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PRESENTATION

Operator

Hello, and welcome to the Repsol Second Quarter 2018 Preliminary Results Conference Call. Today's conference will be conducted by Mr. Josu Jon Imaz, CEO. A brief introduction will be given by Mr. Ramón Álvarez-Pedrosa, Head of Investor Relations.

I would now like to hand the call over to Mr. Álvarez-Pedrosa. Sir, you may begin.

Ramón Álvarez-Pedrosa

Thank you, operator. Good afternoon. On behalf of the company, I would like to thank you for taking time to attend this conference call, setting out the company's second quarter results for 2018. This conference call and associated webcast will be hosted by Josu Jon Imaz, our Chief Executive Officer, with members of the Executive team joining us here today in Madrid.

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 conference call over to Josu Jon.

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

Thank you, Ramón, and thank you to everyone online for attending this conference call covering our second quarter results.

Before taking you through the detailed explanation of the quarter, I want to start by announcing that according to the news release earlier today, Miguel Martínez is retiring from Repsol, and Antonio Lorenzo is replacing him as CFO of the company. Antonio was previously our Corporate Director of Strategy, Control and Resources. Antonio has many years of experience in the oil and gas industry and has been a member of Repsol's Executive Committee since 2015.

In addition, Luis Cabra has been appointed new Executive Managing Director of Technology Development, Resources and Sustainability. And Luis will be replaced as Executive Managing Director of Exploration and Production by Tomás García Blanco, previously the Executive Director for Europe, Africa and Brazil E&P business unit.

Let me now hand the conference call over to Miguel. But before, let me say, Miguel, that today is not only a relevant and important professional event today for me; it's also important in emotional terms and difficult in emotional terms. You are not only a CFO of a company. I have worked with you over the last 10 years. It has been for me an honor to work with you, it has been an honor to give -- to take you as a member of my team over the last 3 years. And let me say that I have learned a lot over all these years from you, Miguel. So thank you. Thank you for your support. Thank you for your help. Thank you for your commitment with the company. Thank you for supporting me also in personal terms over these years. And good luck, Miguel, in your personal life from now on.

Miguel, you have the floor.

Miguel Martínez San Martín *Repsol, S.A. - CFO*

Thank you, Josu Jon, and good afternoon, everyone. Just want to take a moment to say farewell to everybody online as this will be my last results conference call. After 13 years as part of Repsol Executive Committee, the last 7 in the role of CFO, and with the foundations of Repsol's new strategic plan already defined, I think it's an appropriate time for me to retire.

I have been very fortunate to spend most of my professional career in Repsol, and it's here where I want to retire. Family, chess and other hobbies will now be a priority in my life. I would like to wish you all the best to everyone joining us in this call today. Thank you, all of you, for your help, collaboration throughout these years. Josu Jon will now continue with the rest of the presentation. Thank you very much.

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

It will be great, Miguel, if in between a chess play game and your golf, you could reserve some minutes to have coffee with me from time to time. Thank you, Miguel.

So I will now continue with today's call in which I'd like to cover the following principal topics: firstly, a summary of the key messages and main operational highlights for the quarter; secondly, the financial results; and finally, an update of the outlook for the rest of 2018.

Let me now start by reviewing the key messages from the quarter. After delivering in just 3 years on all the key strategic objectives of our 2016 to 2020 Strategic Plan, last June, we presented our revised targets for the 2018 to 2020 period. Following the divestment of our remaining 20% stake of Gas Natural executed last May and, of course, supported by the strong foundation of financial flexibility and a sound balance sheet, our update value proposition adds the concept of growth to our objective of providing value and resilience under any price scenario. Our 2018 to 2020 investment budget increases to EUR 15 billion, a 35% price compared to the previous 3-years period. A total of EUR 11 billion will be invested in the core Upstream and Downstream portfolios, and an additional EUR 4 billion will be devoted to expanding the Downstream and to building a new low-carbon Gas & Power business.

The expected EUR 2.5 billion investment in low carbon to 2020 includes the EUR 750 million acquisition of the hydro and CCGT generation assets and, of course, the retail business of Viesgo. The transaction is expected to be completed in the fourth quarter of the year once all regulatory approvals have been received.

Net debt stood at EUR 2.7 billion at the end of June, a EUR 4.1 billion reduction compared to the previous quarter, mostly driven by the EUR 3.8 billion received for Gas Nat and prior to the payment of funds for the Viesgo transaction. EBITDA amounted to EUR 2 billion in the second quarter of 2018 and a total EUR 3.8 billion in the first half of the year.

Going now into the operational details of the second quarter. At the macro level, the positive impact of a higher crude price continues to be partially offset by a weak U.S. dollar. Upstream production averaged 722,000 barrels of oil equivalent per day, in line with the first quarter. Planned maintenance in several assets offset the impact of higher production in Peru, increased volumes in the Marcellus and the ramp up of Reggane. Average production in Libya remained close to plateau of 38,000 net barrels per day. In July, a security situation in the El-Sharara field cost production to be, 10 days ago, initially reduced to around 120,000 gross barrels per day, gradually improving to the current, today we are producing 220,000 barrels level and closer in this ramp up to the 300,000 barrels per day produced prior to the incident.

For the first half of 2018, total Upstream production has averaged 724,000 barrels of oil equivalent per day.

On the development side, work has continued at Bunga Pakma in Malaysia, which achieved first gas early 2 or 3 weeks ago. This project is expected to produce around 160 million gross standard cubic feet of gas per day, enabling the PM3 asset in Malaysia to meet its gas delivery commitments for the coming years.

In exploration, a total of 5 wells were finished in the quarter, of which 3 were declared successful, while the remaining 2 were deemed negative.

Moving now to the Downstream division. The Refining margin indicator averaged $7.20 in the second quarter, helped by stronger middle distillates and gasoline spreads compared to the previous quarter. The average utilization rates in the distillation and conversion units were impacted by scheduled maintenance at the Tarragona refinery that was completed in June. With that, we have finished our planned maintenance program for 2018, allowing our refining to take advantage of a healthy demand and a more favorable expressed forecast during the second half of the year.

The petrochemical business has faced a challenging quarter as a result of our worse international environment, but mainly because the multi-annual turnaround of the Sines cracker. The shutdown of the cracker during the [full] quarter combined with operational issues we had in April in the cracker and in the derivative base units impacted the quarterly business performance. Having solved these incidents and with the turnaround already completed, the plant -- all the Sines plants are back at full operations since last week. We expect, for instance, a significant improvement of our chemical business during the second half of the year.

Finally, compared to the first quarter of 2018, the Marketing business contributed an improved result, thanks to higher activity in our service stations in Spain while LPG and Gas & Power, as explained, were negatively impacted comparing with the winter by seasonality.

Moving on now to the financial results, I will summarize the main figures for the second quarter of the year and how they compare with the same period of 2017. Second quarter 2018 CCS adjusted net income was EUR 549 million, EUR 104 million higher than in the same period in 2017. Upstream adjusted net income rose EUR 360 million, a EUR 245 million increase compared to the second quarter in 2017, driven mainly by higher realized prices, in your case, higher production volumes and lower amortization rates, partially offset by higher taxes and a negative exchange rate effect.

In the Downstream division, the CCS adjusted net income was EUR 337 million in the quarter, EUR 92 million lower than in the same period of 2017, mostly due to lower results in chemicals, affected by the shutdown of the Sines cracker, lower margins in Peru and the negative exchange rate effect. These impacts were partially offset by better results in Refining in Europe, Marketing and trade.

In corporate and others, the adjusted net income decreased by EUR 49 million compared to the second quarter in 2017, mainly due to adjustments to the corporate result due to intergroup crude oil sales. I'd like to underline that these adjustments will be recovered back in the P&L of the third quarter, so it's a temporary effect.

At the net income level, second quarter results were positively impacted by the capital gains from the disposal of Gas Natural and from extraordinary results due to the impact on financing instruments of the unhedged fluctuations in the dollar-euro exchange rate. These positive gains have been partially offset under principles of prudent accounting by additional impairments and provisions in Venezuela. For further detail of Repsol's results, I encourage you to refer to the financial statements and accompanying documents that were released this morning, today.

Finally, let me now finish with some comments on the outlook for the remainder of the year. Our revised CapEx forecast for 2018 amounts to around EUR 4 billion, of which around EUR 2.3 billion in -- and $2.7 billion, $2.8 billion will be invested in Upstream. EUR 0.9 billion in Downstream and EUR 0.8 billion in the new low-carbon business before the end of the year.

Upstream production is expected to stay at around 715,000, 720,000 net barrels per day, subject to the fluctuations in Libya.

In the Downstream business, we are expecting the refining margin indicator to stay around $7 on average for 2018. And with all planned maintenance for the year already completed, this quarter, our refining system will benefit for having all the situation and conversion capacity available and our current forecast expects to generate a premium in the real CCS margin during the second half of the year.

In the Chemicals business, following the restart of the Sines cracker, we expect this half of the year a significant improvement of results during the second half of 2018, for a total EBIT of around EUR 350 million as our best guidance for the whole 2018 year.

The digitalization program is progressing, is on track, and is being deployed across the whole organization. As of today, there are 120 ongoing projects that will allow the company to move towards the targets set for 2020 and 2022, in cash terms and in P&L terms.

The efficiency programs are also progressing according to plan and expected to achieve the annual objectives in all divisions. After June, the saving posted in the businesses reached 45% of the total 2018 target. And the cost evolution of the corporate perimeter is aligned with the year-end objective.

On the financial side, we expect a partial unwinding of the working capital that we have experienced in the first half of the year, driven by a normalization of the level of the stock in the industrial businesses. Full year EBITDA is forecast at around EUR 7.9 billion.

Finally, as of the end of June, Repsol have purchased 6 million shares to be amortized in the share capital reduction approved by the Annual General Meeting in May. The remaining shares to reach the total 68.8 million shares issued with this year's scrips will be bought under a buyback program later in the year.

In conclusion, based on our performance in the first half of the year, we remain on track to deliver on our targets for 2018 while working on the updated strategic objectives through 2020.

During the next 3 years, we aim to deliver value growth based on improved shareholders' returns, increase the profitability across our portfolio, and we expect to build a low-carbon Gas & Power business.

Funded by organic cash flow and the proceeds received from the disposal our stake in Gas Nat under a conservative Brent price scenario, we will be able to increase our CapEx, grow our shareholder remuneration by 8% annually and implement a share buyback program to offset the dilution associated with the scrip.

Looking into our full year 2018 results, with no more major maintenance planned in the industrial businesses, we expect a stronger contribution from the Downstream in the second half of the year; while the Upstream continues to benefit from the recovery in crude oil prices.

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

Ramón Álvarez-Pedrosa

Thank you very much, Josu Jon. Just let me say that in case you run into technical problems during the rest of the webcast or conference call, please address any problem to our e-mail address, investorrelations@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

Thank you, operator. Let me move on to the Q&A session. Our first question comes from Oswald Clint at Bernstein.

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

I wanted, Josu Jon, just a clarification on your commentary around refining margins for the rest of the year. I think initially, you said you expected some strong strengthening in the second half of the year for spreads. But then you said, you expect a $7 per barrel average number for the year, and I guess you've been pretty close to that number for the first half. So is that really saying 2Q levels should be sustainable through second half 2018? Or is there some type of spread you're looking at or some product tightness that could take those numbers higher? That's my first question. And the second one was just back to your commentary at the beginning about capital investment, your EUR 15 billion. I guess, we saw that in Madrid a couple of months ago. But I guess that was all done at $50 oil prices. And I just wanted to know, as you look at $70 oil prices today and prices holding at that level, are you tempted or are you seeing some other opportunities whereby you might want to potentially spend more money on? Or is there more developments in your portfolio? In the Upstream, specifically, you potentially would kind of look at sanctioning? That's the second one.

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

Okay. Thank you, Oswald. Talking about the refining margin, we expect in our own system $7 per barrel for the whole year as an index of the margin. But because we don't have -- we don't expect any shutdown, any maintenance turnaround in the second half of the year, we think that in real terms, we could be in our internal margin, I mean, in the delivery to the market, that we could have a premium of $0.40, $0.50 over this $7. I mean, the index will be $7 for the whole year, but we think that we are going to be able, mainly in the second half of the year, to have a premium over this figure because we don't have any maintenance planned for this half year. And we have, let me say, the machine fully prepared to capture the margins that the market could give us. Talking about the capital investment, I mean, you remember, a lot of you, that in the roadshow last month, I underlined the message that this additional cash coming from the oil price was going to be offset by the building of the inventory related to these new prices. That has happened in this half of the year. Talking about the $70, I mean, first of all, we have to see what happened. But let me say, I am going to be very prudent in any case in the capital discipline of this company. And even being at $70, $75 per barrel, I mean, every new that the Upstream project has to show, has to really show that they are going to be able to make positive net present value in a flattish scenario of $50, $55 per barrel for the future. I mean, because we are prepared to take the windfall coming from the market now, but I think that we have to be very prudent about the future. And we are going to apply a very strict and narrow financial capital discipline in the company. In case of having this extra cash in coming months or in the coming year, as I said when I presented the strategic plan, we are ready to accelerate some projects that are, today, profitable and we have on track, in organic terms. On top of that, I mean, as I said before, in case of not having these projects or having additional cash, we are ready to proceed to an additional buyback process at the end of the period. Thank you.

Ramón Álvarez-Pedrosa

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

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

I have one question on Chemicals and the weakness there. I think, previously, you talked about the 2018 EBIT being around EUR 500 million for the year. Could you just provide a bit of sensitivity? I think that was based on a $60 Brent scenario. How -- when you went from EUR 500 million to EUR 350 million, what is the impact of the increased Brent price assumption specifically? And then what is the impact of the additional maintenance there? Can you split out those 2 factors? And then secondly, just going on Venezuela, could you just provide an update on any changes to the net receivables balance this quarter?

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

Yes. Thank you, Biraj. I mean first of all, talking about the Chemical business, let me stress and underline that the main effect has been temporary in this quarter; temporary due to these effects, 2 effects. First, the first one has been operational. I mean, we have an operational serious problem in our compressor in Sines in April. We have taken advantage of this problem to proceed to the turnaround maintenance program of the cracker. Today, everything is in operation. But on top of that, we have also experienced the temporary effect of the oil price increase over the period. Because I mean, the main part of our polyolefins contract, they have contract and established prices and seen the price of the naphtha going up, the margin has been reduced in international terms. This effect, I mean, in a stable $70 per barrel flat period, is going to be offset by the normal conditions of the market. Today, our Chemical business is less vulnerable to the oil price that we were 4, 5 years ago because, I mean, a 55 -- 50%, 55% of today's feedstock in our chemical plants is gas; I mean it's LPG, you see streams coming from our refineries and so on. That means that, I mean, in case of being at $70, $80 per barrel oil price, we're to have a small impact on our results in the Chemical business that's due to the competition of the crackers coming mainly from North America, but this effect is going to be very mitigated by the gassy feedstock we have now in our crackers. So the effect has been mainly temporary in this quarter due to the shutdown of Sines and due to this temporary effect coming from the price of the naphtha. Going to Venezuela, as I said before, we have taken advantage of the positive financial results to reduce our exposure to the country. Today, the whole exposure we have to Venezuela, taking into account equity, financial loans, receivables and so on, is EUR 795 million that are more or less $890 million or $900 million. That is the total exposure we have to Venezuela. And I want to remind you that at the end of 2017, this figure was $1.7 billion, the total exposure. So we have reduced this exposure in a significant way. Over the last months, we don't -- we haven't received receivables or payments from Venezuela. We have been prudent covering, of course, these positions. And I mean, we have the hope that we could have a cargo these -- in coming days. But I mean, I prefer to be prudent and before having any kind of real payment, being prudent about that. In any case, our current position to Venezuela is, in free cash flow terms, neutral. Thank you.

Ramón Álvarez-Pedrosa

Thank you, Biraj. Our next question comes from Theepan Jothilingam from Exane.

Theepan Jothilingam ***Exane BNP Paribas, Research Division - Head of Oil & Gas Research and Analyst of Oil & Gas***

I had a question just in terms of could you run through what regulatory approvals are needed to close the Viesgo transaction, please? And then, when you think about investing the EUR 2.5 billion in new energy, should we now think about that being more front-end loaded through 2019? Or do you think this is still sort of in equal installments through the rest of this plan?

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

Thank you, Theepan. I mean, first of all, the transaction of Viesgo requires 2 main approvals from different agencies, the first one is the antitrust Spanish authority. And the second one is not for us, it's for the company that is selling the assets of Viesgo, the regulatory authorization for the coal carve-out. We don't anticipate any regulatory barrier to our Viesgo acquisition because, I mean, it doesn't increase the market concentration; as in both parties, we don't have overlaps. So we expect that we could have the approval of this transaction in 3, 4 months, maximum. So at that time, in October, November, the integration of these assets in Repsol will be complete. Talking about the capital for the low-carbon businesses. I mean, the best approach for this year is that we could apply a CapEx of EUR 800 million in the whole year in these kind of businesses, including here the acquisition of Viesgo. And let me repeat a message that I had the opportunity to express to the whole analysts and also I think that I cited to you, Theepan, in the previous roadshow. I mean, we are going to be very prudent applying this capital. The current view we have is EUR 2.5 billion over the whole period '18-'20, but we are going to deploy this capital perhaps in the time in a more prudent way because it's going to be mainly organic from now on, that means that we are going to need some time to develop these projects. And the condition we are going to put to this project is going to be significant and higher return. So I don't have any doubt that in case of not having the returns, we are going to ask to these kind of projects, we are going to go in a slower way. But our best forecast for the period is EUR 2.5 billion from 2018 to 2020, including the acquisition of Viesgo. Thank you, Theepan.

Ramón Álvarez-Pedrosa

Thank you, Theepan. Our next question comes from Peter Low at Redburn.

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

I actually just had one on the 2018 CapEx guidance. I think you said it was EUR 4 billion for the year, including EUR 0.8 billion for low-carbon businesses. So that leaves about EUR 3.2 billion for the rest. Now I think you're currently annualizing well below that level. So should we assume a step-up in spending in the second half? And what's kind of behind that phasing?

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

Peter, that is my best estimation today. But be sure, if we are able to do the same thing with less money, we'll do it. And we will be below this EUR 4 billion. But let me say, today, our best approach, remember that the guidance for the whole year before, I mean, not including the low-carbon business and so on, was EUR 3.5 billion. If you add the EUR 0.8 billion coming from Viesgo and these businesses, we are in the figure of EUR 4.3 billion. I think that the reduction is going to come EUR 0.1 billion or EUR 0.15 billion from the Downstream side and EUR 0.15 billion from the Upstream side. In the Upstream side, the perimeter of the execution is going to be exactly the same. It's mainly efficiency in the execution of projects that is reducing this figure. Some projects like the Buckskin and so on, we are executing them with lower figures that's expected. And be sure, I am going to go on pressuring my team and who are able to maintain the perimeter investing only EUR 3.8 billion at the end of this year would be great. Anyway, my best -- I have to be prudent and my best estimation today is EUR 4 billion including the Viesgo acquisition in this guidance for the whole year. Thank you, Peter.

Ramón Álvarez-Pedrosa

Thank you, Peter. Our next question comes from Lydia Rainforth at Barclays.

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

Thank you to Miguel as well. Two questions, if I could. On the new Executive Committee, I'm just wondering what practical impact do you expect to see from that structure? Does the appointment of the Chief -- or in terms of the digitalization side, is that to set to accelerate that plan? Or was it needed to facilitate the original outlook that you had in the strategy? And then secondly, just - so any impacts on demand that you're seeing at all yet from the higher prices in the Marketing business?

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

So Lydia, excuse me, could you repeat the first question, please?

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

Yes, just in terms of the change to the structure of the Executive Committee and obviously, sort of having Luis in terms of the -- in charge of the digitalization plan, was that needed to -- does it accelerate the plan? Or is it something that was needed to really facilitate the deployment of that strategy?

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

Okay. So the rationale for the Executive Committee change, Lydia. I mean, the first, as I said, for me is, I mean, the retirement of Miguel is not an easy time and easy decision, right. I'm convinced that Antonio Lorenzo, he's going to be a great CFO. But I think that, that was the right time for that because, I mean, as I was discussing with Miguel having a coffee with him this morning, I mean, I remember that 3 years ago, we had the -- a debt of EUR 13 billion, EUR 14 billion. We were coping with the rating agencies. Miguel and his team, they have developed a great and huge job today, and today being in the sound position, we are with EUR 2.7 billion of net debt, it was the right time for this change. And when you will talk about the change of Luis and so on, I mean, I think that you are right. Let me say in positive terms, my obsession to create and make value in the company is applying the internal capabilities and talent we have. I'm a believer on technology, technical development on the digital and the improvement on the performance in technical terms of the engineering and so on. And the creation of value applying this foundation was and is one of the pillars of the strategic plan. And I think that Luis is the right guy to lead this process. I mean, he has a strong experience in the Upstream business. He is recognized as a leader in this team. And he's a former refiner. He led, a lot of years ago, the technological area of the company. And I think that he has the right experience to boost, to foster and to catalyze this technical and digital transformation of the company. And of course, Tomás, he is a good leader with a strong experience in the U.K., in Argentina, in YPF leading the (inaudible) in the past. And I think that gives time to prepare for the future also of the company, putting, leading the businesses. I mean, people that they are younger than me, thus as Mavi and Tomás, either in the Downstream side or in the Upstream side, they are. On top of that, I mean, Luis, do you know that he has the lean concept fully embedded in his DNA as he has applied this concept in the Upstream. I mean, I am sure that after the huge effort that Antonio Lorenzo has developed in this area over the last years, he is going to go on on that. The impact of the demand in the Marketing business because of prices. I mean, I'm not going to see that we are not seeing -- or we could imagine another scenario in the future. But I mean, 4 years ago, the oil price was $100, $110 per barrel, and today, we are $75. And the reality is that the Spanish economy is growing in a good way, that the volumes over this year for Repsol, they have increased in 1, 2 points. On top of that, we are having a significant improvement of the foundation of the business. So the demand is behaving in a positive way in European markets and, in our case, in Spain and Portugal. I mean, this demand is not fully elastic, as you know. And we are seeing that in the market now. Thank you, Lydia.

Ramón Álvarez-Pedrosa

Thank you, Lydia. Our next question comes from Rob Pulleyn at Morgan Stanley.

Robert John Pulleyn ***Morgan Stanley, Research Division - Analyst***

So a lot of my questions have been answered. But if I can just revert back to Venezuela and just trying to understand what you mean by taking advantage of the current situation. But why is the adjustment the amount it is, is, i.e., why not larger or smaller? Is there specific event going on which informed the size of the write-down? And what could actually trigger further write-downs to that remaining value?

And the second question is if I can go back to IMO 2020 which obviously, your Refining system seems very well positioned for in middle distillate. But I'm very interested in understanding how or want you're going to do with your fuel oil yield under the IMO 2020 situation and how you see that playing out?

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

I mean, going to the Venezuela case, perhaps, in technical terms, I mean, this write-down could have, let me say, some flexibility, but we have preferred to be prudent in our estimation. I mean, you know that we have some extraordinary resilience in the P&L coming from the financial results because we were short in euros and low in dollars and we have obtained a significant result due to this unhedged position in the market. And we have preferred to be prudent and to apply all this money to reduce our exposure to Venezuela. So prudency has been the main guideline to this write-down. I mean, we think that today, with this EUR 795 million of total exposure to the country, we and our auditor, that is also a relevant fact, we are comfortable taking into account the situation and the robustness in operational terms, I mean, fully conscious about the cash situation of Venezuela and the country. We are comfortable in this situation. Going to the IMO. I mean, I suppose and I want to believe and the average of the analysts think that the effect is going to be very clear in the second half of 2019, anticipating what is going to happen in 2020 on. If we apply the spreads that the analysts and the market is seeing and forecasting for the middle distillates, for gasolines, for the fuel oil, for heavy oil and so on, and you apply these spreads as average to our Refining system, will we have an increase of margin of $3.04 per barrel in our whole system? We prefer to be more prudent. And we are estimating an increase of $1.05 per barrel. For the whole system, that means an additional cash in of EUR 300 million in Refining in 2020. Why we are more prudent than the market average, I mean, because perhaps the market could have additional lanes to adapt itself. I mean, the lack of compliance is going to happen in some parts of the world and so on. So remember that we have a 6% of the European distillation capacity in Refining terms today, but we own a 25% of the total coker capacity. We only produce a not significant fuel oil production in Tarragona, 6%, 7% of the whole Refining production of Repsol, but we have preferred our spare capacity in our cokers in Coruña and Bilbao to transform as raw material this fuel oil, this bottom of the barrel, and we are going to get rate of any ton of fuel oil produced in our European system by 2020. Thank you, Robert.

Ramón Álvarez-Pedrosa

Thank you, Rob. Our next question comes from Matt Lofting at JP Morgan.

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

Two, please, if I could. I mean, firstly, just on cash flow. When I look at the first half operating cash flow and strip out working cap, the extent of year-on-year increase appears quite modest given significantly higher oil prices, production, higher Refining, higher even accounting for the dollar and the removal of Gas Nat. So could you just walk us through the variables that explain that bridge? I'm wondering whether the underlying capture of higher oil has been as good as you'd like in the first half of the year and how we should think about that on a forward basis versus the sort of the $50 baseline around the strategic plan? And then secondly, a shorter one on production. I think the full year guidance of around 715,000 suggests you're sort of expecting second half of year volumes modestly below first half. What's the -- sort of the main deltas there?

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

Thank you, Matt. Let me say that you are, I mean, fully right and your point is very important. Because I know that the weakest point of this quarter is the cash flow from the operations. I mean I'm realizing in an open way that because even though the EBITDA figure is very positive, the problem this quarter and this half of the year has been the increase of the working capital in the company. And let me explain the rationale of this working capital. EUR 950 million comes from the Downstream. EUR 450 million out of this figure is the pure price effect on the inventory. I mean, today, at these prices we have today, building up inventory is more expensive than it was 6 months ago. EUR 100 million are related to the increase of receivables from our clients because the price effect. So we have the same build, we have in the past in volume, but that is more money. EUR 250 million are due to the increase of volume because of the maintenance period. We need more product and storage to respond to the market needs. When we stop, we shut down our plants. And EUR 150 million is the increase in Trading activities. This figure has had also a negative impact, EUR 90 million after taxes, in the P&L of the quarter. But this figure in the P&L is going to be recovered in the P&L of July and August. This quarter has been significantly higher, impacting the P&L because, I mean, if you take the difference between the cost of producing and the sale price, due to the price increase that happened in the meantime, the effect has been more significant in this quarter. For that reason, we will see again this money in our accounting in the third quarter. So EUR 950 million for the Downstream, with this rationale. From the Upstream side, EUR 280 million in the half year is due to Venezuela, as you know. And EUR 200 million comes from a lower CapEx in the first half of the year, I mean, that is surprising. But as we have a lower CapEx than in the previous semester, less CapEx means less bills to be paid. So less financing from suppliers, increasing the working capital of the company. All these factors explain the EUR 1.4 billion of increase in the half year. What may we expect from now on to the end of the year at stable prices? We expect a reduction of EUR 500 million in storage volume by December, for now. And let me say, in the worst case for Venezuela, a whole reduction in the second half of the year of EUR 300 million of the working capital of the company from now on until the end of 2018. If we combine the EUR 7.8 billion of EBITDA we expect at these prices, $70 per barrel from now on to the end of the year, combining with the EUR 4 billion of CapEx, including the acquisition of Viesgo, combining with the reduction of working capital for now on until the end of the year in EUR 300 million, and taking into account that we have to anticipate in the last quarter a part in taxes of the receivables coming from the disposal of Gas Natural, EUR 400 million, EUR 500 million -- EUR 400 million but that is a temporary effect that is going to come back to the company from the Treasury by the beginning of 2020. If we take all these factors and, of course, after acquiring the whole shares we need to pay the whole buyback of this year, we expect a net debt at the end of this year something in between EUR 3.2 billion, EUR 3.4 billion after paying the acquisition of Viesgo. Of course, you know that depending on the last ship that could enter the 31st of December or the 1st of January, we could have a volatility of EUR 100 million, EUR 200 million or EUR 300 million. But EUR 3.2 billion, EUR 3.4 billion, after paying the whole shares we need to the buyback, is today the best approach I have for the debt at the end of the year. Thank you. Going to the Upstream and the production guidance. I mean, we are going to fulfill what we committed in the strategic plan, I mean, 750,000 barrels per day is the guidance by 2020. Something about 715,000, 720,000 barrels per day is the guidance for -- in our budget for this year. We have some maintenance in some of the projects in July and August. We have some gas that depend in the production of the seasonal demand, perhaps we could in this target of -- to be as you said, 5,000 or 7,000 barrels per day lower that we are going to fulfill the guidance for the whole year. Thank you, Matt.

Ramón Álvarez-Pedrosa

Thank you. Thank you, Matt. Our next question comes from Jason Kenney at Santander.

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

Can I just add my thanks to Miguel? If ever -- Miguel, if you're in Edinburgh, I'll buy you a whiskey. A question for...

Miguel Martínez San Martín ***Repsol, S.A. - CFO***

Thank you.

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

A question for the results is on -- with the Viesgo acquisition. Do you think you'll separate out the gas, power and renewables division at some point? I know it's not effective until the fourth quarter. But I'm assuming there's kind of an EBITDA contribution that's going to come in, and you could maybe have more clarity if that division were separated out from the rest of the businesses. And secondly, on the road map for return on capital employed. Can you just remind us of the upside for return on capital employed over the coming strategic plan period, please?

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

So thank you, Jason. I mean, of course, in coming months, after closing the deal, we'll decide the whole organization and in the corporate level and in the business level of Viesgo. Today, we don't have a decision about that. But let me say that what we have in Viesgo today is Gas & Power business. And going to the Power, what we have is the combined cycle side that is fully integrated in the gas chain. And we have the hydraulic linker to the pumping that is, let me say, and perhaps it's not very orthodox in technical terms, but is more today a trading tool for power, taking into account the volatility we have in the Spanish pool price over the whole rate than a pure production asset. So I mean, that's going to be decided after the closing of Viesgo. But the driver of the decision is going to be to optimize our position in the market, extracting the maximum value of the assets we are acquiring. You will be able to track the results, of course, at the end of the year. Looking at the capital employed increase during the strategic plan. I mean, I maintained the guidance we commit and we defined when we presented in June this strategic plan. I mean, EUR 11 billion for the whole 3-years period 2018, 2019, 2020 in the Downstream and Upstream businesses. On top of that, we are going to invest an additional EUR 1.5 billion in the new growing activities in the Downstream, I'm talking about the lubricants, in Trading, the international expansion of the service station business and so on. And as I said before, this EUR 2.5 billion applied to the low-carbon business is going to be decided depending the profitability and the return we could expect from this project. And I said -- as I said in June, I mean, I'm going to prioritize the return over any need to develop or to deploy or to invest this capital in the renewable side. Thank you, Jason.

Ramón Álvarez-Pedrosa

Thank you, Jason. That was our last question. At this point, I'd like to bring our second quarter conference call to a close. Thank you for your attendance. Have a nice summer. And Miguel, thank you very much for all these enlightening years. Bye.