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FINAL TRANSCRIPT

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PRESENTATION

Operator
Thank you for standing by, ladies and gentlemen, and welcome to the Repsol Fourth Quarter 2019 and Full Year 2019 Results Conference Call. I must advise you the conference is being recorded today.

Today's call will be conducted by 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.

Ramón Álvarez-Pedrosa ***Repsol, S.A. - Head of IR***
Thank you, operator. Good morning, and welcome to Repsol Fourth Quarter and Full Year 2019 Results Conference Call. Today's call will be hosted by Josu Jon Imaz, Chief Executive Officer, with other member of our 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 and similar phrases. Please note that actual results may differ materially depending on a number of factors as indicated in the disclaimer.

I will now hand the call over to Josu Jon.

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO & Executive Director***
Thank you, Ramón. Good afternoon, everyone, and thank you for joining us this conference call. Today, I'd like to cover the following main topics: firstly, a review of the key messages and main

operational highlights of 2019; secondly, a brief summary of the financial results; and finally, our expectation for 2020. At the end of the presentation, we'll be available to answer, of course, all your questions.

Let me start by reviewing the key messages of 2019. Financially, we successfully navigated a challenging scenario of lower oil prices with gas and lower refining margins, delivering an 8% growth in operating cash flow and improving the remuneration to our shareholders. The EUR 5.8 billion of cash flow generated by our operations more than cover CapEx, interest cost and shareholder remuneration, including buying back all the shares issued with the scrip option. We have raised our dividend by 5%, and we will reach EUR 1 per share this year, meeting the shareholders' remuneration we committed to in the current strategic plan. Moreover, an additional 5% share capital reduction will be executed by the cancellation of own shares after receiving the approval of the next Annual General Meeting expected to be held in May. Our share buyback program related to a 5% share capital reduction is expected to be launched in coming days, weeks before the Annual General meeting, in any case.

Strategically, we took a significant step in the fight against climate change, becoming the first oil and gas company to assume the ambitious target of achieving net 0 CO_2 emissions by 2050 with a clear path of intermediate decarbonization targets. This goal is aligned with the objectives of the Paris Agreement. The ambition to reach carbon neutrality has an impact in the way that we look at our businesses now. Our activities and investment will have to meet new and more demanding criteria compatible with the transition into a less carbon-intensive world. In this context, we assume a new internal commodity price scenario, consistent with the policies that target the decarbonization of the economy. Therefore, in 2019, as you know, we have revised the valuational hypothesis applied to our investment, incurring a post-tax impairment charge of EUR 4.9 billion against our full year results. This accounting adjustment has had no impact in cash generation or shareholder remuneration. The impairment has mostly affected the book value of our Upstream assets, mainly the gas-producing assets in North America. And based on this new and more demanding scenario, a new strategic plan to 2025 will be released on May 5.

Looking briefly now at the macro environment. Brent price was 10% lower year-on-year with volatility coming from geopolitical tensions and concerns over the global economy. In the gas markets, there was a persistent weakness across most regions, and Henry Hub was, on average, 16% lower year-on-year with oversupply and record storage levels putting downward pressure on North American gas. Refining also endure a tougher environment despite some early evidence of the impact of IMO. The margin indicator was 20% lower than in 2018. And we approach this challenging environment by focusing on what we can control, maintaining a tight capital discipline and increasing the contribution from efficiency and digital, always with safe and reliable operations as our main priority.

Let me elaborate now on the implication that the net 0 emission ambition has for us. As you all know, sustainability is part of our strategy and is completely integrated in our DNA. Repsol, we were the first company in our industry to support the Kyoto Protocol and one of the first oil and gas companies to align with the climate goals of the Paris Agreement in an effort to limit the planet's temperature rise to well below 2 degrees Celsius. Sustainability is also embedded in the decision-making across all our businesses and, of course, has an impact in the remuneration of the CEO, the senior executives, managers and the rest of employees. Moreover, there has been an increased demand from our stakeholders for a clear identification of the risk associated to climate change and its impact on the future demand of our products.

This fact, along with Repsol's commitment to the Paris goals, has made us review our assumptions on the prices of oil and gas to make them compatible with the current sustainable development scenario of International Energy Agency. Yet current demand scenarios indicate that by 2040, almost half of the global energy consumption will come from oil and gas. We have to balance in our mix the role that oil will play for sure in the future energy matrix and the role of natural gas as a transition fuel. To measure our progress towards carbonization, we have developed a carbon intensity indicator in which we measure the CO2 emission for each unit of energy we produce. We include here in this indicator the Scope 3 emissions from all the products obtained from our primary energy production. We can improve the numerator, of course, reducing CO2, methane and so on, but we also have the levers to impact the denominator.

Toward the talk on our commitment towards our low emission future, we have set concrete and intermediate decarbonization targets. So we are not talking only about 2050 and 0 emissions. What is more important for March 2016 baseline, we aim to reduce our carbon intensity indicator by 10% in 2025 and by 20% in 2030, figures that will be confirmed upon the release of our new strategic plan in May. We confirm our goal of a 40% reduction in 2040 and move to achieve net 0 emissions in 2050, and we are very clear about that. Today, it is possible to achieve at least 70% of this goal with a technology that can currently be foreseen, a faster technology evolution, and as necessary, compensation of an issuance with nature-based solutions or natural sinks should allow us to reach our net 0 goal by 2050.

In the Upstream business, we will emphasize sustained cash generation and portfolio improvement, prioritizing value creation over production increase while maintaining the necessary strategic flexibility. Upstream will continue to be a sustainable cash contributor to the group that will finance growth into other areas.

In the Downstream, we need to ensure that our refining business remains in the first quartile of profitability, also as a lever to be leader in decarbonization. So when we are talking about decarbonization, I mean I want to underline that we are not only talking about renewable energy. I mean decarbonization is impacting in a positive way all the businesses of Repsol. We have already committed in the refining to reduce the direct emissions in our refineries by an additional 25% in 2025 as compared with 2017. We will reinforce energy efficiency initiatives. We will double our production of biofuels coming from vegetable oils in 2030, of which half will come from waste transformation before 2025. We are exploring newer decarbonization pathways as different options of waste to gas and waste to fuels and the integration of renewable energy into refining operations, producing green hydrogen and using renewable power to fuel our industrial processes.

We value chemicals as a low-carbon use of oil. We focus on long life polymers, and we'll focus on circular initiatives with the aim to achieve a 20% recycled content, polyolefins by 2030. We are exploring also waste plastic to fuel processes and using waste as a feedstock for chemicals. On the retail side, we will continue to expand our offer of energy services to our clients. Repsol will continue developing a multi-energy strategy center around the customer, offering multiple solutions on differentiated services lever on digitalization. And our determination towards decarbonization is demonstrated by an increased Low Carbon power generation target that now stands at 7.5 gigawatts by 2025, an increase of 3 gigawatts from our previous objective that was announced 1.5 year ago.

Let me now go through the main operational highlights of last year. In the Upstream, we prioritize cash generation over production growth. Efficiency and digitalization allow us to improve profitability, reducing our unit OpEx and keeping a free cash flow breakeven after CapEx below $50, ensuring that our development projects are resilient in a conservative price scenario. And all that is critical in this volatile environment. Full year production was in line with the previous year at an average of 709,000 barrels of oil equivalent per day.

New barrel from short-cycle projects and portfolio management were offset by lower volumes in Venezuela, Libya and Trinidad and Tobago. Libya was negatively impacted by longer periods of force majeure. And in 2020, production in El Sharara was shut down in -- on January 19, I think, and remains interrupted through this date. Marcellus contributed higher volumes from wells drilled, mostly in the first half of the year. But due to low gas price in North America and taking advantage of the flexibility provided by unconventionals, we adjusted the capital program for these assets. Currently, we don't have any drilling rig in the area. New projects brought on stream during the year included the start-up of Angelin in Trinidad and Tobago and Buckskin in the Gulf of Mexico.

Portfolio management allows us to increase our exposure to countries where we have operating and financial synergies. This includes the acquisition of high stake in Mikkel in Norway and the purchase of Equinor stake in Eagle Ford in the U.S. And other portfolio actions were developed in the U.S., focused on balancing our positions in Alaska in the Gulf of Mexico. In Alaska, you know that we are -- reached an agreement with Oil Search to align our ownership interest in Pikka and in all the surrounding exploration blocks. In the Gulf of Mexico, we agreed with LLOG, the operator of Buckskin, to exchange working interest in León and Moccasin, providing an opportunity for [aqua] development of the area. And in Indonesia, we were granted the extension of a PSC of Corridor by 20 years more, one of our core assets in terms of production and free cash flow. The rationalization of our portfolio has continue in 2020 following the recent divestment of our position in Papua New Guinea.

Moving now to exploration activity. Our drilling program in 2019 delivered positive results. A total of 24 wells were completed, which 16 were exploratory and 8 were appraisals. Nine wells were declared positive, 10 were deemed unsuccessful and 5 remain today under evaluation. The Kaliberau-Dalam discovery in Indonesia was one of the top 10 global discoveries in 2019. The results in Alaska extended the Pikka discovery further south. And in the Gulf of Mexico, the operator of the Blacktip well reported a significant discovery. The Carapa well in Guyana was completed in the first quarter with negative results, and the appraisal of Sagitario in Brazil remains under evaluation today.

Continuing now with the Downstream. The environment for refining and chemicals was partially offset by a solid performance in marketing and lubricants, the positive contribution from Low Carbon and outstanding results in trading and in Peru. Refining margins were negatively impacted by narrower crude differentials and weaker light product spreads. The average margin indicator was $5, a decrease from the $6.70 a year ago. And actual CCS unit margin grows an average $1 over the indicator after reaching almost $2 in the fourth quarter. We complete our preparations ahead of IMO according to plan and on budget, and the accelerated turnaround schedule in our refineries have more than double turnaround days in 2019 than the average of the previous 4 years.

The chemical business was negatively impacted by challenging international margins despite higher uptime in our crackers, but it's true and I want to underline this fact that in the first quarter, the operating result was negative, impacted by a 2-month day -- 58-day, better said, plan, a turnaround -- a [multi-annual] turnaround in our main petrochemical site in Tarragona.

In the marketing business, we continue maximizing the profitability of each of our service stations, thanks to our focus on the customer and the optimization of the non-oil segment. We are today -- nowadays using digital solution to boost interaction with our clients, and the Waylet app for mobile payments has reached more than 1.4 million users at the end of the year. The expansion on internationalization of our operations continue in Mexico, where we have signed more than 340 service stations. In lubricants, we complete the acquisition of a 40% stake in United Oil, a platform to grow our business in Southeast Asia.

In Low Carbon, we made great progress in just 1 year, strengthening our portfolio on both sides of the business. In power generation, we are building a diversified, low emissions position in Iberia. Our current installed capacity approaches 3 gigawatts, and projects already approved or under construction will allow us to reach 5 gigawatts of capacity. On the retail side, by year-end, we reached more than 1 million clients, a 33% increase since acquiring the assets. We are expanding our business, thanks to the strength of the Repsol brand, our existing client base in Iberia, Spain and -- mainly Spain and the Portugal, and the capillarity of our marketing network and the successful use of digital channels to personalize our offers.

At this point, let me review the progress in our path to increase cash generation. Homogenized through the price deck of our 2018 strategic update, the 6 levers capture EUR 1.1 billion of incremental sustainable operating cash flow by the end of 2019. Upstream production contributed EUR 0.3 billion out of EUR 0.4 billion targeted for 2020, coming from new barrels put onstream since 2018 and portfolio rotation. Efficiency and digitalization programs in the Upstream contributed EUR 0.5 billion, more than 80% of the objective to 2020. In Downstream, the early effects of IMO didn't translate into higher margins. Let me remind you that our plan only factor the contribution of IMO since 2020. Profitability initiatives in the Downstream related to efficiency on the digital side were halfway of the target for 2020, contributing EUR 0.1 billion. Downstream expansion and Low Carbon contributed EUR 0.1 billion out of the EUR 0.3 billion targeted for 2020. And finally, the cost-cutting program. The corporation deliver over the EUR 0.1 billion of sustainable savings target set for 2020. The total contribution of sustainable efficiencies and digital initiatives in the whole company through the operating cash flow of 2019 was EUR 750 million with additional EUR 300 million of Upstream CapEx savings that are not, of course, included in this figure.

Turning now to the financial results. I'll summarize the main figures for the fourth quarter and the full year. Adjusted net income was EUR 405 million in the fourth quarter and EUR 2 billion in the year. This was EUR 36 million and 13% lower, respectively, than in the same periods of 2018. Full year net income after inventory effect and special items was EUR 3.8 billion negative as a result of the EUR 4.9 billion impairment charge-off and the EUR 0.8 billion provision in relation to our assets in the U.K. registered in the fourth quarter financials.

Regarding the provision related to the assets in the U.K., as you may know, Addax and Sinopec initiated in 2015 an arbitration proceeding in connection with their purchase in 2012 of 49% of shares in Talisman Energy UK. The claims are against Talisman Energy and Talisman Colombia, and therefore, they have relate to events that don't involve any actions by Repsol. The Arbitral Tribunal has recently issued a partial award on one aspect of the 5 matters to be determined in the liability base. And although Repsol have considered the claims to be without merit, and it still does, the Tribunal has decided that Repsol affiliates are liable to Sinopec and Addax in respect of that aspect of the claim. Repsol expects to challenge this partial award before the Courts of Singapore. While the amount of a possible compensation, if any, is unknown with certainty, in an exercise of prudency, we have recognized a provision of EUR 0.8 billion for the entire litigation.

Going on with the results. Upstream adjusted net income was EUR 186 million in the quarter and EUR 1.1 billion in the year, and these figures compare with EUR 310 million and EUR 1.3 billion, respectively, a year ago. Downstream, adjusted net income was EUR 369 million in the fourth quarter and EUR 1.5 billion in the full year. These results compare with EUR 485 million and EUR 1.6 billion, respectively, in the same periods of 2018. The adjusted net income in corporate and others was EUR 150 million negative in the quarter, an 8% improvement over the same period in 2018. And full year adjusted net income was EUR 464 million negative, a 17% improvement year-on-year. The group's EBITDA of CCS was EUR 7.2 billion in 2019, which compares with EUR 7.6 billion the previous year. Cash flow from operations amounted to EUR 5.8 billion, a EUR 0.4 billion improvement over 2018. Net debt stood at EUR 4.2 billion as of the end of December, a EUR 0.1 billion increase year-on-year driven by a stock of 81 million treasury shares at the end of the year. This treasury stock position can be used in our commitments of 2020 year in which we are going to remove the dilution associated to the scrip, and once approved by the annual

(technical difficulty)

carry out the 5% capital reduction. For further detail on Repsol results, I encourage you to refer to the financial statement and accompanying documents that were released this morning.

Let me now review our update outlook and what we expect in 2020. 2019 was tough for the industry, and this year looks increasingly challenging as well driven by ongoing macro headwinds and volatility. In terms of guidance, we are assuming an average production of around 700,000, 710,000 barrels per day, subject to Libya; a $65 average Brent price, $65 average Brent price; $2.80 of Henry Hub; and refining margin indicator of $7.30. Based on these assumptions, we expect to generate around EUR 7.8 billion of EBITDA at CCS, EUR 6.7 billion of cash flow from operations and net debt reduction to EUR 3.5 billion excluding leases. We expect results to be back-end loaded into the second half of the year driven by higher refining margins. A more asset scenario of $60 Brent and $2.30 Henry Hub would impact the cash flow from operations and the net debt by around EUR 400 million. Total CapEx is budgeted at EUR 3.8 billion in 2020, of which EUR 1.8 billion in the Upstream, EUR 1.9 billion in the Downstream and EUR 0.1 billion in the corporation. Around EUR 0.7 billion of the Downstream investment corresponds to Low Carbon.

The production target for 2020 is aligned with current commodity price environment, especially in unconventionals and geopolitical context, specifically in Venezuela. The value of our volume strategy will allow us to increase margins per barrel produced. The unit operating cash flow is expected to increase by 7% in 2020 and, coupled with a lower capital expenditure, will increase by 50% the free cash flow per barrel produced. Free cash flow breakeven is expected to be, in the Upstream business, below $45 per barrel. In refining, we expect a challenging first quarter followed by a sharp margin recovery once the full impact of IMO kicks off in the second quarter. After a weak month of January, we have seen the margin indicator in February recovering above $6.

Before moving on to the conclusions, let me elaborate on the outlook for IMO. The new marine fuel specification have already resulted in disruptive changes in the shipping, trading and refining industries. We retain our view that the new regulation will have a positive impact for complex refining systems like ours. Last year, we already sold the collapse of the high-sulfur fuel oil spreads as physical players started stepping up very low-sulfur fuel oil. In recent months, we have seen the price of this product increase and even reach parity with gas oil. In our view, that our (inaudible) product is priced as high as medium distillates indicates there is not enough supply to cover demand. We expect that as stocks of very low sulfur fuel oil are depleted, marine gas oil will be needed to comply with the new specification, making refining margins to rise significantly in the second quarter. In the meantime, we take advantage of market opportunities to maximize our premium to the refining margin indicator.

Let me conclude reaffirming 2019 as a significant, even transformational year for us. Despite a challenging environment, we were able to grow the cash flow generated by -- of our operations and increase the remuneration offer to our shareholders. Our alignment with the objectives of the Paris Agreement is a milestone in our commitment with the long-term sustainability of our company. And as an industry, we need to provide clean and affordable energy to society, and at Repsol, we work to be leaders in this transition into a less carbon-intensive world. Achieving net 0 emissions will have significant implication for our strategy. Oil and gas will be very relevant in the energy matrix for decades to come. So there is a lot of value in our existing assets, provided that we manage our businesses with efficiency and CapEx discipline under more strict and stringent macro assumptions. At the same time, we progress with determination towards new low-carbon businesses and a client-center multi-energy approach.

And let me highlight that as of today, we have received the reconnection of the Climate Action 100+ initiative that includes more than 450 international investors managing over $39 trillion, together with the Institutional Investors Group on Climate Change with over 200 members representing more than $30 trillion, for [growth] Repsol's commitment to align its activities and investments with the goals of the Paris Agreement. According to these investors' initiatives, Repsol has set a higher benchmark for our industry by setting a path to firmly transition towards net 0 emissions and entering decarbonization targets.

So 2020 will be the first year of our new strategic planning horizon. Despite a challenging macro environment, we are confident on delivering improved performance in our operations and improving shareholder remuneration. The details of the new strategic plan to 2025 will be released on May 5. But I can anticipate that we envision a company founded on 3 main business segments with roughly an equal contribution mid- to long term from Upstream, Downstream and a customer-centric multi-energy business. We will aim for stable dividends with room for additional share buybacks if we don't identify clear opportunities for growth. Upstream, we'll continue to prioritize value over production, relying on efficiency and portfolio management to generate sustainable cash and reduce the number of countries where we operate. Downstream, we'll continue to invest to increase efficiency and decarbonized operations and product footprint, a necessary condition to maintain in the long term our industrial assets in the first quartile of returns in Europe.

And looking at our decarbonization path, I see the 10% reduction of our carbon intensity indicator by 2025 as a challenging target, and we may need to accelerate projects to reach that goal. For refining, we have already in place a 25% CO_2 emission reduction target. I mean a 25% -- I mean additional. Because you know that from 2010 on, we have already reduced, in that 23%, the baseline we have in 2010 of CO_2 emissions. So we have already in place a 25 additional percent CO_2 emission reduction target. And the final investment decision for the HVO plant in Cartagena may be announced this year. In Low Carbon business, we expect to approve 400 to 500 megawatts per year of additional renewable generation capacity. And after proving ourselves in this new business, we will pursue internationalization opportunities, leveraging our position in Iberia. Our next strategic plan will detail our guidelines for 2020 to 2025 to achieve all these ambitions.

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

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

Thank you very much, Josu Jon. In case you run into technical problems, please contact us through our e-mail address, investorrelation@repsol.com [investorrelations@repsol.com], and we will contact you immediately to try to solve them.

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, operator. Let me now move 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***

Two questions. First, please, just on your -- on the refining margin. The $7.30 a barrel, quite specific there on that number, and you showed some data from another forecaster out through 2020. I just want to know, are those your forecasts for those particular products? But also maybe just talk around the other crack spreads that you're assuming for 2020 in terms of things like gasoline and also your kind of crude differentials and, really, the steps to get from $5 last year per barrel up to $7.30, please.

And then secondly, just in the Upstream is -- I guess it's been 3 months or so since the Eagle Ford deal with Equinor. I just want to know any signs of the promised synergies coming through that kind of larger portfolio print there. And are any of those included in this year's EBITDA guidance as well?

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

So thank you as well. I mean going to the first, our refining margin figure was what I said for the whole year. In the first quarter, in our budget growth, we have forecast is $5.80 per barrel. And since January 1 till today, the margin index has been in real terms 4.5. But I have to say that we are also having a premium above the expectations. We had -- due to the flexibility of our system. That is mainly working when there is a disruption related to prices, I mean we have, let me say, forecast in our budget. For instance, I'm going to put an example that is behind the $2 per barrel premium in the fourth quarter. We have a heavy oil discount of $13, $14 per barrel that we could take advantage of discounts of fuel oil, high-sulfur fuel oil of $28 or $30 per barrel. We change the feedstock of our refineries, capturing higher premiums than expected.

So we see -- and with the consensus of the analysts, we are seeing $16, $17 as an average for the whole year for the gas oil. We are seeing for gasoline $6, $7 per barrel as a spread for the average of the year. And taking Maya as a reference for heavy oil, we are forecasting a discount of $11 per barrel as average for the whole year. Talking about high-sulfur fuel, $25 per barrel is our assumption for the whole year, discount, of course, in terms of fuel, and yet is aligned with diesel, $16 per barrel. And that is what is behind this, let's say, refining margins and spreads for the whole year.

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And going to the Eagle Ford. I mean of course, in 2019, we were -- in 2019, we acquire Eagle Ford in the second week of December. So nothing is included in 2019. But going to Eagle Ford, what we have in our hands now, and I want to underline this concept, is a turnaround plan to make the asset more efficient. We are -- in some way, what we did before this turnaround plans in Malaysia and U.K. and so on. We are translated this concept to a different asset because we are talking about unconventional, but we have had this experience in some other places like in Canada, where even in these depressed gas prices in Canada, we are, today, free cash flow free positive after CapEx, thanks to this effort of developing these efficiencies and turnaround plans.

So we are in the -- the first completion we get, we are at around $1 million per well. We are squeezing and reducing cost. And this potential improvement, of course, is included in the EBITDAs we have for 2020. But I prefer to deliver, let me say, after getting and finishing the plan that announcing improvements before seeing them in our P&L and in our cash, that, Oswald, that is going to be the main target we are going to have in Eagle Ford this year.

Ramón Álvarez-Pedrosa ***Repsol, S.A. - Head of IR***
Thank you, Oswald. Next question comes from Biraj Borkhataria at RBC.

Biraj Borkhataria ***RBC Capital Markets, Research Division - Director, Co-Head of European Energy Research Team & Lead Analyst***
I had 3, please. First one, just looking at the growth in expectation in cash flow is a little bit higher than the expected EBITDA increase. Could you just walk through some of the big moving parts there and whether there's anything relevant on cash tax or any items like that?

Second question is on production. The 700,000 barrels a day, it's quite a bit lower than, I think, consensus expectations, especially if you consider the Eagle Ford addition. Could you just outline the assumptions within that 700,000 for Libya and Venezuela, in particular?

And then finally, within the guidance, what are your assumptions for chemicals? 2019 was quite tough. What are you expecting for 2020 as well as the gas price assumption outside of the U.S.? Sorry, there's quite a few there.

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO & Executive Director***
So going to your first question, I mean the cash flow from operations increase was at 7%, 8%. And there, let me say, over the whole year, 2 non-normal or, let me say, nonrecurrent effects. One of them is positive, and the other one is negative. There is a negative impact because the recovery of tax forecast for January 2019 was recover in December 2018, EUR 300 million broadly speaking. So that is impacting negatively on the year. And on the other side, you have the positive impact of the application of the IFRS 16 regulation that impact in a positive way EUR 300 million. So decoupling, these effects, one of them negative and the other one positive, I think that the cash flow from operation improving an 8.7%, 8.8% year-versus-year, enough for, let me say, comparable and recovering way. So they are, as you said, effects, but all of them are compensated.

Going to Libya or -- started by Venezuela. I mean let me underline that, again, the main objective of Repsol in Venezuela is protect, I mean, the position of our workers in the country and, of course, guaranteeing the safety of our operation in the country. Our second priority is to maintain, not increasing, the financial exposure to the country. You have seen that we have reduced $270 million, more or less, our total exposure to the country coming from EUR 520 million at the end of 2018, including here, equity financial loans and so on. And in this sense, we have been able to reduce our exposure this year.

And of course, we are doing all that, adopting, where appropriate, the safeguards to ensure the fully compliance of the law and policies in force in the different countries in which we operate. And we are, of course, continually monitoring potential changes and the effect of these potential changes in our activities. We are budgeting 50,000 barrels per day, including, roughly speaking, 20,000 barrels per day oil coming from Petroquiriquire; 30,000 barrels per day, roughly speaking, gas production in Cardón. And remember that we are -- during this year, our target has been -- more or less been near term in cash flow terms in the country, and that is going to be also our target for the year 2020 in a country where, as I said, we have reduced, in a dramatic way, the financial exposure of the company.

Going to Libya. 35,000 barrels per day is what we have in our budget.

And going to chemicals, let me, first of all, say that what we have in our budget, but I'm going to put after that 2 additional comments, is a EUR 20 million (sic) [EUR 220 million] of EBIT. But we are going to have, first of all, an impact that is going to be -- that is going to impact in January and some days of February because -- I mean that was a tragedy in the Tarragona side of our company, IQOXE, that had an accident the January 14. IQOXE is a stakeholder for Repsol, especially in polyols business because it's a main supplier of ethylene oxide as a raw material we use to produce the majority of the polyols. So we have reduced our production in Tarragona for some weeks due to this potential lack of supplying. But it's true that at the end of February, we are going to run plants at full capacity, thanks to the flexibility of our production program and because we have found new alternatives of supplying outside Spain from Europe. This doesn't mean that sales are going to recover 100% at the end of February because we are going to have a gap with the production of recover inventories and so on.

On the other hand, I mean I have also to talk about the coronavirus, what is happening with the potential China growth and the demand of petrochemical products in coming months. But I mean I can't give you more clarity about this potential effect, but we will monitor this forecast of EUR 220 million of EBIT, positive EBIT for 2020, depending mainly of all last -- or this last factor. That is true that we -- after December and January with very depressed petrochemical margins, we are seeing a clear recovery last days. What we have today in margins, in international margins terms is fully aligned with our budget. And theoretically, what we expect by the second half of the year could be even a bit improvement. But they prefer to be prudent, taking into account the international circumstances on the potential demand of chemicals coming from the Chinese growth and coming from coronavirus.

Biraj Borkhataria ***RBC Capital Markets, Research Division - Director, Co-Head of European Energy Research Team & Lead Analyst***
That's very helpful. Just one quick follow-up. On the production, the 700,000 barrels a day guidance includes a fairly significant amount from Libya and Venezuela, not that far away from capacity. And then you're also adding the Eagle Ford volumes that you acquired. Could you just talk to the other side? What volumes did you have in 2019? Where are the biggest declines into 2020 in the plan? Is it just U.S. gas?

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO & Executive Director***
I mean let me, first of all -- if you allow me, Biraj, elaborate a bit about production. I mean I have insisted over the last quarters that I'm going to put a lot of focus on value and cash and less focus on production. I mean this week, I was analyzing the -- what has happened with the production of the oil and gas sector in Europe. I mean if you take all the IOCs of Europe including Repsol, 15 years ago, we were producing together 14 million barrels per day. 15 years later, we are producing the same 14 million barrels per day. What is the difference? That the capital employed that the whole sector has today is 3x as average the capital employed we have 15 years ago. So I think that we have -- and that is, of course, by strategy.

And I'm saying that and underlying that and putting that on the table. We are going to be more focused on cash, more focused on efficiency, more focused on margin per barrel than in production because a decrease of the production is mainly impacted by the decision we are taking, because now we are reducing in a dramatic way the capital allocation and the CapEx we are applying in North America, in Canada and the Marcellus.

I said before that today we are free cash flow -- free cash flow positive in Canada at these prices because we have reduced in a dramatic way our capital program. We don't have any rig today in the Marcellus. And of course, all that has the consequences on production. That, on the other hand, has positive consequences in terms of free cash flow of the company. That is going to be our main target: cash yield and less target in production. So for instance, on trying to answer to your question. Canada has reduced its production in 11,000 barrels per day, mainly gas production in Canada due to this capital allocation program.

In Colombia, the expiration of the Equión -- the Equión license has had as consequence a reduction of 10,000 barrels per day. You also know that we decided 1 year ago to divest our position in Nigeria, in TFT, and we are also -- we are going to see some impacts on that. But Trinidad and Tobago is the main additional reduction, reducing 14,000 barrels per day of gas production in Trinidad. So Venezuela is also -- production forecast is 5,000 barrels per day, mainly gas, due to lower demand coming from refineries and so on that are clients of Cardón that were shut down, reducing the expectations of demand for the year. Thank you.

Ramón Álvarez-Pedrosa ***Repsol, S.A. - Head of IR***
Thank you, Biraj. Next question comes from Pablo Cuadrado at Kepler Cheuvreux.

Pablo Cuadrado ***Kepler Cheuvreux, Research Division - Equity Research Analyst***
Just a few quick questions. The first one will be -- well, we appreciate that you have provided a guidance for 2020, looking cash flow and EBITDA. But I was wondering whether -- if you can also chat a little bit on the net profit side. Looking basically at consensus, I think at the minute you are having a net income estimate in the market for this year already of around EUR 2.6 billion, while you reported around EUR 2 billion to EUR 2.1 billion last year. So whether if you feel comfortable with that reference or if you think that probably consensus is too optimistic for this year.

Second question would be on -- looking after impairments, I was wondering whether you can help us to address which are the implications on the D&A for this year. I think at the end of last year, you have, on a group level, around EUR 3.5 billion of D&A. And I don't know if you can update us with the reference that you're expecting for this year after taking into account the impairment.

And last question is on the renewal business, and probably this is a question more focused on the Capital Market Day, I may confess. But while we have seen many peers and with this wave of renewal and low carbon development in the industry, probably focusing on building a portfolio of renewable assets clearly, but the approach, generally speaking in the industry, is to potentially de-consolidate investment from the balance sheet point of view through asset disposals or farm-downs of the assets, while I think your strategy is totally the contrary. So have you considered to try to do that at some point? Or do you feel comfortable the way that you are behaving on this growth at the minute?

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO & Executive Director***
Thank you, Pablo. I mean going to your first question, I'm sorry, and I understand of course your question and your interest, but we try not to announce any adjusted net income forecast for the year. And we are comfortable given these guidances of EBITDA and cash flow from operations because, I mean the adjusted net income is very dependent of, one, short taxes, from an exchange rate from these scenarios and so on, and we are more comfortable given these guidances in terms of EBITDA and in terms of cash flow from operations.

Going to the impairment and DD&A implication for the year, I mean it's not -- it's material -- it's not material because it's at around EUR 60 million for the whole year, the difference between the impairment of -- the depreciation of the assets due to the impact of the impairment we announced in December and we have published this morning. I mean I think that your point about low carbon business, Pablo, is right and is very interesting. And we are in the same row, and we are on track of doing in the future these kind of things. My only point is that you know that we are making progress in the projects we have under development. Now you know that we have today 2 gigawatts on track in the pipeline, at Valdesolar, Kappa and Sigma, more or less, broadly speaking, 600 megawatts of photovoltaic; and Delta in Aragón and [Pin] in the regions -- in Spanish region of Castilla and León, adding more or less 1.4, 1.3, 1.4 wind megawatts.

We are also working of course in the commercial side of this operation, but would we want to put now our focuses and get returns from this project, taking the whole risk of promotion, development, construction, operation, maintenance and so on, fully derisking the projects, and we are going to be there in coming months fully focused on that. But you are right, we are also working for the future on the best financial structure that could allow us to boost, first of all, the return on equity. I mean being clearly in the double-digit because, I mean if we are able -- after the risk in the project, after being operating and so on and maintaining the operation of the project to sell a 40%, 45% of a basket of projects to our fund, of course, that we are going to get another multiples, and we are going to get very clearly the double-digit return while maintaining the operation. This might include of course JVs, partnerships, deal cost.

And with this potential structure, as you said, we also could achieve the boost in the return on equity, but at the same time we protect a bit more our balance sheet. And as you said, I mean we are going to build a financial framework with partners in the future after derisking, fully derisking the projects with 2 targets: first, increasing the return of a project for Repsol, selling a part of the risk project with better multiples; and secondly, having a vehicle to deal with this business with a low cost of capital in a very efficient use of our balance sheet. We are going to be there, and all that is going to guarantee, first of all, as you said, a better protection for our balance sheet; and secondly, what is also important, a clear return in the double digits coming from these projects. Thank you, Pablo.

Ramón Álvarez-Pedrosa ***Repsol, S.A. - Head of IR***
Thank you, Pablo. Our next question comes from Alwyn Thomas at Exane BNP.

Alwyn Thomas ***Exane BNP Paribas, Research Division - Analyst of Oil and Gas***
Could I just make a very -- actually to clear up something on the operating cash flow guidance. And the guidance of EUR 6.7 billion for this year is on $65. Now should I be comparing that directly with the -- what you set out in the '17 to '20 target of EUR 6.5 billion by 2020 on $50? Obviously, adjusting for price, it seems you're a little bit off. I just wondered if you could clarify where the gaps are despite some underlying progress on efficiencies and things like that.

The other thing I wanted to double check was whether you've made any assumptions for divestments within your guidance during the year. And maybe you can give an update on your plans for potential high grading activities this year as well.

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO & Executive Director***
Alwyn, I mean going to your point, remember, you have in mind, I'm sure, these figures, taking into account your question. We have, under an assumption of $50 per barrel, EUR 4.6 billion of cash flow from operations in 2018. With a target of EUR 6.5 billion, improving in EUR 1.9 billion, I mean decoupling from the any effect coming from the price of commodity. So how do we compare the EUR 6.7 billion with this EUR 6.5 billion? I'm going to try to be didactic, sorry, because it's not very easy not having the possibility to show the numbers to you.

But theoretically, I mean imagine that we are at $65 per barrel as an assumption this year. We have to add additional EUR 0.9 billion coming from larger cash flows coming from the oil. So the right figure in that case will be EUR 7.4 billion from our operations, but we are going to be in EUR 6.7 billion. That means EUR 0.7 billion below this figure.

Where is the gap? EUR 0.2 billion comes from the expansion on the low carbon. You know that we decided to go in the organic way. That means that this year, because all these renewable projects, they are going to be on track, the first Valdesolar and probably Delta in December, so we are not factoring any kind of cash flow coming from these projects. That means that we are going to have a gap of EUR 0.2 billion from this low carbon because we have expensed, first of all, less CapEx than forecast; and secondly, we have prioritized a return over, let me say, speed in terms of going on in this business because we want to decarbonize the company. Let me underline again that the best decarbonization we could get is the decarbonization in a sustainable way. That means sustainable on finance, sustainable on balance sheet and increasing the cash flow from the operations of the company.

The second effect, a gap of EUR 0.3 billion coming from the legacy production mainly related to the gas price because, I mean we have a gas price lower than what we had in our figures, mainly in North America. And here, of course, we also have an effect coming from Venezuela, EUR 0.1 billion, more or less coming from Venezuela.

And the last one, EUR 0.2 billion less comes mainly from refining and chemical margins that we are taking assumptions, more problems that we have by 2020 in our strategic plan, taking into account the current environment. So all in all, EUR 4.6 billion plus EUR 1.9 billion, EUR 6.5 billion. We have to add EUR 0.9 billion coming from the oil price, EUR 7.4 billion. Less this gap of EUR 0.7 billion, that is the EUR 6.7 billion we are giving in our assumptions for 4 years. But all the levers of transforming the company, let me underline that, efficiency, digital and so on, all of them are included in our budget.

An assumption for divestment in the guidance, I mean we don't have any metric in terms of cash incoming from divestment in this budget. Divestments are going to happen. Remember that over the last year, we have divested in 4 countries in our E&P position: Papua New Guinea, Kyrgyzstan, Romania and Angola. We are going to go on with this effort. And probably the year, we are going to do our best to reduce or to divest our position in a minimum of 2, 3 countries. That is our target. This year, we don't have any divestment coming from these processes, any cash-in. And you could imagine that we are talking about countries with -- I mean not a large production. I'm not going to deliver any name, of course. But because the process could last many months, we are not talking, let me say, any kind of production reduction for the year. But again, I'm not going to doubt, if I have to reduce our production target because we are increasing the cash-in, the value and the margin per barrel for the company. We are going to prioritize in absolute terms in any business of this company, value and yield over, let me say, quantitative metrics of volume production and so on.

Alwyn Thomas ***Exane BNP Paribas, Research Division - Analyst of Oil and Gas***
Okay. If I could just follow-up on that last point. And with regards to the solar market in Spain, obviously things are getting quite competitive with a number of your peers taking material steps to build capacity. Can I maybe ask you for your thoughts on the market and whether this is going to put pressure on price?

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

First of all, Alwyn, I mean seeing that our partners and competitors are entering the Spanish market later, the position we have, I mean that is underlying in some way that we were in the right track. That is my first reflection. My second reflection is we have additional capabilities in Spain because today, still, the short positions we have in the market coming from our customers, retail and so on, are bigger than the long positions we have from the production side. That means that we are more protected than others to get margins because we have in the Spanish market the short position coming from the customer side that is growing. And this year, we have, as you said in our objectives and so on, the target of growing in the number of clients we have in Spain. So we have an integrated margin, let me use this expression, to improve all that.

On top of that, I mean we have in Spain a supply-chain value, very efficient, because the dimension we have in the country in terms of engineering and so on, that is going to allow us to capture that in a better position. But I'm going to add more: We have been very prudent in terms of solar projects in Spain. If you take today our pipeline, we have 600 megawatts of solar projects in Spain. I mean that is okay. Perhaps we could have some models in the future. I'm not going to say never. But you have to take into account that only taking the Aguayo pumping dam, we have today 400 megawatts of pumping storage capacity, and we could have add in an installation to Aguayo with no change in the reservoirs, only adding more technical facility, even a potential 1 gigawatt in the future. That means -- and you could see that, and you could check from December 20 to 24, we have spent 4 days of fully depressed merchant price. I mean the contribution margin of Repsol in the power system those days was even bigger then the average we had in the whole quarter. Why? Because we are taking advantage of the pumping storage to pump the water up when prices are fully depressed. And on the opposite side, we could take advantage of the windfalls coming when the peak hours price is high. So I mean we have an integrated margin we take into account. You are right about what your comment on the -- about the pressure on price, but we are taking all that into account in our business. Thank you, Alwyn.

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

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

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

Two quick questions, if I could. I mean firstly, Josu Jon, you talked through some of the moving parts and bridges in terms of cash flow earlier relative to the 2018 to '20 plan. Could you also talk about the CapEx side of the equation in terms of how EUR 3.8 billion of organic spend for this year compares to what you expected a couple of years back when the plan was launched? It looks like it's lower, and the extent to which the CapEx reduction has been leveraged primarily through lower activity in North America versus other moving parts.

And then secondly, if you could just clarify on the $7.30 a barrel refining margin for 2020, whether that includes or excludes the premium that Repsol is likely to generate over the benchmark in a year where you have less maintenance.

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

Thank you, Matt. I mean first of all, what I have in mind is that we talked about EUR 15 billion for the whole period, including the money coming from the divestment of Gas Nat, and what our best expectation and guidance today is that we are going to invest EUR 12 billion out of this EUR 15 billion over the whole period, 2018-2020. That means that we are going to be EUR 3 billion below. Why? 1/2 comes from the E&P. I mean what we said in the E&P is going to be reducing EUR 1.5 billion. And let me say that, again. We are not forcing our team to invest. We are forcing our team to get the best returns, and we are reducing our CapEx -- capital programs in a dramatic way, in the unconventional, in North America, mainly in Canada and in the Marcellus. And of course, we could always look for opportunities. We have also reduced the -- even investing $340 million in Eagle Ford. We have also reduced a bit the CapEx program because we are more focused now on having the efficiency improvement we are looking for.

And on top of that, we also have reduced a bit our commitment in the exploration business. We rely on the exploration business, but we want to be very focused on the exploration business. Very focused in areas where we are convinced that we could add value: Southeast Asia, Indonesia and so on; Mexico, the Gulf of Mexico; Alaska; and the area of Guyana, Brazil and Bolivia. They are the main drivers of our exploration, and I don't know we have -- I'm forgetting a country because I don't have the list here in front of me, but be sure that if I miss something, Tomás is going to correct me in coming minutes.

So in the Downstream side, we are going to be EUR 1.5 billion, EUR 1.6 billion below because we are going to invest in the forecast we have now. In the low carbon business, EUR 0.8 billion less than expected in our forecast; and in the expansion of the Downstream that you know that included the retail, included the chemical business and so on, we have also to invest EUR 0.8 billion less than expected. So that is today our best approach, EUR 3 billion below.

Going to the refining margin, no, the premium is not included there, and I think that growth we have as premium budget for the whole year is $0.80 per barrel. It seems to me that this quarter we are going to be clearly above this figure, but be sure that if we are in the $7, $8 per barrel of margin index, I mean I think that the premium we have as a target is quite reasonable, not looking for higher targets. Thank you.

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

Thank you, Matt. The next question comes from Irene Himona at Societe General.

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

I had 2 questions, please. So firstly, thank you for providing a preliminary sense of guidance to 2025. You mentioned stable dividends to 2025. What could we -- what should we be anticipating for production volumes out to 2025 to reflect your interim decarbonization targets?

And then secondly -- I didn't catch it. Maybe you mentioned it already. What was the contribution in

2019 of your low carbon business in terms of EBIT or EBITDA? And any guidance for 2020, please?

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

Thank you, Irene. I mean let me say that I'm fully comfortable today with the dividend we have in Repsol. I'm fully comfortable about the future of the dividend of Repsol. We are going to present this 5% additional buyback to the Annual General Meeting of May. It's true that -- I mean if you take the operational cash flow and you compare this operational cash flow with the dividends of the company, we are in the medium low range of the European sector. That means that we have enough cash generation to guarantee and to cover the dividend commitments we have.

And I mean on top of that, I'm going to be, of course this year, fully focused on the share buyback programs because you know that we are going to need more than 150 million shares in our hands, so at 10% of the total amount of shares Repsol had at the end of the year, to redeem the commitments related to the 2020 buyback linked to the strip and to the additional 5% we'll propose to the Annual General Meeting. I mean -- and as I said in my previous speech, a share buyback program related to the 5% share capital reduction is going to be formally launched in coming either days or weeks, in any case, before the Annual General Meeting, and with a limit of course not exceeding the 76 million shares and not exceeding treasury stock limit of the 10%.

So I'm fully focused on these programs. I'm comfortable with the dividend we have. And of course, we are going to be comfortable, it seems to me, with the dividend in the future, because again we have to take into account, first of all, that the cash in the Upstream, because we have a more efficient production for the same number of barrels is going to grow, our Upstream is getting a clear free cash flow, free after CapEx.

Due to the carbonization, the Downstream is going to improve the refining margins because we are going to work and invest hard reducing the pseudo cost. We are going to add new margins coming from biofuels and so on. The low carbon business, even with -- I mean today, a small investment, less than EUR 1 billion over the last 1.5 years, is already giving us an EBITDA of EUR 100 million with projects on track. That means that this business is going to be profitable. It's going to give more cash to the company. This year, in 2020, we are going to be there because, as I said before, all the new projects on track are going to be producing at the end of the year: Valdesolar and the wind Delta project. So we have not factored in any kind of new EBITDA coming from these projects. So we are going to be at around this, roughly speaking, this figure of EUR 100 million of the EBITDA that is mainly coming from the assets we bought and we acquired from Viesgo that you know that we pay EUR 700 million. That means that we have -- having good returns in cash terms coming from the investment we are developing in the business.

So my point: We are comfortable in terms of production. Production is not going to be impacted in a negative way because the decarbonization -- decarbonization, talking about the E&P, means that we are going to be more focused on short-cycle projects. We are going to be less focused on long-term projects. We are going to try to avoid stranded assets. But getting cash, being focused on cash, being focused on short-term returns with a flexible pipeline of projects in the E&P, I think that is the best way to prepare the company for the decarbonization target.

So we are going to have cash coming from the E&P, more cash coming from the Downstream and new businesses. So for me decarbonization is not, let me say, a threat for the company. It's an opportunity to enter in new businesses, leveraging in the current position we have and I see, of course, the remuneration policy and so on of Repsol quite safe, and I'm comfortable in this scenario.

Ramón Álvarez-Pedrosa ***Repsol, S.A. - Head of IR***
Thank you, Irene. Next question comes from Jon Rigby at UBS.

Jonathon Rigby ***UBS Investment Bank, Research Division - MD, Head of Oil Research and Lead Analyst***
Can I ask about the Upstream? Just that you've talked about being more gassy. I think you just spoke about sort of shorter cycle, more modular, avoiding the risk of stranded costs, et cetera. But you do have quite a lot of large oil opportunities in your portfolio. So Alaska, Blacktip Gulf of Mexico, 2 Brazilian projects. So is it reasonable to expect that you make some selections that there's some opportunities for some quite large disposals to come?

And then the second question, can you just go back to just explain the logic of -- as I understood it, when you sold the Naturgy stake, there was a set aside that we were going to see inorganic spend going into a combination of the renewables. I think you've touched that on that, and also the Downstream. Is the -- the fact that you haven't used all of that just a question of timing or have you just revisited the thought process that they're about what you want balance sheet debt to look like and what you want to look in terms of assets around those 2 bits of business?

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO & Executive Director***
Thank you, Jon. I mean strategically, gas is very important and is relevant for the future, but I think that we have to combine the long term with the short term. If we take the Paris assumption and we take the 2040 energy mix scenario compatible with Paris, I mean 48% of the energy mix is going to be oil and gas. And oil is going to be, still in 20 years, an important part of the energy mix in the world, fully compatible with Paris. So we are not getting rid of the oil. We are not divesting from the oil. We are not going to be out of the oil. We are a multi-energy company, very proud of being involved in the oil, in the gas, entering new businesses where we have, let me say, a hidden value of EUR 1 million -- EUR 1 billion EBITDA coming from commercial and retail businesses that is fully hidden for the market, but we are leveraging these commercial businesses to enter in new activities being profitable low-carbon business.

So that is our picture, our framework about sustainability and reduction of emissions. And in the meantime -- I mean taking into account the current price scenario, we are going to be investing in the oil always under this principle of short-term cycles, keeping -- going the flexibility because we don't know exactly what is going to happen in the future. So we could maintain this flexibility.

And I don't discard even to increase a bit in coming 1, 2 years the production in terms of percentage in the ratio oil-gas, increasing the oil to the 37%, 38% or 40% of the production, why not? And we are increasing the oil part. In the new projects like the Gulf of Mexico, you know that we have a partnership with LLOG. We are going to invest and probably we could take the FID of this project at the end of this year, 2020, León and Baskin. In Eagle Ford, we are increasing the oil part of the business because you know that we are mainly focusing on liquids there. Alaska is, as you said and you mentioned, Jon, a project that is very interesting for the company. Akacias in Colombia is oil. Campos 33 is a mix of oil and gas. In Duvernay, we have mainly the focus because you know that we are reducing the capital programs in Canada because the gas depressed prices, but there is an area in Duvernay that is further east that we are very focused in this area. And probably, we could take in coming months FID to develop a project in this area. So oil is there always, and this is principle of returns, short cycle. I'm trying to get of course better returns, maintaining the flexibility.

Related to the disposals of Gas Nat, I think that is not a question, let me say from my point of view, of timing. It's a question of returns because I mean it was very easy. The day after taking the money coming from Gas Nat and buying, let me say, 3, 4, 5 or 6 wind farms in operation in Spain, getting the same 6%, 6.5% or 7% of returns we got from Gas Nat, but that is not our target. Our target is to build real returns in the range of 9%, 9.5%, 10% project returns, taking the whole risk in organic terms of developing, operating and maintaining these projects. And secondly, as I said before, looking for, after the risk in the project, for financial partners to be in the double digit. But I mean we are not in a hurry to invest. I prefer -- clearly speaking, and I'm going to underline, Jon, this message: I prefer to have in our pockets, the money, to have the cash full, not investing if we are not sure that the returns could be there. Thank you, Jon.

Ramón Álvarez-Pedrosa ***Repsol, S.A. - Head of IR***
Thank you, Jon. Next question comes from Jason Kenney at Santander.

Jason S. Kenney ***Grupo Santander, Research Division - Head of European Oil and Gas Equity Research***
Congratulations on the emissions commitment as well. Two guidance points, really. Firstly, on tax for 2020, if you could guide where that could average out over the year at your base assumptions. And secondly, on the corporate charge, if you could give us an indication of where you think the quarterly corporate charge could be. And then one point of clarification on a question from earlier about stable dividends to 2025. Does stable mean flat at EUR 1 per share? Or does it mean potential for growth?

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO & Executive Director***
Thank you, Jason. I mean first of all, going to your first question that is a tax for 2020. I mean the assumption we have, more or less, is 25% for the Downstream business as average; 50% for the E&P, and depending, of course, of always the mix of production countries and so on, but the range is going to be there; and the 40% depending, of course, on commodity prices and so on and how every business is going to impact on the operational income; 40% as average for the whole company.

I mean I'm going to answer to the second one in May after presenting my strategic update but -- I mean I'm going to repeat what I have said here a lot of times over the last quarters. First of all, I mean we are comfortable with the current dividend. And that means that when we are comfortable, we are going to be there. And secondly, and I said before, what we said in July last year, I mean having more cash in our hands because we don't find the projects to apply this cash or to allocate this cash in an efficient way, getting the returns we could expect. I mean I'm not going to doubt to propose, for proposing any kind of or some kind of additional buybacks to our Board. So I'm going to do that in case of having additional cash flows or not having clear opportunities to invest with the returns we expect. So my point is a dividend comfortable with that, but any opportunity we could have in the future to add additional buybacks in case of not having clear and profitable investment opportunities, I mean we are going to do that as an additional policy to remunerate our shareholders. Thank you, Jason.

Ramón Álvarez-Pedrosa ***Repsol, S.A. - Head of IR***
Thank you, Jason. Next question comes from Peter Low at Redburn.

Peter James Low ***Redburn (Europe) Limited, Research Division - Research Analyst***
First was just on IMO. What do you see is the primary reason why it hasn't come through the margins yet? Is it the use of VLSFO rather than MGO? And if so, how long do you think that can persist for? Particularly interested whether you had any visibility on VLSFO stock levels and how they're changing. And the second was just a quick clarification on chemicals. I didn't quite catch what the expected contribution is from that business in 2020.

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO & Executive Director***
It seems to me because that is -- it's not rocket science. But it's complex because it's easy to talk after seeing the effects. But today, I think that the consensus of analysts is that the very low sulfur fuel oil stockpile is behind what is happening. In the last quarter, a lot of storage of this low sulfur fuel oil was built. And now the consensus of the market is that this stockpile has been reduced. I mean today the best approach we have is that the production worldwide of this very low sulfur fuel oil will have a capacity of 1.5 million, 1.6 million barrels per day. And growth the marine sector is going to need to fulfill the IMO could be at around 2.7 billion, 2.8 billion barrels per day. So after getting rid of this stockpile, it seems logical, but you know that sometimes logic is not behind commodity frameworks, that the world is going to need 1.1 million, 1.3 million or 1.5 million barrels per day to fulfill -- of gas oil, I mean to fulfill these needs.

So probably March, April, this effect is going to affect or is going to impact in a positive way in the diesel margins and in the refining margins. But I want also to mention some other effects that we are experiencing today in the diesel spread. One of them is the mild winter in Europe that is in some ways reducing or has reduced over this winter the demand of gas oil. And the second one is what is happening, as I said before, in Asia, where the negative impact on the Asian growth will have also an impact on that.

Going to the chemical business, the EBIT projection we have for the year is EUR 220 million. And the cash -- I mean but that was, as I said before -- I mentioned this effect of IQOXE, the Spanish company I mentioned before, that is one of the providers of Repsol of the suppliers, that this phenomenon could have an impact in January and February, but all that is going to be overcome at the end of this month. Thank you.

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

Thank you, Peter. Well, that was our last question. At this point, I'd like to bring our fourth quarter conference call to an end. But just reminding you that on the 5th of May, we will be holding our Capital Market Day regarding the new strategic plan, 2020-2025, as well as the first quarter results for 2020. Thank you very much for your attendance.

Operator

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