the opportunity, I mean, to make money, playing with the different seasons and the different prices in the market of palm oil and so on.

So going to the Upstream production guidance. I mean we are taking then something of 35,000 barrels per day in Libya in 2021 in this guidance I gave some minutes ago. Thank you.

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

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

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

I'll try to be quick. I think just in terms of the renewables business. As you're growing that out now, are there any geographies or technologies that you favor at this point? So do you think there's particular opportunity in a certain geography or not?

And then secondly, would you build any incremental capacity on the renewables side without PPAs? Or are you going to look to essentially back everything with demand before construction?

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

Thank you, Henry. The main technologies we are going to focus in are wind and solar, photovoltaic solar. And we are going to develop, let me say, a quite good balance among them. Because first of all, the photovoltaic energy because the cost, the cost of CapEx are dropping. But it's true that in terms of capturing and getting prices, the photovoltaic energy is more concentrated in some hours over the whole day. And to have, let me say, a 24 hours production in the future, you have to combine or to hybridize, let me use the term, the green energy and the solar energy.

On top of that, storage is going to be very, very, very important in the future. Because, I mean, the main weakness of renewable energy today is the lack of certainty in terms that when you need sometimes this energy, the renewable is not producing, because you lack the green or the sun. For that reason, we are very focused mainly in the main markets we have, that is Spain, in the concept of being able to produce power over the whole day. For that reason, one of the main projects we have now in mind is the project of a new pumping hydro project in Spain that is called Aguayo in the north part of Spain. That is going to increase our current pumping capacity from the current 360 megawatts of pumping we have to a figure close to 1 point 360 -- or 1.36, sorry, gigas. So we are going to increase in 1,000 new megawatts the pumping capacity.

So all that combined with the hydrogen that, in some way, is going to be also a way to store the renewable capacity we are going to produce is going to give us some kind of team of different technologies, so solar, green, also storage coming from the pumping. And in the future, the hydrogen that could allow us to produce in a continuous way the energy that our market needs. Please, could you repeat again your second question, Henry?

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

Yes. Are you going to build without PPAs unbacked? Or are you going to only construct new projects where you have offtake agreements or PPAs in place?

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

So thank you. I mean, in Spain, it's true that we don't need PPAs. Because in this concept I was relating before, we have -- first of all, we have our own internal consumption in our plants. Secondly, we have the retail business where we have the short position coming from our clients. And on top of that, we have our production, and we have our pumping storage facility. So because all that is the reason we prefer to have an open market position in Spain because we are going to capture and to get higher returns in this business having this position.

Going to the international arena, having short position in the markets coming either from the retail and mainly from PPAs is going to be a must for us because it's going to be the way to -- I mean, having the whole risk of the project, from the promotion, development, construction, managing the energy, operating, maintaining the project, having the short position in the market. And on top of that, I mean, having the right partner to reduce the equity exposure and to increase the return of the project is going to be the way for Repsol to have and to get this double-digit returns we expect. And in some cases, the project finance is going to be also a tool to increase this equity return in this kind of projects. So in our international expansion, it's going to be a must. Thank you.

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

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

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

Just 1 follow-up. In your answer on how you're thinking about shareholder distributions, you talked about the need to maintain and even strengthen the balance sheet. If I look at your balance sheet on either a gearing or net debt-to-EBITDA basis, it really looks quite strong already, especially versus history. What are the relevant balance sheet metrics that you're looking at? And what levels do you want to take those to over the coming kind of quarters and year?

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

Thank you, Peter. I mean, first of all, it's true that today, we don't have in our strategic framework any kind of metric related to what is going to have our maximum gearing on this level. It's true that in the framework of our Resilience Plan, I'm going to insist that this year, we are going to be slightly below EUR 3.3 billion as net debt figure. But be sure that November, in the framework of the new strategic plan, we are going to define a gearing limit and strategy for Repsol for coming 5 years that is going to be based in our range of gearing and our range of net debt EBITDA ratio. Thank you, Peter.

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

Thank you. We have a last question, another question from Jason Kenney at Santander.

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

I forgot to ask earlier, just I was looking at the Spanish draft budget for 2021. And I wondered if you've had any first thoughts about the potential for the taxing of dividends and gains from affiliates going forward and if that could be significant or not.

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

Thank you, Jason. We have analyzed in a deep way all the information we have today about this new bill draft or proposal. And we are not going to suffer any significant impact, no, neither in P&L nor in cash. So that is our best approach today. So no significant impact on the activity of Repsol, taking into account the current structures we have. Thank you, Jason.

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

Well, that was our last question. At this point, I will bring our third quarter conference call to an end. Thank you for your attendance and hope to be with you for the strategic presentation at the end of November. Take care.

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