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PRESENTATION

Ramón Álvarez-Pedrosa - *Repsol SA - Head of Investor Relations*

Good afternoon, and welcome to Repsol's second-quarter 2024 results conference call. Today will be hosted by Josu Jon Imaz, our Chief Executive Officer, with other members of the executive team joining us as well.

Before we start, let me draw your attention to our disclaimer. During this presentation, we may make forward-looking statements based on estimates. Actual results may differ materially depending on a number of factors as indicated in the disclaimer.

I will now hand the conference over to Josu Jon.

Josu Jon Imaz San Miguel - *Repsol SA - Chief Executive Officer*

Thank you very much, Ramón, and thank you, everyone, for joining us today. To begin with the high, I'll take you through the main messages of this quarter before moving to our review of our business performance and results. Following the presentation, we will be available to answer your questions.

The first half of the year has helped Repsol to move forward in the direction defined in our recent strategic update. We are addressing the challenges of the energy transition from a position of strength, liberating on our advantages, and on our value-creation track record in low carbon. We keep on developing the new business platforms that will allow us to generate more value with less emissions of us using our multi-energy proposition and diversifying our energy mix.

Last quarter, Repsol delivered another set of resilient results supported by a solid operational performance across divisions. The commodity scenario was characterized by a less favorable refining environment, stronger oil price, and the ongoing weakness of natural gas.

Second-quarter adjusted income reached EUR859 million, 4% above the same period in 2023 and 32% below the first quarter of the year. Cash flow from operations was EUR0.9 billion, 32% lower quarter on quarter and 45% below last year.

Cash generation was negatively impacted by EUR1 billion payment related to the acquisition of the remaining 49% stake in our UK JV and the settlement with Sinopec as agreed last year. Excluding this effect, the operating cash flow was EUR216 million higher than in the same period of 2023.

Net CapEx amounted to EUR1.5 billion in the quarter. The contribution of divestments and asset rotation was EUR0.3 billion, for a total of EUR0.4 billion delivered in the first half of 2024. Our disciplined CapEx policy remains aligned with the investment plan and our commitment with maintaining a strong financial position. Our businesses are carrying on an intense portfolio activity with the objective of optimizing our capital and financing new investments.

Net debt stood at EUR4.6 billion by the end of the quarter, a EUR0.7 billion increase compared to March, mostly related to a purchase of treasury shares and new leases. In July, the company distributed the second dividend of the year for a total of EUR0.9 per share in 2024, approximately a 30% increase over 2023.

In addition, this month, we have completed the buyback program launch in March, executing the 40 million share capital reduction committed in our February presentation. These two concepts add up to EUR1.7 billion in total shareholder remuneration deliver as of July.

Moreover, aligned with our strategic cash flow distribution objective, we have announced today a new 20 million share buyback program and its corresponding share capital reduction to be executed in the second half of the year. This will bring the total number of shares canceled in 2024 to 60 million, equivalent to 5% of our share capital at the beginning of the year. The number of shares outstanding by year end will reach EUR1,157 million, considering the 3% increase of the funds dedicated to cash dividends in 2025, for a total of EUR1,128 million.

As committed or strategic, the lower number of outstanding shares implies a dividend of a minimum of EUR0.975 per share next year. This is equivalent to more than 8% DPS increase compared to 2024, with further buybacks completing our cash flow from operation distribution range for 2025.

Looking now briefly at the macroeconomic scenario for the second quarter, the oil price continued to be affected by geopolitical instability and the production policy of OPEC countries. Brent oil averaged to $85 in the quarter, up by at 2% quarter over quarter and 9% above second quarter last year.

In gas, the Henry Hub averaged $1.9 per million BTU, 17% below previous quarter and 10% lower than a year ago, driven by high inventory levels and technical restrictions still limiting US exports. Our refining margin indicator averaged $6.3 per barrel in line with the same period a year ago, but 45% lower quarter over quarter. Compared to the first quarter, the sharp decrease in diesel and kerosene differentials more than offset the stronger gasoline spread. The euro-dollar exchange rate average 1.08 in line with the previous quarter and with the same periods in 2023.

Moving on now to the performance of our businesses. The upstream division reported an adjusted income of EUR427 million, a 4% increase over the same quarter last year, and 3% below the first quarter in 2024. Year over year, the negative impact of lower gas prices was more than offset by higher oil realization and higher volumes sold. Our business remained focused on the efficient delivery of the project pipeline, actively managing our assets to capture emerging opportunities in the portfolio.

Production averaged 589,000 net barrels per day in line with the previous quarter and year over year compared to the same period in 2023. The higher volumes in St. Louis, UK, and Venezuela were compensated by a lower output in Eagle Ford and Norway and the divestment of our Canadian assets effective since the fourth quarter of last year.

The hedging policy implemented for our North American gas production is helping us to protecting profitability in this depressed natural gas price scenario. Around 20% of our volumes in 2024 have been covered with a floor of $3 per million BTU. And roughly speaking, this structure allow us to fully compensate in the second-quarter results the decrease in the Henry Hub compared to the same period in 2023.

During the quarter, we operated one rig in Eagle Ford and one rig in Marcellus. And at the end of June, the rig in Marcellus was effectively released with the aim of protecting value in this gas price environment. In Eagle Ford, we agreed the divestment of our stake in the southwestern portion of our acreage as part of ongoing optimization of our position.

Development activities are three main projects continue progressing according to plan: Pikka in Alaska and Leon-Castile in the Gulf of Mexico are expected to start production in the next 12 to 18 months, contributing with a combined 50,000 oil barrels per day of profitable, higher cash flow from operations per barrel of production.

In Brazil, the Campos 33 progresses under plan in cost and time. The development reached a significant milestone with the construction of the FPSO [cures-first gigablock]. In Venezuela, Repsol and PDVSA agreed to incorporate two fields, Tomoporo and La Ceiba, to a petrochemical JV. These two fields currently produce 20,000 barrels of oil per day in gross terms.

And let me say that this agreement is going to help us to recover past commercial debt, increase production, and improve the cash profile of the JV to repay the loan granted by Repsol, enhancing also the availability of crudes to our refining system.

Lastly, in the exploration front after quarter, and the operator of Block 9 in offshore Mexico, announced positive results in the Yopaat well. The preliminary estimation is of around 300 million to 400 million barrels of oil in place, and Repsol holds a 50% stake. Also in Mexico, the development of Block 29 is currently in the conceptualization phase and this new discovery increases the potential to consolidate this basin along with our growth plans in the region.

Moving now to industrial. This division continues maximizing value in the current environment, strengthening the competitiveness of the conventional business while scaling up the newer, lower carbon platforms that will drive its transformation. The adjusted income amounted to EUR288 million, 16% below a year ago. The higher results in refining, chemicals, and trading were more than compensated by a lower result in wholesale and gas trading and a lower contribution from our business in Peru.

In this case, we have to take into account that we have the program turned around in the refinery in this Peruvian refinery this quarter. The refining business benefits by high utilization rates, partially offset by a more challenging margin scenario compared to previous months, with some seasonality effects that resemble what we had in the second quarter last year. If you compare, the margin is more or less the same we had one year ago.

The average margin indicator stood at $6.3 per barrel, declining compared to the first quarter, mostly due to narrower middle distillate differentials. And year over year, the indicator was in line with the same period in 2023. Margin have not yet shown the seasonal strength we were expecting at this point, mainly due to the elevated stocks in the Atlantic Basin.

But I mean, we are convinced that going forward, and thanks to a better demand for diesel and an improved economic scenario in Europe, we are going to see this recovery. The margin premium was $0.3 over the indicator, materially below the previous quarter and in line with the second quarter last year.

Let me say that this premium was negatively impacted by the planned turnarounds in Puertollano and Bilbao and a less favorable market environment. We have almost finished the turnaround campaign this year. The average utilization of distillation capacity was 87%, while the round rate of the conversion units reached 96%. In both cases, the level achieved in the second quarter 2023.

Maintenance activity included the multi-annual turnaround of Puertollano, started in the first quarter and complete in May, and the shutdown of the FCC unit in Bilbao finalized in July. And as I said before, we have already completed all the major plant maintenance for the year. And that means that we'll increase our plants' availability in the second half.

Last quarter, our refineries received more than 5 million barrels of crude from Venezuela, which compares with the 2 million barrels processed in the first quarter in the year. And this increased supply together with the diversification of our crude diet should allow us to maintain the current share of heavy crude oil in our feedstock mix for the rest of the year.

In the chemical business, Repsol's petrochemical margin indicator averaged EUR269 per ton, 31% over the previous quarter and 6% lower than in the same period a year ago. The EBITDA contribution was EUR23 million, which compares to losses of EUR48 million in the second quarter of 2023.

Despite this relatively improved picture, thanks to better demand and margins, I mean, market is improving. It's true, but it's still being affected by the fragile situation in in Western Europe, where we are seeing, let me say, some recovery in the market, mainly in the polyolefin market. But there is still a slowdown of Chinese economy that is impacting this recovery.

Looking forward, the CNES expansion project, which is expected to begin operations in the last quarter of 2025, should contribute an EBITDA of more than EUR100 million even in this challenging scenario.

Looking now at the progress in our transformation projects, last quarter has been the first one with the Cartagena Advanced Biofuels plant producing at full capacity, thanks to the flexibility of its design, production, alternated HVO and stuff, depending on market conditions. The project is expected to contribute around EUR50 million of EBITDA this year at these low margins.

Because renewable diesel margins have experienced a decline in last month mainly due to the mandate cuts applied to them and the oversupplied market in the US and the influx of Asian products into Europe. We see this situation as transitory, anticipating a progressive recovery as we move forward to 2025 with the implementation of the new blending mandates in both sides of the Atlantic.

The demand is there and we will keep working to build a leading renewable fuels platform in Iberia. The transformation of our traditional sites into highly integrated renewable biorefineries and circular hubs is the most competitive, fastest and affordable way to reduce the carbon footprint of our operation.

The project to retrofit an existing gas oil hydro-treater to produce HVO in Puertollano progresses as planned, with first production expected in 2025, at the end of 2025, the beginning of 2026. Also the strategic agreement with Bunge announced in March will allow us to cover around 80% to 85% of our total biofuel feedstock needs by the end of this decade. Finally, renewable hydrogen in July, our electrolyzer projects in Bilbao and Cartagena refineries receive public European funds of EUR315 million.

Continuing now with the customer division, our strategy remains centered on maximizing the competitiveness of our fuel business, consolidating our multi-energy offering, and growing the scale of returns of retail power and gas. The adjusted income was EUR158 million in line with the first quarter and 7% higher year over year. And compared to the same period in 2023, the higher contribution of retail power and gas, aviation, lubricants, and mobility was partially compensated by lower results in LPG. Mobility sales in service stations and wholesale were affected by higher imports and the alleged fraud practices of some operators aiming to increase their market share in Spain.

The growth of the wallet app continues to drive the expansion of our multi-energy offering. And let me underline this important fact because I think that -- I mean, we have reached more than 8.6 million total digital clients by the end of July. So digital clients using our apps to buy energy or some other products.

Currently, Repsol has around 350 service stations in Spain and Portugal, offering 100% renewable fuel solutions with the goal of reaching more than 600 a year and 1,500 in 2025. This way, we are accelerating our plans to achieve -- as we expressed and mentioned when we presented the strategic update in February, we talked about 1,900 service stations in 2027. So we are anticipating this target and we are going to reach the figure of 1,500 in 2025. And I mean, that's a figure equivalent to almost a 45% of our total network.

Finally, in retail power and gas, Repsol's client base reached 2.4 million customers in June, roughly an 8% increase compared to December. So we are going on growing in this business, in this case in an organic way, and the contribution of this business remains very solid, having generated an EBITDA of around EUR90 million in the first half of 2024.

Finally, in the low carbon generation division, we progressed in the development of our extensive quality project pipeline, mainly in Spain and the US. The adjusted income was EUR1 million, positive in the quarter, negatively impacted by the decline in power prices in Spain and a significant lower contribution of combined cycles. This result compares to losses of minus EUR6 million in the first quarter of the year and a positive result of EUR12 million a year ago.

The average pool price in Spain was EUR33 per megawatt hour, its minimum level since 2020. And that was driven by record level contributions of renewable sources to the Spanish generation mix. Mainly, I mean, it was a very rainy half of the year and the impact of the hydro production was, let me say, exceptional and very material this half of the year impacting on prices.

Now we have seen a recovery of these prices in July. And thanks to our integrated position in Spain, the low prices impacting the generation basis are opening, of course, an opportunity in retail, as we discussed before. We are working with our discipline growth plans in renewables, working in parallel on our first asset rotation in the US.

Our installed operational renewable capacity reached 3.1 gigawatts in June, and we are developing the new pipeline platforms with the goal of reaching 4 gigawatts of global capacity by year end. Having completed the deferral project last quarter, we are now looking to the start-up of outpost later this year, which is expected to add the first 400 megawatts of production in the fourth quarter and an additional 229 megawatts in the first quarter of 2025.

In July, we have announced the disposal of the residential rooftop solar business in France that was, remember, acquired with the Asterion transaction. And finally, last week we signed a collaboration agreement with EDF Renewables for offshore wind opportunities in Iberia, expanding our technological routes.

Moving now briefly to the financial results in this slide, you will find a summary of the figures that we have discussed when reviewing the performance of our businesses. And for further details, I encourage you to refer to the complete set of documents that were released this morning.

Moving now to our update outlook for the year. Starting with refining, our margin indicator has averaged around $8.5 a barrel year to date. Considering the current brand price and product spreads, we anticipate an average indicator of $8 in 2024, in line with our initial guidance, and a CCS margin premium of around $1.7 for the whole year over the indicator.

Upstream production is expected to remain in the 570 to 600,000 barrels per day range, as indicated earlier this year. Cash flow from operation is now expected to be in the lower end of our EUR6.5 billion to EUR7 billion range for 2024, mainly negatively affected by the lower gas price. This cash flow from operation figure doesn't factor, of course, the EUR1 billion payment related to SinopEC litigation.

Net CapEx after disposals and asset rotation is also unchanged at EUR5 billion for the whole year. And finally, considering the 60 million shares to be redeemed in 2024 and the estimated cash flow from operation figure mentioned before, I mean, the low range of the EUR6.57 billion. Total shareholder remuneration in 2024 under these assumptions, of course, will be equivalent to around 31% of the operating cash generation.

To conclude, we have completed the first half of the year with another remarkable performance, positioned to deliver on our objectives for 2024 in terms of strategic delivery, cash generation, and shareholder remuneration. The second half of the year will pivot again around advancing in our strategy and delivering value. We have made good progress in some of the upcoming FIDs as our teams remain focused on maturing the projects that will drive cash flow growth and profitability in coming years.

We remain committed to our decarbonization route, leveraging the low-carbon solutions available to us, required to decarbonize the largest portion of today's European economy that is not electrified. We are confident that the regulatory environment will evolve in a positive direction to guarantee security of supply and the investment needed in our sector.

With this, I will turn it over to Ramón as we move on to the Q&A session. Thank you very much.

QUESTIONS AND ANSWERS

Ramón Álvarez-Pedrosa - *Repsol SA - Head of Investor Relations*

Thank you, Josu Jon. Now as usual, before I move into onto this Q&A session, I just would like the operator to remind us of the process to ask a question. Please operator, go ahead.

Operator

(Operator Instructions)

Ramón Álvarez-Pedrosa - *Repsol SA - Head of Investor Relations*

Thank you, operator. Now we move to the Q&A session.

Biraj Borkhataria, RBC.

Biraj Borkhataria - *RBC Capital Markets LLC - Analyst*

Thanks for taking my questions. The first one is just going back to the financial framework. So at the time of the CMD, Josu Jon, you are clear around pointing us to the net CapEx guidance and suggests that even if the macro was to weaken, you'd slow down the growth spending.

And so first half '24 gross spending is at the run rate of just about EUR6 billion. And so I guess could you just update us on the divestment plans for the year, both in upstream and low carbon? And how we should think about that? I'm just trying to understand what goes behind the decision to go to the low end of the payout ratio range. Related to the acquisitions like ConnectGen, is that included in the net CapEx guidance? Or is that on top of that?

And then second question is just related to the US gas hedging. You mentioned the 2024 hedges. Could you just remind us where you are for 2025 and 2026 and what's currently in place? Thank you.

Josu Jon Imaz San Miguel - *Repsol SA - Chief Executive Officer*

Thank you for your questions, Biraj. And going on to your first question, I mean, I remain confident about the net CapEx guidance of EUR5 billion for the whole year. And as you mentioned it, this figure also includes the ConnectGen acquisition.

I mean, that could be probably is -- let me say, curious or surprising, seeing the evolution over the first half of the year. But I mean, let me remind that we are going to have, in general terms over the strategic plan period, some kind of gap or decalage between the time of gross CapEx that is developed month after month and the rotation and the divestment and disposal process. But we are expecting additional divestment, far downs in upstream and two asset rotation processes over this half in the renewable in Asia, in Spain, and also in the first, let me say, round or basket of our US assets.

So EUR5 billion is the net CapEx guidance we have for the whole year, including the ConnectGen investment that as you know, it was announced and almost closed at the end of 2023, but it was because the regulation and permits and so on closed in the first quarter of this year. So this figure is included.

If we go to the whole gas hedge strategy for the next year, in 2025, we have almost 55%, 60% of the total gas American production. It grows with a collar, put coal reserves booked at 3 million BTU and the coal at 6.1 million BTUs. So that means that we are guaranteeing this let me say a floor of 3 million and we have all the upside to [$6.1 million BTUs]. The figure I have here more or less approaches 57% of the total production of the year.

When we go to the 2026 year, the average of the strike we have is 50% of the total production. And there are two different kinds of positions. But as average, I could summarize saying that we have output. So a floor of $3.20 per million of BTUs and a coal. So we are going to capture all this price till $5.1 million of BTUs. That is the strategy. That is not the strategy. That is what we have executed for 2025 and '26. At the moment, of course, we still have open strategies to increase this position in case of seeing market opportunities. Thank you, Biraj.

Ramón Álvarez-Pedrosa - *Repsol SA - Head of Investor Relations*

Thank you, Biraj.

Sasikanth Chilukuru, Morgan Stanley.

Sasikanth Chilukuru - *Morgan Stanley & Co LLC - Analyst*

Hi. Thanks for taking my questions. I had two, please. The first was on the buyback and the announcement of the 20 million shares buyback in the second half and the 60 million shares retirement all for 2024. I was just wondering if you could provide some color on how we should be thinking about this 20 million buyback. Is this 20 million share buyback for the half year reflect the expected cash generation under current market conditions? Or is the 60 million per share for the full year more reflective of the cash generation under the current market conditions?

Slightly related to that, I was just wondering how you came around to that 31% CFFO versus maybe the top end of your guidance range, 35%. Provide some color on that.

The second one was more of a clarification on your 2024 cash flow guidance. I was just wondering if that includes the EUR1 billion cash out for the acquisition of RRUK. Is that included or not?

Josu Jon Imaz San Miguel - *Repsol SA - Chief Executive Officer*

Thank you, Sasi. First of all, we are going to launch the buyback program in coming weeks and that is going to be executed over the second half of the year. We will announce the development of this plan.

And let me be crystal clear about why 20 million shares now and why we are taking this 31% of cash flow for operation as a guidance this year in terms of distribution for our shareholders. First of all, today, our best approach and our best guidance is that because many of the gas prices, not only in Henry Hub, also gas prices in Europe and so on, comparing with the assumptions we have at the beginning of the year, we are going to win the low range of this guidance of EUR6.57 billion.

Of course, when I'm talking about EUR6.57 billion, just for clarifying, in real terms, it's EUR5.56 billion plus the EUR1 billion applied to the Sinopec transaction. So I mean, we are not taking into account, let me say this, EUR1 billion in order to define what is going to be the guidance for the shareholder distribution as we said and we committed at the beginning of this year.

So if we take this EUR6.5 billion, we think that from the guidance we expressed when we mentioned, when we presented our strategic plan that remember was from 25% to 35% and for, let me say, a good year, we said that we will be something in between 30%, 35%.

So we prefer to be present. We have still some challenges in the year related to gas price and so on. And that would be, let me say, the commitment we are taking for the second half. I'm not going to hide that in case of seeing in October that we have a better cash flow for an operation than expected, a better business environment and so on, of course, we will apply, let me say, this rule of taking a figure something in between 30%, 35%. And we could have room for a potential additional buyback announcement in October.

But I prefer to be clear and transparent. Today, we are not there. Our best view about the guidance for the year is these assumptions of EUR6.57 billion in the low range. In case of seeing a better environment, a better cash flow from operation generation, of course, we will follow this guidance, because that is going to be, the driver we are going to have over these four years to define the shareholders' distribution. And for that reason, I said that for next year, the cash dividend is going to be a minimum of EUR0.975 per share, a minimum, because that is what we have today and we could commit today.

In case of seeing a better environment, of course, we are open to change or to add an additional program. But today we are there. Thank you, Sashi.

Oh, sorry, Sashi. Yeah, I think that I answered in some way. I mean, the guidance of cash flow for operation, when I'm talking from EUR6.5 billion to EUR7 billion, we are not including the EUR1 billion of sign-off. That means that if we include the reduction of cash flow from operation coming from this announced transaction, the cash flow from operation will be EUR5.5 billion to EUR6 billion in the low range. Thank you, Sasi.

Ramón Álvarez-Pedrosa - *Repsol SA - Head of Investor Relations*

Thank you, Sasi. Michele Della Vigna, Goldman Sachs.

Michele Della Vigna - *Goldman Sachs Group Inc - Analyst*

Thank you again for your time. Two questions, if I may. The first one relates to your renewable plants in Spain. It looks like it's been a very tough environment in the second quarter. You've got great opportunities in the US where actually the price, but also the power growth is more attractive. I was wondering if you are perhaps thinking of shifting some of your investments towards the US or if you think that Q2 was a bit of an aberration in Spain and that profitability will recover in the coming quarters.

And then secondly, I was wondering how your discussions with the government are going on the windfall tax. We've seen some more hopeful signs from the government, but I was wondering how that is progressing. Thank you, Josu Jon.

Josu Jon Imaz San Miguel - *Repsol SA - Chief Executive Officer*

Gracias, Michele. I mean, going to our renewable plants in Spain, I mean, first of all, let me say that we are quite comfortable about the rotation -- asset rotation process in Spain that is on track. I mean, we have advanced in a significant way in this process. I mean, I think that today the probability of seeing a closing in the second half of this year is very high in Spain, starting from the asset rotation environment.

Going to renewable plants, I mean, I'm not going to, I mean, let me -- first of all to comment some things. I think what we have seen over the last quarter, or better said, over the first half of the year, I mean, it's not going to be the new, let me say, mainstream arena in Spain in prices terms. Probably, probably not.

In many parts of Spain, the rain in liters per square meter over this half has been significantly higher than the average of the last 30 years. So that means that we have coped with a period. Very good in terms of rain level, but in terms of hydro production has increased in a significant way, hydro production, reducing the time when the combined cycles are entering the system and if the prices drop in a significant way.

I think I have in mind the figures of EUR30, EUR33 per megawatt hour over the last quarter. But when we see next quarters, I mean, I don't have a crystal ball, but what we are seeing is something close to EUR75 or EUR90 per megawatt hour. Even this July, we are figures that are closer to these prices, I mentioned before that what we saw in the second quarter. So first of all, going to this part of the business.

Secondly, new plants, we rely more on the wind than on solar for new future plants in Spain. The reason is technically clear. The solar production is very concentrated in the central hours of the day. That means that the capture capacity of the wind production that is more distributed over the whole day because that depends on geographies, wind regimes, and so on, has a better capacity to capture prices.

So we rely and we are very confident about new wind projects in Spain. And in solar projects, we are going to be, let me say, more selective, more opportunistic. In some cases, we are going to promote a hybridization processes in current wind farms we have. Because I mean the CapEx level because we could use utilities, infrastructures and so on is lower. And we are also engaging a program to build solar plants in our industrial sites where, because the toll regime and so on, the returns are significantly higher.

So I take your point. The market is getting tough in Europe and particularly in Spain. But we are capturing in a good way the opportunities we have in the market despite the results from the P&L we have seen in the quarter that is related to this prices drop. But as I said before, we are starting to build an integrated business.

And in the P&L of the customer business, we are seeing, let me say, the positive part of this price reduction in the whole shape of the power system. Are we shifting to US? Yes, but in a prudent way as I mentioned when we present the strategic plan. Now we are building the outpost project that, as I mentioned in my speech, probably is going to add new 400 megawatts before the end of the year in 2030, more or less, in the first quarter of last year.

And probably we are going to take some FIDs over this year. And we are going to have in production 6 gigawatts before the end of 2025, all in all, in our whole system. And probably almost 2.2 gigawatts by the end of 2025 are going to come from the US. So we are quite comfortable about this shifting process to the US.

Going to our rotation process of assets in the US, we are already involved in this program. And probably we are going to see in coming months the first rotation of our assets in the US. And that is going to be significant in the use of capital. Because we are looking for a 50% of disposal of these assets. And that means that we are going to remain probably with a capital and equity at the end of the process in every asset that is going to be close to 10%, 15% of the total capital we put as CapEx in this period. So the effect in terms of reducing the net CapEx of the company, as I mentioned before in my answer to Sasi and Biraj, is going to be significant.

Going to the windfall taxes discussion. I mean, first of all, I will keep going, our position you perfectly know, we think that it's unfair, it's illegal, and that is going to be reversed by the judiciary, either Spanish or European system in the future.

But my perception -- I mean, I don't want to remind all the reasons we have to oppose this windfall tax because my perception is that we are experiencing a new reality. In November, the European Commission has stated a report where they express in a very clear way that there is no reason now for this kind of taxes that the priority has to be to guarantee the security of supply, the investment in the energy sector.

Even over the last months, the Spanish Prime Minister said that this call in Spanish government should be reanalyzed that they'll have to rethink this government to make investment possible in the energy sector. Even over the last weeks, the Economy Minister, Mr. [Cuervo], said that when we talk about this windfall tax, we have to think and we have to prioritize the need of investment in the energy sector that has to be taken into account.

So I could say more. I could say that in the current Spanish political arena, I don't know a majority could make this a windfall tax for this government permanent bit. I mean, my point is we have a new reality. I think that, I mean, probably, we could anticipate that this potential government is going to be over in coming months. And of course, we are going to follow what could happen. And of course, we'll take our investment decision depending on the framework we could see. But I think that today, there are reasons to think that that is starting to be a part of the past. And in the midst we are working of course. We are working in the preparation of our industrial sites to be prepared for a future scenario. Thank you.

Operator

Lydia Rainforth, Barclays.

Lydia Rainforth - *Barclays Capital Inc - Analyst*

Thank you, and good afternoon. Two questions if I could. The first one, I'm sorry, just to come back because I think I missed what you said, on the refining margins, where are we currently on those margins? And you talked earlier in the speech about you expect them to strengthen as we go into the second half of the year. I'm just wondering what dynamics, if you can just talk us through a little bit on refining supply demand.

And then a very different question actually, please. On the Upstream, we talked at the Capital Markets Day in Madrid back in February about a monetization event in 2026. And I'm just -- obviously, the Upstream has very good results this quarter. I'm just thinking, where is your progress in the Upstream compared to where you expect it to be, both operationally and financially? Thank you.

Josu Jon Imaz San Miguel - *Repsol SA - Chief Executive Officer*

Thank you, Lydia. I mean, going to refining margins, being very concrete, of course, I don't have a crystal ball, but today, our expectation for refining margins for the second half is for our system $7 a barrel. That when we are taking the guidance of $8 a barrel for the whole year. We are taking, I mean, the first part of the year plus these $7 per barrel.

What is behind? Behind is mainly we see the gasoline is strong. We see that the concerns we could have two months ago related to the scarcity of heavy oil and so on, I think that we are going to have a better discount as expected. We see an increase of diesel demand in Europe that is going to be in the third quarter at the end of the year more significant.

And we see potential events that could -- and that is, I mean, we could take a statistical approach if you like, that could be, of course, at winter, that could be, in some way, a driver of this increase. Secondly, the hurricane campaign in the Gulf of Mexico is always a factor. Because what we have seen is that the demand and the supply are quite tight. And when the demand and the supply are tight, any event could reverse the current situation.

And there are some announcements. Last week, for instance, Alexander Novak, the Russian Vice Prime Minister, announced that because the scarcity of gasoline that they have in Russia, they are analyzing the -- reinstating the gasoline export ban in coming weeks.

So there are factors related to what is happening in Central and Eastern Europe, the potential disruption coming from the Middle East. So all in all, I think that we are quite comfortable with this approach for refining margins. And taking into account that the turnaround campaign for Repsol this year is over, we are also comfortable with the $2 per barrel of premium for the second half of the year that all in all could have as a consequence the $1.7 per barrel for the full year I announced before.

Going to your question about the Upstream, I mean in operational terms, let me say that the FIDs, all the relevant FIDs, all of them were taken. The project's development is progressing as expected, I mean, the Leon-Castile, Alaska, even the behavior of the wells is performing in a very good way.

In Alaska, we are comfortable about the project, probably even more positive than we were some months ago, taking into account the behavior of the wells. The free cash flow generation is in line with the strategic plan in the Upstream going to the financial expectations you mentioned.

And the production in 2025 at the end of 2024 is going to be mainly related or conditioned to potential inorganic transactions in this dynamic of portfolio improvement, because we are going to have new bars, better bars entering from the end of 2025 on Alaska, Leon-Castile, and so on. And we are going to reduce probably our exposure in some places where we think we can't create value.

Thank you, Lydia.

Lydia Rainforth - *Barclays Capital Inc - Analyst*

Thank you.

Operator

Alessandro Pozzi, Mediobanca.

Alessandro Pozzi - *Mediobanca Group - Analyst*

Yeah, good afternoon. I was wondering if you can give us maybe your view on what is happening in the moment in the biofuels market. You still expect to have positive contribution from the new project for 2024, but the market is clearly much weaker compared to the start of the year. You mentioned Chinese imports, maybe the EU is putting in duties that could potentially help as well. But I was wondering how you see this imbalance between supply and demand at the moment evolving over the next few quarters.

And also, going back to the Upstream, can you tell us what are the key -- where you are with the next key FID that you're planning to take in Upstream? Thank you.

Josu Jon Imaz San Miguel - *Repsol SA - Chief Executive Officer*

Gracias, Alessandro. Going to the biofuels, you are right. The current situation in the market is quite depressed. That is no new. I think that the main driver was the reduction of the mandate in Sweden that put an additional 1 million tons a year in the market. That is significant because that could be something between 5%, 6% of the total European market.

And what we have seen, I mean, the mandates are going to grow in 2025 in both sides of the bond. In Europe, there is also a clear indication in terms of growing in coming years in the current European directives, [Red 2 and Red 3].

So market is going to grow. And today we are, as you expressed, being a very weak balance on supply demand. Today, the prices are very low, $600 per ton more or less in terms of HBO minus EUCO margin. Let me say, margins are depressed, but even at these margins, taking into account our production, Cartagena C43 has an EBITDA of EUR50 million for the whole and complete year.

So it's not the EUR180 million we expected when we plan this plant, but if we take even what we had five, six months ago, I mean, $1,000 a ton of margin, and that we are going to have probably in coming months, this EBITDA will be closer to EUR140 million, EUR150 million coming from this project.

So let me say, we are comfortable about the C43 in Cartagena. Not every biofuel project is going to get money. We have to be clear about that. But projects that are mainly brownfield, even Cartagena, because the integration level in utilities side and so on is fully integrated in the Cartagena site, and of course at Puertollano, that is going to start in operation at the end of 2025, plus the integration in the site, plus focusing in our internal market and Repsol needs, we are comfortable with these FIDs we took with this production we have.

And I'm going to say more. We are working technically and preparing to take in some other Spanish refineries, new FIDs incoming probably two years. So we have to prepare the projects in technical terms, but what we are seeing is that because the mandates that are already approved in European directives, we are going to have a very tight market in terms of supply demand for this kind of renewable fuels in Europe.

And let me say more. As I mentioned before, we are starting to sell 100% renewable fuels in our service stations, already 350, 600 service stations at the end of the year. So we are seeing even a specific market for these kind of products.

Going to the Upstream, probably two clear projects to take FID in coming two years, Sakakemang in the gas production in the Sumatra island in Indonesia and Mexico. I mean, we are very happy with Mexico. You know that we have our two wells that were positive. We already have an area to be developed. And thanks to this discovery of the project operated by Eni, where we have a 50-50 stake. We see opportunities to optimize the whole area. We have, of course, to talk and to discuss about that, but I think that we have a clear case for a new FID that is going to support the sustain and improvement history of production barrels of the E&P of Repsol.

Thank you, Alessandro.

Operator

Alejandro Vigil, Santander.

Alejandro Vigil - *Santander Group - Analyst*

Hello. Thank you for taking my questions. My question is about the Venezuela. If you can elaborate about the potential recovery of loans and the agreements you mentioned as well in terms of heavy oil access coming from this country.

And the second question is, in terms of your low-carbon business, you have about EUR5 billion of capital employee, and the profitability, looking at the numbers, looks relatively low today. But I'm sure in terms of this asset rotation, basically you can confirm the profitability targets you have for this unit. Thank you.

Josu Jon Imaz San Miguel - *Repsol SA - Chief Executive Officer*

Gracias, Alejandro. Going to Venezuela, first of all, we are entering a new dynamic in Venezuela, and that is important. When we were talking about the downstream, for instance, we saw that over the last quarter, we processed eight cargos coming from Venezuela, and we are processing two more this July.

In terms of recovery, over the last months, I think that we have recovered loans by five cargos supported by paying the debt of Petroquiriquire and five cargos for the gas production in Cardon. So we are improving in the right direction.

There is a rationale behind this transaction we closed one or two months ago. We have an agreement to incorporate two new fields, Tomoporo and La Ceiba. They produce 20,000 barrels gross. There is an agreement that established a direct allocation of a part of these Petroquiriquire revenues to pay the financial debt that is owned by Petroquiriquire to Repsol.

We have senior potential synergies with the current wells and areas we have there, Barua-Motatan, Mene Grande and so on in the Maracaibo Basin. And we have a strong potential to improve the recovery factor of fields, because we are talking in these new fields about 5 new billion barrels of oil in place. Of course, you have to multiply the recovery factor, but we are talking about 5 billion barrels.

So I say that it's a win-win agreement. It's allowing us to recover the past commercial debt, and we are advancing in this direction. We are starting to increase the production that is going to happen because we are starting to invest in this JV we have with PDVSA and in Petroquiriquire.

We are improving the cash flow profile of Petroquiriquire in order to pay the financial debt to Repsol. And we are also improving the feedstock profile of our refining system. And it's very positive for the Venezuelan society because we increase production and we increase the tax payment coming from this production in the country.

So we are quite happy. We are seeing the results. And we are working hard in this direction to optimize the execution of this agreement.

You said about the profitability. Look, wait, let me say something. First of all, there is a part of the revenues and of the returns and of improvement coming from this business that is not going to appear in this P&L. Every time we are rotating an asset, and in many cases, the buyers are acquiring a 49%, paying 1.3, 1.4, 1.35 times the CapEx. We develop -- this acquisition or this disposal from outside and this, let me say, in figurative terms, P&L -- it's not technically a P&L because we maintain the control, the 51%, it doesn't appear in what is the P&L of this business.

Secondly, this business is growing. That means that we have an structure, we have developers, we have new companies like ConnectGen that they have cost, but they don't have revenues now. So we have, let me say, supporting an instructor that could be able to be operating 9, 10 gigawatts by 2027 and 16, 18 gigawatts by 2030, that is charged over the 3 gigawatts we have today in operation. So from the point of view of P&L, there is a temporary effect there.

Thirdly, as I mentioned before, the first half of the year in price terms in the Spain were you have to take into account that we have a 50%, includes combined cycles, hydro and so on, of the positions open. It's not the same in the US where we have a PPAs involve 80%, 85% of the total production. So all that is behind what you mentioned of a weak P&L in the low-carbon business.

But again, in any project we have in our hands and we have disposed in all cases, we have returns that are clearly above the 10% of the equity return in this business. So, gracias, Alejandro.

Alejandro Vigil - *Santander Group - Analyst*

Thank you.

Operator

Matt Lofting, JPMorgan.

Matt Lofting - *JPMorgan Chase & Co - Analyst*

Hi. Thanks, James, for taking the questions. Two, if I could please. First, I just wanted to come back to the numbers that you referenced earlier on the outlook around the cash return. If we take the low end of the sort of the 6.5% to 7% CFFO and 31% CFFO, I guess, you're implying about EUR2 billion of cash return for the full year. Could you just clarify the sort of the assumptions or the numbers that you're assuming on the buyback side to get to the 31%? Because it did sort of seem to us as if there might be a bit of underlying headroom based on the 20 million shares within that already.

And then second, on the payment that Repsol made to Sinopec related to the UK E&P business, could you just clarify with the CMD capital allocation outlook that you gave how that was treated? Was it ever in your CFFO or net CapEx numbers or was it always excluded and assumed to just be taken onto the balance sheet given the gearing headroom that you have. Thank you.

Josu Jon Imaz San Miguel - *Repsol SA - Chief Executive Officer*

So going to your first question, the assumptions are the dividend pay, that is EUR1.12 billion this year, 60 million share buyback. That all in all is EUR2 billion, more or less, roughly speaking. And comparing with EUR6.5 billion, that would be behind 31%.

In any case, Matt, of course, you could check these figures with our IR team if either I'm not explaining that in the right way. That is always possible, let me say, or we have any kind of mistake. I mean, the IR team is going to check these figures for you.

Going to the payment to Sinopec, of course, we also could check that there is no any impact on net debt because when you take -- there is a reduction of the cash flow from operation, but in the other side, you have a reduction of a financial debt we commit in 2023. So when you take -- I don't have in front of me now the exact -- yes, I have it I mean.

When we take the part of this year in terms of the financial part of the business,, what we see is that when we take the interest, this is another -- there is a positive figure that is fitting the negative one that is reducing the cash flow from operations. So there is no impact, in any case, in capital employed.

Thank you, Matt.

Operator

Irene Himona, Bernstein SG.

Irene SG Himona - *Sanford C. Bernstein & Co LLC - Analyst*

Thank you very much. Just, John, you mentioned that you have received around EUR300 million of EU aid for the renewable hydrogen projects. Do you treat that as part of net CapEx in your first-half numbers? And have you applied for other potential aid, which may come through in the second half?

And my second question, following the settlement of the Sinopec litigation, you still have an outstanding issue with the potential liability for Peru, the oil spill in Peru. You have taken a provision there. What is the total amount you have been sued for? And what is your lawyer's best estimate for the timeline to resolve this litigation, please? Thank you.

Josu Jon Imaz San Miguel - *Repsol SA - Chief Executive Officer*

Thank you, Irene. First of all, there is no anything in our accounting today related to this announcement that was done by the European Union and Spanish government. So we didn't receive yet any proceeds coming from this subsidy, as you mentioned. In case of going on and investing, that would be considered as less CapEx.

But again, as I mentioned before, when I answered, I think that it was to Michele, we have to -- I mean, now with these subsidies, to reanalyze the projects to see the potential returns, to analyze the environment in tax terms, in business terms and so on. And we'll take our decisions over the year 2025. But in any case, that is going to be treat as a contribution to Net CapEx. But again, there is anything today, there is not anything in our accounting, and probably that is not going to be in 2024.

If we go to the oil spill in Peru, I think that for this purpose of everything linked to containment, cleaning, monitoring of all the affected areas to minimize the impact to the environment, again, underlining that we were not legally responsible of this spill, that we take the responsibility in, let me say, in moral terms of leading the cleaning of the area.

Remember that this spill happened due to a sudden movement of the Italian ship, Mare Doricum, during unloading of crude oil. And that was the reason causing the pipeline fracture. So all in all, we have spent more than $350 million in this cleaning remediation and social compensation. By the end of last month, by the end of June, I think that the final compensation agreements were closed with more than 98% of the impacted people taking into account the database of individuals that was done by the government.

We have a total estimation of today of EUR470, EUR480 million at the end of the road. And of course, we have to take into account also the assurance of recovery that is also going to be significant. So that will be, Irene, all in all, the summarize I could develop now about the oil spill in Peru. Thank you.

Operator

[Pedro Alves, Kaiser Bank].

Pedro Alves - *Kaiser Partner Privatbank AG - Analyst*

Hi, thank you for taking my questions. The first one, I'm not sure if you have detailed before, but within your CFFO guidance, apart from the $8 per barrel in terms of refining margins, what are your other macro assumptions, namely Brent prices and Henry Hub?

And the second question, with regards to your asset rotation plans for the second half, so within the EUR5 billion net CapEx guidance, just wanted to make sure that if you're still aiming for roughly EUR1 billion from renewables and now almost EUR0.5 billion from Upstream as you got it before in the latest call. Thank you.

Josu Jon Imaz San Miguel - *Repsol SA - Chief Executive Officer*

Gracias, Pedro. I mean, figures I have here in mind in the guidance or the assumptions, better said, are for this 6.57 in the low range of the cash flow. So close to 6.5 is $80 a barrel, $2.4 million for Henry Hub, $8 a barrel for refining margin, 1.08 for a dollar-euro exchange rate. And I have to check this figure, I don't have this figure now. But I think that in terms of TTF and MVP, that is their impact. In other way, we are thinking or assuming something close to $9 million, $10 million more or less.

But I have to check this figure. You could -- 9.6, I mean, here I have recovered the 9.6 for TTF, and it seems to me that the MVP would be a close figure.

The net CapEx guidance is this EUR5 billion I mentioned before, and yes, we are including in the second half of the year with a quite high probability and as a rotation process in Spain and the first, let me say, round of the new projects in operation in the US.

In terms of materiality, probably the US is going to be more important because here, we are going to have not only, let me say, the entrance of a new investor, but also the consolidation of the prior finance in the US that are going to be also part of the equation.

Thank you, Pedro.

Operator

Fernando Abril, Alantra.

Fernando Abril - *Alantra Equities Sociedad de Valores SA - Analyst*

Hi, could you hear me?

Josu Jon Imaz San Miguel - *Repsol SA - Chief Executive Officer*

Perfectamente, Fernando.

Fernando Abril - *Alantra Equities Sociedad de Valores SA - Analyst*

Okay, hi. Just one question is with regards to the capital structure of the company. So I don't know if you can give us an update on the different net debts by the main vehicles you have, Upstream, which is 75% on renewables, and then the remaining of the business, because it's been almost two years since those acquisitions took place.

If I recall correctly, upstream had more than EUR5 billion net debt allocated and renewables have EUR0.5 billion net debt. So I don't know how things are as of today, more or less. Thank you.

Josu Jon Imaz San Miguel - *Repsol SA - Chief Executive Officer*

Gracias, Fernando. So what I could disclose now is that, I mean, the total net debt is consolidated of the group is EUR4.6 billion euros. It seems to me I have to check the figure, but EUR4.3 billion are leases. So in terms of, let me say, following the old criteria, it will be only EUR0.3 billion of net debt. And there are some inter-company financial loans with different vehicles. But I mean, we could check and discuss the exact figures with the IR team, Fernando. Gracias.

Ramón Álvarez-Pedrosa - *Repsol SA - Head of Investor Relations*

Henri Patricot, UBS.

Henri Patricot - *UBS Investment Bank - Analyst*

Yes. Thank you, everyone. Two questions from me please. The first one came back on upstream disposals. There have been a few reports about potential disposals in recent weeks. I was wondering whether there's any change in relative preference between making acid disposals or going for an IPO later on, whether that's still something that you'd be looking to do.

And then secondly, on the Puertollano Biofuel project, which you know show as a first production in 2026, I seem to remember that it was a 2025 project previously. Is there any delay here at the Puertollano? Thank you.

Josu Jon Imaz San Miguel - *Repsol SA - Chief Executive Officer*

Oh, merci Henri. If we take -- I mean, we are not factoring. in our city plan any proceed from our liquidity event. So that means that that is probably to happen because we have the commitment to prepare the E&P company for a liquidity event for the first quarter of 2026. Of course, we have to check the market at a time and see if that is going to happen or not. Or in which way it's going to happen, this liquidity event, IPO, of course, is one of the central possibilities we are working in.

In the midst, the disposals, they have a rationale of improving the quality of our E&P business. Remember that we insist a lot in our strategic plan that is more important for us the way at the end of the road. That means that the IPO or liquidity is very important, but in the midst we have, first of all, to improve the quality of our portfolio. So after investing in Ecuador, Russia, Canada, Malaysia, Vietnam and so on, we are going on in this roadmap of having, let me say, less countries, but with some more capacity to grow in.

Secondly, we are increasing the cash flow from operations per barrel. So the new barrels that are going to enter in the Gulf of Mexico, US, and so on, and in the future Brazil, Campos 33, are better barrels of these barrels we are going to dispose. And in this, let me say, logic, we are going to and we are touching, let me use the term, the market to see if some potential disposals, or in some cases, why not farm downs of some projects we are investing in could be possible.

So we are engaged in these kind of processes. And for that reason, we always say that we are putting some kind of floor of 550,000 barrels a day of production, because we could eventually see some disposals before seeing the new barrels. Remember that we are going to have new 95,000 barrels a day of new barrels coming from the projects we are developing in an organic way. So that is the rationale and in the logical way behind these disposals.

In the case of the Puertollano retrofitting project, I mean, as I announced, at the end of 2025, the project will be operating. Be sure that, I mean, the commissioning process and so on probably will enter in the first weeks of 2026. But, I mean, we are factoring the best -- the same operation date we announced before the end of 2025.

Henri Patricot - *UBS Investment Bank - Analyst*

Thank you.

Ramón Álvarez-Pedrosa - *Repsol SA - Head of Investor Relations*

Paul Redman, BNP.

Josu Jon Imaz San Miguel - *Repsol SA - Chief Executive Officer*

Hi. Can you hear me?

Ramón Álvarez-Pedrosa - *Repsol SA - Head of Investor Relations*

Yes, we can hear you.

Paul Redman - *BNP Paribas SA - Analyst*

Perfect. I just wanted to ask a quick question about these comments on upside to CFFO and potentially more distributions if that's the case. Is that all driven by a macro movement or are there other moving parts on an organic basis within your CFFO that could get you to essentially top end of the range of EUR7 billion? Is that enough? You're currently talking about bottom end of the guided range on cash flow operations. If you get close to EUR7 billion, will you update the distribution program at that point?

And then secondly, just on production, even towards the top end of the guided range of 570,000 to 600,000 MBOE, what's the drivers of either the upside or the downside on the range that you've guided compared to what you've got in one H24?

Josu Jon Imaz San Miguel - *Repsol SA - Chief Executive Officer*

So, thank you. I mean, the potential upside is not operational. I mean, because what we are factoring is that our refining plants and so on, they are going to operate in a normal way. So it could come from the macro scenario. And probably the most, let me say, significant drivers will be a better expectation about the refining margin.

Secondly, a better brand price or better gas prices either in the US or in Europe, because it seems to me that in case of entering in a winter that could be -- and I don't know of course because I don't have a crystal ball, but colder than the last two winters, I mean, probably the gas figure and the gas expectation could be different.

So I mean I don't want to build, as the French people say, château en Espagne. So things that are, let me say, figurative, I prefer to have solid pillars and the expectation we have was reflected in the guidance we mentioned. Again, in case of seeing a better macro scenario coming from the factors

I mentioned before, we are of course committed to improve in the shareholder distribution, following the guidelines we defined in the strategy plan.

Going to the production, I mean, the main driver could be a potential disposal in terms of -- and we have potential drivers to increase this production. But again, I prefer to be proud that the potential drivers will be, first, Venezuela, where we are increasing the production in case of performing the right way. Following the agreement we have, we could see good news in Venezuela.

UK efficiency, where after taking the control of operations we are performing, let me say, in a more focused way, the asset and we could have a better news coming from the UK. Why me? It's performing in the right way and we could see a potential upside and increase of production and, I mean, the non-conventional -- the unconventional is always a shift of production.

You know that we have one rig in Marcellus. We shoot down this rig at the end of June because the current half prices, but in case of seeing a better gas price in the US, so we are ready to go on.

So there are potential drivers to go to the high range of these 600,000 barrels a day. From my point of view, to go to the lower range -- I mean, disposal will be the main driver.

Ramón Álvarez-Pedrosa - *Repsol SA - Head of Investor Relations*

Kim Fustier, HSBC.

Kim Fustier - *HSBC Holdings plc - Analyst*

Hi, good afternoon. Thanks for taking my questions. I've got two.

First one is more of an accounting question. The non-controlling interest was a positive number this quarter as opposed to a negative number. And it seems that even when it is negative, it's a much smaller figure, pretty much every quarter ever since you sold 25% of your upstream business. Could you maybe explain why that's the case, why it's such a small figure?

And secondly, I've seen media reports that you're considering merging your North Sea business with a [P-back-independent] E&P. What would be the rationale and benefits of such a combination? And is that move triggered in any way by the potential changes in the UK fiscal environment? Thank you.

Josu Jon Imaz San Miguel - *Repsol SA - Chief Executive Officer*

Thank you, Kim. I mean, of course, what I'm going to say now, perhaps you could check it with the IR team later. But what we have in mind is that this minority interest, I think, that is around EUR209 million, EUR210 million in the second quarter is mainly the dividend to the partner in the JV of the E&P. I have to check this figure, but it's mainly this figure.

And there are another one, but they are not material -- dividend in the Valdesolar project, probably to the partner of the refinery of Puertollano is also there, but are small amounts of money. So it's mainly the dividend to the partner in the JV of E&P. But I mean, you could check these figures, please, because that is what's half in mind with the team of IR.

Going to the North Sea Business merger news. I mean, first of all, the change in the UK environment for the best and for the worst is not new. I mean, I think that market has discounted what we are seeing now over the last year, because the kind of approach of the Labour Party now is ruling the country was perfectly known some months ago.

Now, we have to see and to check what is the approach in terms of combining how they see the oil and gas business, and the effort to keep going and to maintain this business that is very significant in areas, like Scotland, and mainly the area of Aberdeen. But I mean, that is not in our hands. We have to wait and we have to see.

But what is true is that we have ways to improve our business in the North Sea. And you know, we have a significant pool of tax nulls from the former talisman coming from the past. And we could optimize these tax pools, either merging or having any kind of inorganic transaction with some others. We are working in this direction. I'm not going to hide it.

And on top of that, I think that, as I mentioned before, we are seeing potential efficiencies in the UK. And I'm sure that merging with some others could be also a way to increase the level and the ambition of this synergy. So we are going to work hard in this direction in coming months, because let me say that what will happen and what we could improve our business in these directions is independent on the political or regulatory environment in the UK.

Thank you, Kim.

Ramón Álvarez-Pedrosa - *Repsol SA - Head of Investor Relations*

Matt Smith, Bank of America.

Matt Smith - *Bank of America - Analyst*

Hi there, good afternoon. Thanks for taking my questions. The first one was coming back to the buyback. Sorry, I was coming to a similar conclusion as Matt earlier.

Perhaps a simple way to round off the question would just to be to clarify whether you expect to announce another buyback tranche in the next set of results in the current macro environment? Or is the suggestion that you would need an improvement to the current macro backdrop to increase that payout ratio. So it's the first question.

And then my second question would just be on the refining trends, if I could. I think the availability of heavy crews has been favorable to Repsol, and whether that be Mexico or Venezuela. But I wanted to touch upon the crude differentials, if I could, whether you've seen any trends there, whether that's playing into the premiums at all? Thank you very much.

Josu Jon Imaz San Miguel - *Repsol SA - Chief Executive Officer*

Thank you, Matt. I mean, I announce eventually or not that it's going to depend on the third quarter, this new potential share buyback. But of course, if there is a clear market condition improvement, improving the guidance we have for this cash flow from operation, be sure that we have another one in October. And I announce, in that case, this new share buyback program in the presentation of the third quarter.

The crude differential, what we are seeing is positive, as I mentioned before. It's true that in April, May, we had a very bad expectation related to the announcement done by Mexico, by Pemex, about the reduction of the exports of heavy oil and so on. But it's true that over the quarter, I mean, Pemex and Repsol, we were able to maintain more or less the same level of commercial relationship we have had over the last year.

So there is no any negative impact. And it seems to me that that is going to go on in the future. The impact of Venezuela is of course also positive. That is impacting in a positive way in the premium and for that reason. Even though the situation of the biofuels market I mentioned before, we are factoring these two dollars a barrel of premium for the second half of the year, and all in all these [$1.7] a barrel for the whole year.

Of course the absence, the lack of turnaround campaigns in this second half is the main driver to have this target. But being quite comfortable about this heavy crude supply is also one of the reasons for factoring this figure. Thank you, Matt.

Ramón Álvarez-Pedrosa - *Repsol SA - Head of Investor Relations*

Ignacio Domínguez , JB Capital.

Ignacio Domínguez - *Jb Capital Markets, Sociedad De Valores SA - Analyst*

Hi, yes. Thank you for taking my questions. I just have one, which is a follow-up on the CFFO.

On the moving parts, okay, of the EUR6.5 billion, EUR7 billion guidance, the macro assumptions are clear. So I was wondering on taxes which have been relatively low so far this year. I believe that in the second half you still have part of the windfall tax, but I was wondering what's roughly the figure that's embedded in the EUR6.5 billion, EUR7 billion guidance and also on working capital.

Because I believe in the past you expected this to be neutral. So after the maintenance occurred in the first half of the year, just wanted to make sure this is still the case, okay? Thank you.

Josu Jon Imaz San Miguel - *Repsol SA - Chief Executive Officer*

Gracias, Ignacio. I mean we have received many questions over this, over the morning. From some of you related to this, let me say, low tax of 45% of the E&P. I mean, we are probably quarter after quarter explaining what is happening in the E&P to pay, let me say, a lower interest -- a lower, sorry, tax rate that we had in the past.

Let me say that, of course, I don't have a crystal ball. Things could eventually change up and down, but I think that 45% is the new normal in the E&P. Why? Because we are changing our portfolio. And portfolio means that we have more US. Some countries like, for instance, Trinidad and Tobago, they have less results than they have in the past.

So we are changing the basket of results of the countries. And because every country, every jurisdiction has a different tax rate, all in all, it seems to me that we are going to be closer to the 45% in the future than for the former 49%, 50% we had in the past.

Of course, we could explain, of course, differences; because sometimes we see 42% and sometimes 46%. But it seems to me -- and I think that you could take into consideration in your models that probably 45% percent is going to be the new normal. And today the best approach we have is the second half guidance is going to be similar to the first half. Thank you. Gracias, Ignacio.

Ramón Álvarez-Pedrosa - *Repsol SA - Head of Investor Relations*

Anish Capadia, Palissy Advisors.

Anish Kapadia - *Palissy Advisors Ltd - Analyst*

Hi, good afternoon. Thanks for taking my questions. Just a couple of questions. One of them is on some of the political changes in Latin America, specifically in Mexico with the change of government and then potential change in Venezuela. If you can just update on how that's changing or potentially changing any of your plans over there?

And then the second one is looking at the hydrogen business and the prospects for it. You've talked in the past about investigating the potential for geologic or natural hydrogen. Just wanted to see how you progressed with that, how you're seeing the potential, and whether you're putting capital into exploration over there. Thank you.

Josu Jon Imaz San Miguel - *Repsol SA - Chief Executive Officer*

Thank you, Anish. So, I mean, Mexico, I think that -- of course, we have to see that we have a new president that, in some way is -- she has her own personality that is, of course, some kind of continuity in the best sense of the word of the president, López Obrador.

So our perception is that these Mexican authorities then and now, they are fully focused in promoting the local resources, and to increase the power of Mexico as a country relevant in terms of producing hydrocarbons. So I think that in this framework, they launch this openness to international companies.

We have been part of that. We have discovered resources. And it seems to me that we are fully focused in the upstream side to this Mexican, let me say, driver of recovering the oil production in the country. I mean, we want to be part of this history, of this narrative of Mexico in the future.

Going to Venezuela, of course, there is an open election process that is going to celebrate next days. And our only word is, of course, respect; respect to Venezuelan citizens and their voice. And of course, we will go on working with the representatives selected by Venezuelan society. But let me say that -- I mean, the framework we have in Venezuela now is positive for Repsol, but I think that is very positive for the people of Venezuela and for Venezuelan society.

Because we are working in a framework with the respect to all international legal frameworks, where we are contributing to increase the production of Venezuela, to increase the tax collection in Venezuela, and at the same time, increasing the revenues of these JVs and helping to pay the historical and commercial debt we have either at Pedro Tellechea, with Repsol, the debt related to the gas commercialization in Cardón.

So it seems to me that this framework is positive and is going to go on. Of course, with my whole respect, the decision of the people of Venezuela is going to be positive in any case. And we are going to do our best to work in this direction. Thank you.

And hydrogen -- sorry. I mean, you are right. We have developed some technical works, mainly in the Spanish northern part of the sea, what is called, the Gulf of Biscay. And I think that we have seen and identified some areas that potentially could be geological storage for the future. But of course, any investment or development on that is going to depend on the evolution of the hydrogen market.

It seems to me that in coming three, four, five years, a relevant part of the hydrogen that is going to be produced in the Iberian Peninsula, and we are going to be part potentially of this production, is going to be used by the current consumers, refiners. So the need of transporting or either storing this hydrogen is going to be quite limited.

So I think that it's important to have, to prepare the future to identify areas, to develop the technical work for that. But, I mean, I don't see in the short midterm any opportunity to invest in this potential storage more than what we are doing in small amounts of money in technical terms. Thank you, Anish.

Ramón Álvarez-Pedrosa - *Repsol SA - Head of Investor Relations*

Thank you, Anish. That was our last question. Before we close, please let me take a minute to say goodbye to all of you.

After more than 38 years, I'm retiring from Repsol at the end of this month. During this time, I have had the privilege and the honor of witnessing the transformation of Repsol from a myriad of previously state-owned units into a modern multi-energy company committed to being a zero-carbon by 2050.

Rest assured that both our CEO and our CFO, as well as the rest of the executive team, will continue supporting the IR team, which will now be led by Pablo Bannatyne, in their pursuit to provide timely, transparent, and comprehensive information about our business performance.

Finally, allow me to express my deepest gratitude to all of you, investors, and analysts, buy side, and sell side for your support during this time. We have really enjoyed our stimulating conversations and your thorough questions, which always keep us fresh and challenged.

With this farewell note, I would like to bring our second-quarter conference call to an end. Thank you very much for your attendance and have a very nice summer.

Josu Jon Imaz San Miguel - *Repsol SA - Chief Executive Officer*

Hey, Ramón. Let me, on behalf of the whole Repsol's team, thank you, express my gratitude for your relevant and significant contribution to this company and to build the current company we are today. So on behalf of the whole team, Ramón.

So have a nice day. Thank you.
