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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Repsol Fourth Quarter and Full Year 2018 Preliminary Results Conference Call. Today's conference will be conducted by Mr. Josu Jon Imaz, CEO. However, 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. Please go ahead, sir.

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

Thank you very much, operator. Good afternoon. This is Ramón Álvarez-Pedrosa, Head of Investor Relations. Welcome to the Repsol Fourth Quarter and Full Year 2018 Results Conference Call. As already mentioned, today's call will be hosted by Josu Jon Imaz, our Chief Executive Officer, with other members of the Executive team joining us here 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 over the conference call 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.

Today, I would like to cover the following main topics: first, I'll start by reviewing Repsol's strategic progress in 2018; next, I'll go through the financial results on main operational highlights; and finally, an update on the outlook for our objectives through 2020.

Let me begin by reviewing the progress towards our strategic objectives and the key messages of our 2018 results.

Last June, we presented an updated strategy for the period 2018 through 2020, focused on delivering value growth in any oil price scenario, mainly founded on a strong company position with solid financials and a sound operating performance.

2018 was a strong year of a strategic delivery for Repsol. We met all the key commitments laid out for the first year of our roadmap, putting us firmly on track to deliver on our objectives through 2020. Our distinctive value proposition leverages financial flexibility and the strength of Repsol's integrated model to provide value in our volatile environment. Our results in 2018 validate our conviction to continue managing the company regardless of the oil price scenario, delivering on our short-term targets while working on our long-term opportunities.

The first pillar of our strategy is to increase the returns to our shareholders. In 2018, we have increased the dividend pay by 14.7%, and we have implemented a successful buyback program to compensate any dilution associated with the scrip option. The second pillar is to continue growing our portfolio in a profitable way, delivering higher volumes and better operational performance in Upstream while activating Downstream as an asset-light growth engine.

In 2018, Upstream volumes increased by 3% to 715,000 barrels of oil equivalent per day, our record production levels since 2011, despite ongoing uncertainties in Libya and Venezuela. This is aligned with our objective to grow production to 750,000 barrels per day in 2020 while 2.6% growth per annual.

Moreover, tight capital discipline and stronger contribution from efficiency measures allow us to achieve an Upstream cash breakeven below $50 per barrel. Compared to 2017, Upstream division generated around EUR 1.1 billion of additional operating cash flow from higher realization prices, higher production and from efficiency and digitalization that were in line with the plan, partially offset by higher working capital.

In Downstream, we continue building on our strengths. The company worked to optimize its Refining operations ahead of our new IMO regulation to maximize the value to be captured from 2020 on. We also made important progress in international expansion of our marketing in Mexico and Peru and in our advanced mobility solutions in Spain. The third pillar of our strategy is to become a player in the energy transition, developing an operated and profitable Low Carbon business with full synergies with our portfolio.

In 2018, we took a significant step in this direction with the acquisition of a low-emissions assets, a retail business of Viesgo, becoming Spanish fifth largest Gas & Power player with 2.9 gigawatts of Low Carbon generation capacity.

Finally, consistent with our commitment to maintaining a sound financial position, we achieved a net debt reduction of about 40% -- 45%, sorry, and an improved credit outlook as recognized by the rating agencies. Moody's upgraded Repsol's long-term rating by 1 notch and Standard & Poor's and Fitch improved their credit outlook.

To summarize, we faced 2019 confident in delivering our objectives through 2020 and with a clear path to grow our cash flow generation in an increasingly complex and volatile energy sector. Let me underline, the energy sector is always complex and volatile.

I mean, before going into the financial results, let me take you briefly to the macroeconomic environment in 2018. Starting with oil prices. We saw significant volatility throughout the year. Our steady recovery took Brent to almost $85 per barrel in October, but the geopolitical uncertainties and concerns from the global economic outlook resulted in the oil price closing 2018 at around $50, below its price at the beginning of the year.

In the gas markets, Henry Hub finished roughly flat compared to 2017, despite situation linked the weather conditions and inventories. Repsol's gas realization price increased 17% year-on-year, averaging around $0.30 above Henry Hub in 2018. And I think that this figure shows our limited exposure to North American gas prices, reflecting that most of our production is linked to Brent and other liquids and gas reference.

Let us move now to the financial and operational results that underline the strong strategic delivery achieved in 2018. We met, as you can see in the figure, all the key commitments set out for the first year of our plan. Adjusted net income stood at EUR 2.4 billion, 10% higher year-on-year. EBITDA CCS rose EUR 7.6 billion, a 16% increase compared with 2017. EUR 4.8 billion were generated in the Downstream -- sorry, in the Upstream and EUR 2.9 billion in the Downstream while the corporation contributed EUR 0.1 billion negative.

Capital expenditure amounted to EUR 3.9 billion, with EUR 2 billion invested in the Upstream, EUR 1.8 billion in the Downstream and EUR 0.1 billion in the corporate center. And organic CapEx, amounted to EUR 0.9 billion, which EUR 0.8 billion corresponded to the new Low Carbon business.

Net debt stood at EUR 3.4 billion by the end of the year, a EUR 2.8 billion reduction compared with 2017. In 2018, the cash flow generated by our operations more than cover organic CapEx, dividend payments, share buybacks and financing costs.

At the operating level, we achieved our 715,000 barrels per day production target for the year, around 21,000 barrels higher than 2017. Full year production was positively impacted by new projects coming on stream, the ramp-up of projects started in 2017. The acquisition of Visund in Norway, higher volumes in Marcellus and a higher production in Libya. This was partially offset by asset disposals on the lower sales in Venezuela.

Bunga Pakma in Malaysia reached first gas in April with unexpected plateau of 160 million gross standard cubic feet of gas per day. This project will enable the PM3 assets to meet its cash delivery commitments for the coming years. In North America, Marcellus contributed with higher volumes following the connection of new wells in 2018.

Fourth quarter production averaged 722,000 barrels of oil equivalent per day, at 4.5% increase from the third quarter. Daily production in Libya averaged 31,000 barrels in the fourth quarter and 36,000 barrels for the full year 2018. As you know, production has been interrupted since December 9 following the shutdown of El-Sharara field due to the deterioration of the security situation over the last weeks.

In Venezuela, production averaged 53,000 barrels per day in the fourth quarter and 62,000 barrels per day in full year 2018. The lower output compared to 2017 was mainly due to lower gas sales in the domestic market. Our exposure to Venezuela stood at EUR 456 million as of the end of 2018, representing less than 1.5% of our capital employed. This accounts for a EUR 1 billion reduction from our exposure at the end of 2017. And during the year, we were able to partially recover the outstanding receivables, helping us achieve our cash neutrality target in the country.

Moving to the development activity in our projects in 2018. In the Gulf of Mexico, progress continue in Buckskin towards achieving first oil in the second half of 2019. The 2 wells of the first stage were successfully drilled and the subsea installation campaign is on track. In Norway, the redevelopment of Yme received the approval from local authorities and today, first oil remains planned for the first half of 2020.

In Colombia, the Development of the first phase of Akacias in the CPO-9 block was approved in January of 2018 with the objective of doubling production in 2019. In Trinidad and Tobago, the ramp-up of Juniper progressed as planned -- as planned, sorry. And the development of Angelin continued towards its first gas that has been achieved this week. Moreover, during the last quarter of 2018, 2 additional projects in Trinidad and Tobago were approved, Cassia and Matapal, aimed at developing the gas reserves in the Savannah discovery.

Exploration activity included the completion of 21 exploratory and 1 appraisal well in 2018. Five wells were declared positive, 1 remains under evaluation and the rest were deemed negative. An additional 4 wells remained ongoing as of the end of December. Of this, last week, we received, let me say, great news from the Repsol-operated Kali Berau Dalam well in the Sakakemang block in Indonesia. Our preliminary estimation of at least 2 TCF, 2 trillion cubic feet of recoverable resources, the largest discovery in Indonesia in 18 years. The consortium will continue exploratory work, of course, with an additional operational well plan in the coming months, in 2019 probably. Indonesia is the focus of Repsol's exploration investment in Southeast Asia.

In addition, the acquisition, in 2018, new acreage in Mexico, Brazil and Alaska reinforces our strategy of building a strong exploratory portfolio through 2020 and beyond, centered around our core strengths.

Our portfolio management has been active and also included the sale of our stake in Mid-Continent and the exit of our exploration positions in Angola, Romania and Gabon. Moreover, the acquisition of Visund in Norway has been followed by the purchase in 2019 of our stake in the Mikkel field, also in the same country, in Norway. The reserve replacement ratio in 2018 was 94%, 3-year average reserve replacement ratio stood at 96%. That is 101% in organic terms.

Turning now to the operational highlights of the Downstream business. Beginning with Refining. The margin indicator averaged $6.70 in 2018, roughly in line with 2017. The strength of middle distillate spreads accentuated since September, and the widening of heavy-to-light crude differentials were offset by higher energy costs and weaker gasoline prices.

During the fourth quarter, the margin indicator decreased by $0.50 compared to the first quarter of the year, the averaging $6.20. These decrease is explained by the weakening of gasolines and the narrowing of the medium crude crack spreads, and this effect was partially offset by stronger middle distillates and the drop in the crude oil price. Let me highlight or underline that despite the worst environment, our unit CCS margin generated out $1.02 premium indicator in this quarter.

In Chemicals, we met our latest EBIT guidance for 2018. Full year results were negatively impacted by worst international margins, the higher price of naphtha and lower utilization due to unexpected capacity disruption in Tarragona and Sines, mainly in the second and the third quarter, already fully solved during the year.

In the Commercial businesses, our operating results were in line year-on-year, mainly due to a higher contribution from the regulated part of the LPG, offset by the building up of our position in Mexico. Our internationalization strategy in Mexico included progress in our service station networks and the agreements achieved this year to manufacture and market lubricants through Bardahl.

In new mobility trends, significant progress was made with the launch of Waylet and WiBLE services in Spain.

In Low Carbon businesses, we completed the acquisition of the unregulated low-emission electricity generation assets of Viesgo as well of its gas and electricity retail business for EUR 732 million. Furthermore, in 2018, we acquired the Greenfield Valdesolar project with permits to develop a 264-megawatt solar project in Spain, and we started developing Europe's largest floating wind park (sic) [wind farm] in Portugal.

Focusing now on the financial results, I'll summarize the main figures for the fourth quarter and full year of 2018 and how they compare with the same periods of 2017.

Fourth quarter 2018 CCS adjusted net income rose to EUR 632 million, a 7% increase from the fourth quarter of 2017. Full year 2018 CCS adjusted net income was EUR 2.4 billion, a 10% year-on-year increase.

Going to the Upstream. Upstream adjusted net income in the fourth quarter was EUR 310 million, EUR 165 million higher than in the same period of 2017. And full year adjusted net income amounted to EUR 1.3 billion, a 100% increase compared to 2017, mostly due to higher realization prices, higher volumes and lower technical amortization, partially offset by the depreciation of the dollar against the Euro and the higher taxes.

Downstream adjusted net income in the fourth quarter was EUR 485 million, EUR 39 million higher than in the same period of 2017. Full year adjusted net income amounted to EUR 1.6 billion, 16% below the previous year, mainly due to the results in Chemicals and the lower contribution from the Refining businesses in Spain and Peru. These effects were partially offset by better results in the commercial businesses and a strong contribution from the Trading & Gas businesses.

In corporate and others, the adjusted net income of the fourth quarter was EUR 163 million negative, a EUR 160 million decrease quarter-on-quarter due to the higher impact from exchange rate positions in the same period of 2017. Full year adjusted net income accounted for a net expense of EUR 556 million compared to EUR 378 million in 2017. For further detail on Repsol's results, I encourage you to refer to the financial statements and accompanying documents that were released today, this morning.

At this point, I'd like to review or reaffirm -- sorry, our outlook to 2020. Our strategic update defines a clear path to grow our cash generation based on 6 levers. Under our flat $50 per barrel scenario, we will increase the cash flow from our operations by more than 40% from EUR 4.6 billion in 2017 to EUR 6.5 billion in 2020. These accounts for a 12% cumulative annual growth rate.

In 2018, Upstream new production contributed with EUR 0.2 billion, homogenized through the price deck of our strategic planning assumptions. This is roughly halfway to the EUR 0.4 billion we expect to obtain from production growth and portfolio management by 2020.

Upstream efficiency and digital measures deliver around EUR 0.25 billion of sustainable operating cash flow. Our ambition is to generate -- sorry, EUR 0.6 billion in sustainable savings through efficiencies and digital initiatives by 2020.

In the Downstream unit, international margins didn't have any effect in 2018, the EUR 0.3 billion of incremental cash flow in this lever corresponds entirely to the impact of IMO, expected from 2020 onwards in our projections. Profitability improvement measures in the Downstream businesses, basically, linked to efficiency and digital initiatives, contributed EUR 0.1 billion of additional operating cash flow in 2018, roughly 50% of our objective through 2020.

The recently launched Downstream expansion plans and Low Carbon business will impact the 2019 and 2020 results.

Finally, Corporate made good progress towards its targets, reducing its cost parameter by 6% in 2018. In total, progress in 2018 was EUR 0.6 billion of the EUR 1.9 billion objective to 2020. The company has a well-defined CapEx plan to allocate EUR 4 billion to expand the Downstream business and build a new Low Carbon position. The EUR 11 billion to be invested in our core Upstream and Downstream portfolios will be funded by the cash flow generated from our operations. The remaining EUR 4 billion will be fully funded by the proceeds obtained from the sale of Gas Natural.

Our organic CapEx budget for 2019 is EUR 3.8 billion. The total CapEx invested in our core portfolio in 2018 and 2019 will amount to EUR 6.8 billion, out of the EUR 11 billion to be invested to 2020.

Let me now go briefly through our roadmap to increase shareholder remuneration to EUR 1 per share through 2020. Last year, our Board of Directors approved a dividend increase to $0.90, and I propose to the board an increase to $0.95 in 2019, in line with our plan. The acceptance of the scrip option remains high in 2018 with more than 75% of our shareholders opting to receive the dividend in shares. And aligned with our commitment to avoid any dilution over the whole 2018 to 2020 period, we implemented a buyback program to repurchase and amortize the 68.8 million shares issued with a scrip with a cash impact of EUR 1.1 billion in 2018.

Our CapEx, dividends and buybacks will be fully financed at $50 per barrel through 2020. The overall group's free cash flow breakeven, excluding inorganic CapEx and divestments, was $54 in 2018, in line with our strategic objective. Ongoing efficiencies and digitalization initiatives, new production and additional portfolio management actions will continue with further saving towards our objective of being cash neutral at $50 on average in 2018 through 2020.

At this point, I'd like -- I want to review the outlook of our businesses to 2020 and beyond.

In Upstream, we are building a differentiated position that combines the strength of our nimble operator with a significant scale. The free cash flow breakeven in 2018 stood below our reaffirmed long-term targets of reaching cash neutrality of $50 in this business unit. We maintained our objective to reach a production level of 750,000 barrels of oil equivalent per day in 2020, based from the contribution from newer barrels, coming from short-cycle projects and portfolio management actions in which we will trade volume for money. Short-cycle projects contributed 28,000 barrels per day in 2018. Compared to 2017, our pipeline of short-cycle projects has the potential to deliver 95,000 barrels per day of incremental production to 2020.

Oil-biased new volumes will combined with the incremental low-cost production coming from a stale gas projects. Around 37,000 of new barrels coming on stream between 2019 and 2020 will come from North America, 21,000 from Europe and Africa and 9,000 from Latin America and Asia.

Looking at our volume growth beyond 2020, our core AC/DC projects continue progressing according to plan. In Alaska, a 2-well appraisal campaign started on December 31 and is currently underway with encouraging early results. First oil is expected from 2023 to 2024 more or less. In the CPO-9 block in Colombia, the FID for the full development of Akacias is currently expected for the second half of 2019, with potential start of production between 2021 and 2022.

In Duvernay in Canada, a total of 10 wells were drilled in 2018. And the current activity focuses on derisking the Ferrier East area with a potential final investment decision within the next 12 months. Campos 33 in Brazil is already fully apprised and the conceptualization of the project continues towards potential initial production between 2024 and 2026.

Finally, in Brazil, the appraisal campaign of Sagitário will start shortly with a well planned to start during the second quarter of 2019. The modular AC/DC of Alaska, Campos 33, Duvernay, and CPO-9 plus Sagitario projects give us long-term flexibility around CapEx levels and production volumes. This is all in line with maintaining low overall breakevens and growing margins per barrel.

Moving now into the Downstream unit. Our view on the impact of the new IMO regulation entering into force on January 1, 2020 remains broadly unchanged. Our strategic plan projections continue factoring a $1.04 increase in our Refining Margin Indicator, not earlier than 2020, due to IMO. In our view, this continues to be a prudent approach considering the current forward curve.

Our Refining scheme is fully invested for IMO, with no additional integration or investment required. Repsol is very well prepared to capture a higher margin and in position of competitive advantage compared with other European refiners. Our main goal now, in this period, is maximizing conversion availability through -- among others, minimizing the turnaround impact since 2020, mainly in 2020, '21 and '22 years. The turnaround days in our refineries in 2019 will be more than double the average of the last 4 years, with no major expected impact in our distillation and conversion capacity, utilization compared to 2018.

We will invest EUR 1.5 billion to 2020 to expand our Downstream businesses, and we have made good progress in 2018, the last weeks of 2018, mainly to activate this division as an asset-light growth engine. Progress included new international growth opportunities, leveraging our competitive advantage.

In Marketing, Repsol has more than 180 service stations operating in Mexico, out of the 240 contracts already signed. Our objective is reaching an 8% to 10% market share in 5 years. In Peru, we added Puma Energy service stations to our network, increasing the sales volumes in that country by 10%. In Lubricants, Repsol teamed up with Bardahl to produce and distribute lubricants in Mexico, bolstering our internationalization strategy in this business. We are already producing lubes under the Repsol brand there. The identification of new growth of levers include the progress in our Advanced Mobility initiatives. First, Waylet. Waylet is our free mobile payment app and was launched in 2017, reached 1 million users in 2018 and processed around 7 million registered payments in our services stations. Agreements have been signed with 2,400 stores and 3,300 service stations. WiBLE, the new car sharing service that Repsol and Kia launched in Madrid ended in 2018 with more than 500 hybrid cars active.

Looking forward, growing our Chemicals business will be a focus of our expansion to 2020. Our performance in 2018, as you know, was affected by operational issues but the overall outlook in the business continues to be promising. Our growth in Chemicals will be focused on being a high-performance integrated and regional leader and on building a key position in high-value products, like rubbers, EVA polymers and propylene oxide and polyols.

Finally, in Low Carbon business, we are quickly delivering on our growth targets to advance in the energy transition. Our ambition is to be relevant players in the future, fostering sustainability and energy efficiency. The recently acquired assets are the platform on which we are building our new position in these business. And let me say that we are, in some ways, swapping our former exposure to a medium carbon business through Gas Natural Fenosa into one operated business with synergies with the rest of our portfolio.

Our plan expects to invest EUR 2.5 billion from 2018 to 2020, and we have set our long-term goals to be achieved by 2025. The 3 main areas in which we want to operate are: first Low Carbon generation, where we will leverage our current capabilities to manage large-scale projects; secondly, retail Gas & Power where we have a competitive advantage of strong brand and a 10-million client base; and finally, wholesale gas leveraging our industrial self-consumption as the largest gas consumer in Spain.

Our objective is to achieve 4.5 gigawatts of unregulated Low Carbon generation by 2025, of which more than 70% has already been achieved with Viesgo and Valdesolar transactions. In retail, our ambition is to have 5% market share or 2.5 million clients of the Spanish market by 2025. As of today, we have added 60,000 new users to the client portfolio, I mean, over the last 12 weeks since the acquisition of the asset of Viesgo, to reach a total of 810,000 clients. This represents an 8% increase, as I underlined in 12 weeks.

Let me know briefly elaborate on our digitalization and efficiency programs that are already showing as the important levers for cash flow growth that we envision in our strategic update. In 2018, both programs delivered combined EUR 350 million of incremental sustainable cash flow from operations that will contribute to the fulfillment of our commitments to 2020. Upstream business accounted for EUR 250 million of incremental sustainable cash flow for an operation, thanks to the improvement in maintenance, logistics and decommissioning cost, together with initiatives in cash commercialization. Moreover, there were additional Upstream CapEx savings of around EUR 200 million, EUR 250 million compared to our budget for 2018.

In the Downstream business, the digitalization of several processes as well as initiatives aimed to improve the integrated margin resulted in EUR 100 million of sustainable operating cash flow generation. At the corporate level, we are working in more efficient ways that are enabling us to do more with less, that is the target. And in 2018, we achieved a 6% reduction of our corporate cost.

Along the economic impact, the digitalization has a key role in the cultural transformation of the company. Today -- I mean, that is -- let me underline one of the main targets for the coming years. Today, 130 initiatives framing our digitalization program are ongoing across the company, involving every area, every business and every corporate function of the company. Among others, digitalization is enabling new business models, operational excellence and robot process automation that will translate in EUR 0.3 billion of free cash flow generation pretax in 2020.

So looking ahead, we are confident we will meet our ambitious target of EUR 0.9 billion of operating cash flow coming from these programs by 2020. And let me underline that we are on track of achieving these figure.

Now, moving on to what we expect in 2019. As discussed before, the organic CapEx budget for the year is EUR 3.8 billion, around EUR 2.4 billion corresponds to the Downstream division -- sorry, the Upstream division. Downstream is expected to invest EUR 1.3 billion, and the remaining EUR 0.1 billion will be invested in the corporation.

Upstream production is budgeted to reach 720,000 barrels per day, subject to fluctuations in volumes from Libya and Venezuela. Main drivers will be the increase of development activity in the Marcellus and projects coming on stream during the year, such as in Trinidad and Tobago, Buckskin and Akacias.

In Downstream, we are budgeting for a Refining Margin Indicator of $7.60 per barrel. As commented before, we are not anticipating a decrease in our refining utilization despite the maintenance work brought forward for 2020. Remember, that over the last 2 years, we have coped with the maintenance of 3 of the 4 cokers of the company. So that is the reason behind that we are not going to decrease the utilization of our refineries, despite the maintenance work we are going to develop this year.

Planned maintenance of the FCC unit in our Bilbao refinery started in January and is expected to end in the coming days in March. The crude units in Bilbao will stop by mid-June to complete all the major maintenance expected in this refinery in 2019. A turnaround work in the coker is the only coker that is going to be maintained this year. The coker of La Coruña will start in April and the work on the hydrocracker and hydroskimming units of Cartagena will commence -- will start in September. The planned maintenance schedule will finish with work in Puertollano starting at the beginning of November.

On the Chemicals business, there is planned maintenance in Tarragona during the fourth quarter.

Under these assumptions, we expect to deliver around EUR 8 billion of EBITDA of CCS for the group, of which around EUR 3.4 billion, of course, will come from the Downstream division and the EUR 4.7 billion from the Upstream. Finally, as a part of our commitment to reduce 3% our carbon intensity, mainly that is the CO2 emission level per every energy unit in joules we produce, allow me to say that we are budgeting a 2.25% reduction by 2019. So we are on track of being a more sustainable company in the future, aligning ourselves with the Paris Accord.

Finally, I mean, I want to conclude reaffirming our path to meet our targets to 2020. With regards to improving the remuneration to our shareholders, in 2019, we will increase our dividend to $0.95 per share, and we will implement a buyback program to purchase and redeem the shares issued with the scrip, subject -- of course, that is -- that will be my proposal, but all that will be subject to the authorization from our Annual Shareholders' Meeting.

We will continue growing the profitability of our businesses, improving the operational performance of our Upstream assets, putting onstream our pipeline of growth projects and managing our portfolio to meet our production target to 2020. Ahead of the implementation of the IMO in January 2020, we will accelerate the planned maintenance in our refineries to ensure we maximize the value capture from the new regulation. We will take new steps into the internalization and growth of the rest of our Downstream businesses in which Chemicals, we're sure, will play an important part. We will continue transforming our company and, as I said, before, preparing for the energy transition towards a less carbon-intensive work. We will work on our path to reduce our total carbon emissions on the CO2 intensity of the energy we produce and transform. The position we are building in Low Carbon is our opportunity to thrive in this transition.

Sustainabilities in the DNA of Repsol is recognized by investors, with roughly 30% of our institutional shareholder base managed under SRI or ESG criteria. We will continue progressing in our digital and efficiency ambitions with a clear commitment to deliver on our path for cash flow growth to 2020. Thank you.

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

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) .

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

Thank you very much, operator. Let's move on to the Q&A session. Our first question comes from Flora Trindade at CaixaBank.

Flora Mericia Trindade ***CaixaBank, S.A., Research Division - Analyst***

I will start with some details on 2018 numbers. I think you had mentioned before that, during 2018, you could advance taxes related with the sale of the stake in Naturgy that would then be recovered in 2020. Can you just explain this was not the case, effectively? And can you explain whether this has changed? And also detail on the consolidation of Viesgo. In the P&L, there was no contribution from Viesgo in 2018.

And then secondly, on the guidance for 2019. Can you just give us an idea of what is behind the 720,000 barrels per day of production for Libya and for Venezuela? And then finally, there was some press news around the potential interest of Repsol in renewable energy company that could mean around EUR 1 billion of investment. I think you had mentioned before that, following Viesgo, you would be focused on acquisitions of smaller size. Can you just confirm if this is still the case?

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

Thank you, Flora. I mean, go to the first question. I mean, we anticipated the payment, the prepayment, better said, of -- because of the acquisition, in tax terms, of the -- sorry, the disposal of Gas Natural Fenosa. And we anticipated -- we prepared EUR 0.5 billion, roughly, over this year, in this quarter. And I mean, this figure is -- in our information is under the paragraph -- the line of divestment. I mean, it's a reduction of the divestment figure. So this figure of exactly, I think, that is EUR 463 million is going to be repaid to Repsol in the first quarter, more or less, January of 2020. So we are anticipating a tax payment because the disposal and the capital gain coming from Gas Natural that we are going to recover this figure or this amount of money the first month of 2020.

I mean, going to your question about the P&L of the asset, there's no material and there is no any clue about that because we integrated in November these assets -- and we have in 2019, I mean, the [clause] and of course, P&L and so on of these new businesses. But I mean, we integrated these assets 12 weeks ago and there is nothing material in 2018 about that. I mean, going to the production, roughly, Venezuela, we are taking into account 50,000 barrels per day. All in all, combining the gas and the oil production is a lower figure that we have in 2018 and could be 25,000 or 26,000 barrels per day, a lower figure that we have 2 years ago in Venezuela. In Libya, we are taking 35,000 barrels per day. I know that today is quite a challenging figure because you know that we have been -- we haven't been able to produce since the shutdown of the field, the 9th of December due to the blockage of El-Sharara field. But I mean, last Monday, we have a good news coming from there. The NOC and the Tripoli's government leader, al-Sarraj, they achieved an agreement to lift the force majeure current situation in El-Sharara. So we expect to have some news, probably in the coming days from the NOC about the potential reopening of the production in the field. And today, in our current guidance, I mean, this figure of -- about Libya, is still there.

Going to the investment in Low Carbon businesses and so on. I mean, I like to underline, again, that the main growth and the growth in this business is going to be mainly organic. I mean, we are not going to buy assets in operation. We are -- as we did -- we have analyzed in the past, to buy, let me say, developer teams. We could buy pipeline. We could buy capabilities. But I mean, we are not going to overpay -- buying companies with assets in operation. Our financial approach to this business is going to be fully present. We are an industrial company. We want to buy -- sorry, we want to build this business fully based in organic capabilities, I mean, including -- or [cross-pollinating] in some way new capabilities coming from developers and so on. But the industrial capabilities and the construction of [skills] is going to be the key driver for Repsol to build this new business. I mean, returns is going to be a must. We are not going to invest and we are not going to grow without the returns that we could expect from a company like Repsol. Always involve the capital cost of Repsol.

And I am going to be very clear about that. That is our target, that is our aim, and we are going to look for these objectives. But if we are not able to achieve these targets, we are not going to invest [destroying] value for our shareholders. Thank you, Flora.

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

Thank you, Flora. our next question comes from, Thomas Adolff at Crédit Suisse.

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

Two questions for me. Firstly, also on the Low Carbon business. You've mentioned in the release, also in the presentations that the acquisition, basically, means you've already reached more than 70% of the generation capacity targeted by 2025. And then you also talked about making good progress on adding new customers and support Viesgo. So considering you've already spent a EUR 900 million or so out of the EUR 2.5 billion budget, what does that mean for the budget as a whole? Surely, you'll find it hard to spend EUR 1.6 billion organically in 2019 and 2020.

Secondly, on the production guidance in 2020 of 750,000 barrels per day, I wondered what you also assume for Venezuela and Libya, whether it's the same as in 2019? And presumably, since -- versus the initial guidance, Venezuela has been lowered, so I wondered, which areas have been revised upwards?

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

Thank you, Thomas. I mean, you are right. As you said we have the 70% of installed capacity we committed by 2022. We are on track. And in you also said that it's not going to be easy to invest the rest of the money in this kind of project. I mean, let me say, I agree with your point. It's not going to be an easy task, but we are to look, first, organically; secondly, as I said, we could inorganically acquire small developers -- I mean, to acquire the capabilities to push in favor of these kind of projects. And of course, we could buy pipeline in an early stage of development to develop our own projects as we did in the case of Valdesolar. So taking into account all that, taking into account that we also have the development of Valdesolar on track, where you know that we are going to invest at around EUR 200 million, so we could, in some way, repeat this kind of operation of acquiring pipeline, investing for ourselves and so on. I mean, you're point is right, Thomas. It's going to be a task and difficult task, but let me underline, again, that I'm going to prioritize return over growth. I mean, expanding CapEx in this company is not a target. It is a guideline. But the most important thing is the internal returns of these projects. If we are able to beat, evolve our capital cost, of course, and creating value for our shareholders and with projects that compete with some others of the company, we will go on. Otherwise, I mean, I'm not going to invest this kind of project. Be sure about that. I mean, spending capital is not a target for Repsol.

In Venezuela and Libya, production lowered during the year, just -- mainly Venezuela. I mean, Libya is, as I said, today, I mean, we could reduce in 3,000, 4,000 barrels per day the average expected for the year that we think that we will be on track. Venezuela is reducing the production, as you said, and we are increasing, first of all, with projects that started in 2017 over the year -- in 2018, sorry, over the year. And now they are entering in the full year and thinking, for instance, about and thinking about Reggane, I'm thinking about Kinabalu, the increased the we experienced in 2018 in the Marcellus. And this year, in 2019, on top of that, we are going to see the first oil of the Buckskin. We are going to -- I mean, as I mentioned before, this week, we are starting with the first gas in Angelin in Trinidad and Tobago that is going to increase also the production in Trinidad and Tobago. We have the start of the Suban compression project in Corridor in Indonesia in the second quarter, I think. I remember the date of the second quarter of this year. On top of that, we are -- this year, we expect to have a higher production in Peru because in 2018, we have a lot of projects with a TGP pipeline and so on and that is over.

Today, we are going to increase with -- I can't remember the figure, 14 or 15 new wells, the production in the CPO-9 in Akacias in Colombia. On top of that, in 2020, we are going to have the effect of a second rig of Marcellus. We are going to have the full effect of the Buckskin that is going to start with the first oil, the second half the year. So that means that, in 2020, you are going to see the full effect. And the first half of 2020, we are going to see also the effect of the first oil of Yme. On top of that, this year, we are also starting with Mikkel in Norway that was acquired some weeks ago. And on top of that, we have to take into account, slightly in 2019 and mainly in 2020 the growth of Duvernay. Be sure that I'm forgetting some projects because that was the projects I have in mind, Thomas. But these new projects and this additional production is going to offset and to increase the production of Repsol and giving us today some comfortability about the target of 750,000 barrels per day in 2020.

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

Our next question comes from the Joshua Stone at Barclays.

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

I was hoping to focus on Refining margins. It looks like you achieved a very good level of additional Refining margin in the fourth quarter. So I was hoping you could talk about that, and also how Refining margins trended for Repsol in the first quarter and what you're thinking about additional Refining margin over that period. And then related to that, you have the guidance of EUR 7.4 billion -- I presume that include some upside, if maybe you could try to desegregate first versus second half Refining margins within that number?

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

Thank you, Joshua. You know that I'm always happy talking about the Refining business because of my past. So I know that for some of you this morning was quite amazing and surprising seeing that the spread or the gain involved the [IMC] margin was so high this quarter, 1.1 -- sorry, $1.02 per barrel. I mean, taking into account that the third quarter of this year, the third quarter of 2018 was also, I mean, a good month with no so much -- not too much turnarounds and so on because all that was concentrated in the first half of the year. And there, I remember that we obtained a gain of $0.4. So what is the difference? What is behind the $0.4 in the third quarter and $1.02 per barrel in the fourth quarter? I mean, that is, first of all, in operational terms, was a great quarter. That is the first reason. But this could explain, in some way, let me say, $0.02 per barrel more than the $0.4 figure we have in the first quarter. What is behind this $0.6? I mean, if you are analyzed the fourth quarter, we see that after the month of September, we experienced a huge a drop in the gasoline spreads. So what did we do after this drop? React how? First of all, trying to adapt the basket of good supply of our units. I mean, being let me say, more efficient, having our feedstock with a lower yield in gasoline. In operational terms, minimizing the gasolines and maximizing to the limit we could, in operational terms, the middle distillate production of our refineries, because over this quarter, the middle distillate spread was quite positive.

So all in all, this flexibility, additional flexibility because you have to understand that the IMC, the index of the margin is calculated for the whole year. We've had the fixed [bill] with our fixed supply with some kind, let me say, of fixed parameters of factors, but I mean, operation is very flexible. When we are saying that we are optimizing programming, that we are -- we have entered into new projects like (inaudible) and so on that we are, thanks to the digital, having a more flexible programming and planning in Repsol, that we are reacting, day-after-day that we are forgetting the old times where we program for the whole month, that we are fully flexible. And so we are talking about that. So thanks to this flexibility. Thanks to having the reaction capacity to change the feedstock. Thanks to the capacity to change day-after-day in our flexible way. The operation of our refineries, we have increased $0.6 the additional of the Refining. For this year, our guidance for the whole year is $7.6. What is behind this Refining margin? I mean, first of all, let me say that January and February, they have been, historically, they are bad, bad -- bad months in margin in terms. I mean, but even today, we are above $6.5 of

IMC in our Refining system. And let me say that these $1 per barrel of spread -- I have checked this morning, the development and the performance of our Refining business in February, and we are gaining, over the whole month, $1 per barrel to the figure of the IMC. I mean, that means that we expect $7.6 -- sorry, $7.4, the guidance. And here, we are including, of course, to the current situation, first of all, the start of the maintenance in refineries so that means that there is room to have better spreads. Secondly, driving season. I mean, I'm not saying that gasolines are going to have a good, spectacular margins over the whole year. But be sure that what we are experiencing today is not going to be probably the scenario in coming months for gasolines. And on top of that, I mean, people is going to start, in the second half of the year, to adapt to the new reality of the IMO. That means that we have room for an improvement of margins in the second half of the year. I mean, all in all, today, our best guidance -- and I correct again, the figure. I'm going to the first figure I said in my speech is $7.06 per barrel, our Refining index margin for the whole year. Thank you, Joshua.

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

Next question comes from Alessandro Pozzi of Mediobanca.

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

The first one is on CapEx. I believe you're spending EUR 1.3 billion in the Downstream. I was wondering if you can give us maybe a bit of a break down between maintenance and growth opportunity CapEx within that number? And also going back to the tax spreads and IMO, can you tell us when you're coming to have that like fuel oil fully-compliant? I think it's going to be at some point maybe Q3 or Q4 later on this year.

And also final question on the working capital. I believe you have working capital released in Q4. Just wondering how should we think about working capital as you go into 2019?

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

Yes, thank you, Alessandro. I mean, our CapEx guidance for the year, as I said, is EUR 3.8 billion in organic terms, EUR 1.34 billion in the Downstream. I mean, roughly speaking, I could say that EUR 400 million of this CapEx will be for growth. When I'm talking about growth, I'm talking about Mexico. I'm talking about the Mexico services station, I mean. I'm talking about the CapEx for Low Carbon. I am talking about some CapEx for lubricant expansion and so on. And the EUR 800 million, EUR 900 million, more or less, this year will be running business. I mean, running business means what we need for running the Chemical services station and Refining business plus the additional maintenance program we have in the turnaround of our refinery this year, and not only refineries, also the Tarragona's cracker, the last quarter of the year. And finally, also here we have included, -- I mean, a panoply, a lot of small investments that we apply in our Refining and Chemical business to improve efficiencies, digital and so on. So I mean, that will be, more or less, the best opening or summarize of our CapEx for our Downstream for this year. I mean, related to the MIO (sic) [IMO], it seems to me that when you are talking about the full compliance fuel oil this year, you are talking about our own system as Repsol. I mean, let me say that we don't need any additional investment today to fulfill, in our European Refining system, the IMO regulation because Coruña is fully prepared and the turnaround we are going to have in Coruña's coker this year is also to have the refinery prepared to transport the bottom of barrel from Tarragona to Coruña to reduce to 0, if we like, the fuel oil production there. And in Petronor in Bilbao, the coker of Bilbao is also prepared to take a feedstock, the bottom of the barrel there. So we are not going to have a high sulfur fuel oil at the end of this year. We are prepared to have this year, and we are -- in some way, we have a prudent guidance about the effect of the IMO in our system of $1.05 per barrel. I mean, if you take today's future markets, and you apply to the gist of our Refining system -- I mean, the 55% of middle distillate, the 45% to 50% of heavy oil as crude stock -- feedstock, sorry, if you take the yield of gasolines and so on. You could see that, today, the future markets is anticipating a higher figure that we are taking as guidance, at around $2.05 per barrel. Going to the working capital release, I mean, taking the case of seeing the oil price flat for the rest of the year, I mean, under this assumption, today, my best approach will be to see an increase of EUR 200 billion of working capital over the whole year, mainly driven by Venezuela. That will be my best guidance for the working capital evolution over the whole year. Thank you, Alessandro.

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

Our next question comes from Alastair Syme at Citigroup.

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

I'm still a little bit confused in all the discussion about the CapEx guidance. Either there does seem to be, sort of, building up this large residual for acquisition spend. And I know you've talked a bit about the Low Carbon, but can you maybe sort of update us on what you're thinking around Chemicals acquisitions? I mean, you did allude to sort of where you're at and where you think timing might be. And I wonder just also if I could get you to breakout what you think the Chemicals' EBITDA might be in 2019?

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

I mean, Alastair, perhaps I'm the root of the reason of your confusion because perhaps my explanation was not so clear. When I'm talking about the CapEx for 2019, I'm talking exclusively of organic CapEx. I mean, any additional inorganic potential acquisition and so on that, I mean, disclaimer, as I said, before, we are going to be fully prudent about the organic acquisitions. We are not talking about large acquisitions. We are only to buy, in case of being needed, the capabilities and so on. In case of having something inorganic, it will be additional to this figure, as I said, before. In the Chemical case, I mean, we analyze, of course, every time, the market. We analyze a potential growth in our businesses and so on. But today, we don't have any relevant inorganic acquisition in the Chemical business on track. That could be different in some months, but today, we don't have -- unfortunately, I'd say because in case of having, let me say, a great opportunity to create value for our shareholders, will be great but always in the niches we define before and in case of having a good opportunity. Otherwise, we are going to go on in the organic way.

As a guidance of our Chemical business for this year, my best approach is around EUR 370 million of EBIT this year. And we think that international margins are going to be slightly -- that I underline, slightly lower than last year in 2018 because new capacity is coming on stream this year [in the world] and perhaps this capacity is going to be a bit larger than the growth that is happening, of course, the demand growth in the world, but it is going to be a bit larger. From the performance point of view, I mean, last year, as you know, we have a penalty not expected in mainly in the Sines cracker. But Alastair, we have, I mean, an expectation of having a good performance in our plants this year. You know that when you are operating industrial plants it's hard to say that, but I mean, I don't see any special concern today. Thank you, Alastair.

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

Our next question comes from Chris Kuplent from Bank of America.

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

I hope you can hear me okay. Again, you've mentioned some of these subjects before. Two questions, please. Firstly, can you remind us the underlying Refining Margin Indicator in your 2020 guidance? To me, it looks like your 2019 of $7.06 per barrel indication is already incredibly close. So I wonder whether you feel tempted at some stage to increase your guidance for 2020 as we get quite close to that timeframe?

And the second question is again on CapEx, you've highlighted CapEx efficiencies you've already achieved during 2018 yet the overall envelope has stayed the same and as a number of other questions already have highlighted, you've left quite a bit of a room in your CapEx envelope. So again, just wanting to put you under a little bit of pressure. At what stage are you going to tighten your guidance, both upside in terms of Refining margins regarding IMO and second, CapEx guidance considering the efficiencies you've already achieved?

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

Thank you, Chris. I mean, when I said before that we forecast a premium of $1.05 per barrel, coming from the IMO, I have to 2 underline that we are taking as basis the 2017 Refining margin because, I mean, that was the base before presenting our strategic update. So at that time, in 2017, $6.08 per barrel was the Refining, the IMC, the Refining margin of Repsol, the index, and we are forecasting $8.3 per barrel in 2020. So the premium is there. And when we say that this year, we are expecting $7.06, this is because we have seen, let me say, have small part or light part of this premium, in the last months of the year. So related to the Refining margin and, of course, if you like, Chris, we could elaborate a bit more all of that. But that would be the answer to your first question.

I mean, when we -- talking about the efficiencies in the CapEx -- I mean, the CapEx guidance, the CapEx guidance for 2019, the best guidance is $3.8 billion, as I said, before. I mean, you are right. You are right in some point because, I mean, when we see the investment figure of 2018, mainly the Downstream because the Downstream you know this is affected by the acquisition of Viesgo, the assets of the Viesgo. You could see that the investment was EUR 500 million, more or less, below the our guidance at the beginning of the year. $250 million -- $250 million comes from additional efficiencies we got maintaining the perimeter and the execution of the CapEx project we have in the E&P. A part comes from -- sorry, $350 million. I mistook. $350 million comes from this efficiency. The rest is because the deferral projects or a part coming from the project (inaudible) you know that is on hold. So you are right because if you take the organic figures in 2018 and 2019 and you add these 2 figures, you could see that we are talking now EUR 6.8 out of EUR 11 billion. Perhaps, I mean, today, it's hard to give you a guidance for the whole period of 2018, 2020. The guidance was at EUR 11 billion for the whole organic investment of the Downstream and Upstream businesses by 2020. But taking into account these gains in efficiencies and so on, I mean, perhaps today, I will be perhaps too early to see that more comfortable with that figure at around EUR 10.5 billion or something like that. That will be my first best guidance for this year and for 2020. I think that I'm not forgetting anything from these? Thank you, Chris.

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

Next question comes from Jason Kenney at Santander.

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

When do you think that your annual return on capital employed will hit double digits? We've got to wait for the expansion CapEx to finish, we're looking at 2021? Or on your base $50 a barrel assumption, do you think you can get there within the 2020 timeframe? And then, on the associates number, please, in the fourth quarter. Just looking at the impact of the Downstream, I'm wondering if you could maybe explain some of the main reasons for the difference in the loss there? And then finally, just on tax. Is there a common pattern of higher tax generally in the first quarter of the year? Why would that be? Is this something I'm just reading too much into?

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

Sorry, Jason, we didn't capture your second question. Can you repeat that again, please?

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

Yes, looking at the associates loss, it looks like that Downstream is the main reason. I'm trying to dig and to find out what was in the associates number, please.

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

So yes, going to the return on average capital employed. The target we have for the whole company, it was committed and expressed in the strategic update is a 9%, I mean, involved the capital cost of the company at $50 a barrel. That is the return for the whole company, and we maintain our target and our guidance for the return on average capital employed for 2020. Seeing the expansion of the Downstream and Low Carbon business -- I mean, I think that we don't have to wait. We are on track. After the acquisition of Viesgo assets, we expect to have higher returns that the cost of capital of Repsol in the assets we acquired from Viesgo. We are on track of having ready to build the Valdesolar project at the end of the year. In Valdesolar, we expect to have returns evolve the cost of capital of the company, and in equity terms, they are going to be double-digit returns. And we are, today, analyzing project pipelines and so on. And I think that we could have, and we could get these returns always based on organic growth and having the whole value chain of these projects. I mean, you know that in this low carbon generation businesses, I mean, if you are the operator, you have the maintenance, you have the developer, you could have -- and you are selling the power, taking the merchant risk, you would have 2, 3-point higher returns that's acquiring or buying assets in operations. So for that reason, our growth is going to be mainly organic, and we expect to be able to fulfill our plan. But as I said, before, I am going to prioritize return over the speed of growth, but we have projects on track to do that, Jason. The associated Downstream business in the fourth quarter '18, I mean, it seems to me that is linked to the good results in the Peru, the good profit in Refining and mainly in Petronor and you know that we have the minority associates in both projects (inaudible) in Petronor and also minority shareholders in Relapasa . And it seems to me that this figure is related to this associated in these businesses. But I mean, but be sure that they are going to be -- I mean, that is going to be in line with what we would expect. In tax, let me say that the effective tax rate in the fourth quarter, I mean, it's hard to say. The assumption is normal or average. But I think this 41% is the normal or the average of the current basket of mix of the Downstream and Upstream businesses. You could see that in our Downstream business, the average is always around the 25% and the Upstream business, of course, depends on the countries on their productions of the countries were. We are producing at every time that would be at around 46%, 47%, 48%, so this 41%, 40%, 41% of average could be normal. But it's true that if you compare with the figure in the first quarter of 2017, there was an extraordinary tax benefit there that give us a very, very low tax rate this quarter. I don't have now the figure in mind but, of course, we could check it, Jason. Thank you.

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

Our next question comes from Biraj Borkhataria at RBC.

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

I have a few. Firstly, could you clarify what the volume contribution you expect from Buckskin over the next couple of years once it's online? Secondly, linked to the Upstream, I think in the past, you talked about wanting to clean up the Upstream portfolio. Can you give us a bit of insight on where on the Upstream you would like more exposure than you currently have? And then finally, just clarification because I think I missed your comments. But what is the Chemicals' EBIT guidance for 2019?

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

Sorry, Biraj. I have in mind the figure but I am checking the figure now because I have something like 7,000 barrels per day in mind. But checking the figure, it's exactly 700 -- sorry 7,100 barrels per day in the Buckskin. Taking into account that the production is going to start in the second half of the year. I'm not sure about the date, but around October-something like that. I mean you have to take this year, a 1/4 of this figure, but you could take the whole figure for the year 2020. I mean, the Upstream business, we will be comfortable having more exposure, perhaps. I mean, we are happy being in the areas where we are, clearly speaking. Secondly, in North America, mainly in the United States, we'll be okay because we have, I mean, tax shields and tax credits in the area that could, in some way, give us more profitability to the growth of our production. In Southeast Asia, we are really comfortable and, let me say, happy seeing the expectation we could have not only in Malaysia also in Vietnam where we are seeing a country and a government very committed with the rule of law and fulfilling their commitments, but also in Indonesia. And in Indonesia, of course, the last discovery of Sakakemang is giving us some -- I mean, a growth opportunity in the area.

On top of that, I mean, the North Sea is okay. We are performing in a spectacular way, either in the U.K. and in Norway. In the U.K., we have reduced from $114, $116 per barrel the OpEx cost in 2014 to a figure close to $30, $32 per barrel now. So we have plenty of room to go on increasing the efficiency in the U.K. and perhaps having additional production, bolt-on projects and so on could be always an option. And same thing in Norway where we are happy seeing the next potential production coming from the Yme. Talking about the EBIT of the Chemical business, I mean, the EBIT gross EUR 350 million and the EBITDA that I think that you -- I'm not sure if you are asking me, but I'm giving you both guidance. The EBIT will be at around EUR 350 million to EUR 370 million this year. The EBITDA you could take into account the depreciation of EUR 100 million, EUR 120 million for the Chemical business. So the figure of the EBITDA will be around EUR 480 million, more or less, this year. Thank you, Biraj. I don't think I think -- I think that I'm not...

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

Our next question comes from Matt Lofting from JPMorgan.

Jean-Christophe Dourret ***ODDO BHF Corporate & Markets, Research Division - Head of Technical Analysis***

I have 2, please. Firstly, just of reviewing the strategic objectives to 2020. You've been clear that aggregate delivery is on track. If you could characterize execution today, are there any stand out the areas that are meaningfully out or underperformed initial expectations? And within that, how much of the EUR 300 million 2020 cash flow increment from Low Carbon can be delivered from the platform Repsol already has in place, inclusive of fiasco? And what additional key steps are required or should we look over the next 12 months?

Secondly, if you could just come back to Refining margins and your outlook for this year and to clarify what you talked about previously. Do either of the current $6.05 a barrel margin you're seeing or the $7.06 for the full year include or exclude Repsol as usual premium over the benchmark? I wasn't fully clear from your early comments.

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

Thank you, Matt. I mean, I'm not going to say that I don't have any concern, I don't have any focus and so on, because you know, when you have tough commitments on the table, you have to be always focused on pushing in favor of achieving these targets. I mean, I think that we are showing a good track record of delivering what we committed in the past. So looking at the future, you are right about the expansion on the Low Carbon business. But let me remind that these EUR 3 million of cash flow from operations were, let me say, at the and of the period, they were forecast for 2020 because we have to build the business between 2018, 2019, and this cash flows from operations are going to come. I mean, today, I have the guidance and I maintain the guidance of this EUR 300 million of cash flow from operations in 2020. But as I said before, that is not going to be a must if we don't see clear return every investment we push forward or we develop. But today, I think that we are going to get it. Talking -- I mean, the IMO is not, as you know, in our hands. From the point of view of environment, we have the system fully prepared to take the tailwinds for our Refining business. But seeing how the future market and the spreads are for 2020, I think that the EUR 300 million of additional cash flows coming from the IMO is quite a realistic and prudent approach, and I'm comfortable with this guidance.

Trying to be short in my last answer to you, Matt, when I said $7.06, I am excluding any kind of premium. So premium, I mean, because the operation of Repsol. We are talking about the IMC, a $7.06 per barrel as a guidance for this year. Let me also underline that the guidance of the premium for the whole year is not $1 per barrel. It's at around $0.04, $0.05 per barrel, $0.05, $0.06 per barrel, more or less. Today, we are overcoming this figure but the best guidance we are taking for the whole year is below this premium, as I said, before. Thank you, Matt.

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

Our next question comes from Yuriy Kukhtanych of Deutsche Bank.

Yuriy Kukhtanych ***Deutsche Bank AG, Research Division - Research Associate***

Two questions from me, please. Could you please discuss your plans around the new exploration blocks that you acquired in the fourth quarter in Alaska and whether you have any commitments on these blocks for this year or 2020?

And the second question is about Peruvian refinery. In the fourth quarter 2018, the words new gasoline production units initiated there. And, if you could just ask what it means for utilization and contribution from that refinery going forward.

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

So thank you, Yuriy. I mean, in Alaska, let me say that the idea to -- today, we are following the Pikka B and Pikka C growth. From Pikka B, we have had -- I mean, we have good expectations. We have to see the evolution of Pikka C. And after having the results of these 2 wells, I mean, we will have, it seems to me, the information we need to prepare the future investment project for Alaska. The idea we have for the future and the commitment with the new blocks you said before -- I mean, today, our commitment is -- for this year, a 3D seismic that we are going to develop in 2019, 2020. And that is the only commitment we have related to these new blocks in Alaska. I mean, all in all, I think that, as a general framework of idea, we are going to drill, in the coming years, 2 wells per year, more or less, in Alaska.

Related to Pampilla. Pampilla is the Lima's refinery of Repsol. The guidance, as you said, because the investments we developed over the last 3 years to the -- in the [distillation plants] for middle distillate and gasolines, we have improved the margins of our refinery. I mean, it's a smaller refinery than the system we have in Spain. The distillation capacity is at around 100,000, 110,000 barrels per day. And the IMC for the year, the guidance for 2019 is $6.01 per barrel. And let me underline that what is important in Peruvian refineries is that the utilization rates are now higher than they were in the past. Why? Because in the past, until 2018 -- 2017, 2018, we had some restrictions to supply the internal market with the required sulfur content specification.

Now, because the new units we have, we don't have these restrictions, we are reducing the import of products to supply our wholesale and our retail market in Peru, and we are increasing the distillation capacity to our guideline, more or less, of 90% that is going to depend, of course, in the margin day after day. But 90% of utilization rates this year in La Pampilla with that guidance of $6.01 margin in dollars per barrel as IMC. Thank you very much, Yuriy.

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

Well, that was our last question. At this point, I would like to bring our fourth quarter conference call to a close. Thank you very much, everybody, for your attendance.

Operator

Thank you very much. That does conclude the conference for today. Thank you for participating. You may all disconnect.