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PRESENTATION

Operator

Hello, and welcome to the Repsol Second Quarter 2022 Results Conference Call. Today's conference will be conducted by Mr. Josu Jon Imaz, CEO; and a brief introduction will be given by Mr. Ramón Álvarez-Pedrosa, Head of Investor Relations. I would now like to hand the call over to Mr. Alvarez Pedrosa, Sir, you may begin.

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

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

Before we start, I'd like you to read 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 call over to Josu Jon.

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

Thank you, Ramon, and thanks to everyone online for joining us today. I hope that all of you are well. And I mean in today's call, I'd like to cover the following main topics: first, the key messages; and secondly, the performance of our businesses; third, a summary of the financial results; and finally, our updated outlook for this year for 2022. At the end of the presentation, of course, as usual we'll be available to answer your questions.

To begin with let me take you through the key messages. During the second quarter, our industry faced a complex scenario that was triggered by the changes in the geopolitical context, raising energy prices and growing concerns on security of supply. As a result, we experienced a volatile combination of higher oil and gas prices, a stronger U.S. dollar and wider product spreads in refining.

The adjusted net income reached EUR 2.1 billion for a total of EUR 3.2 billion result in the first half of the year. The Upstream and Industrial divisions contributed with around EUR 1 billion each to the group's results in the quarter. On the negative side, the commercial business was penalized by the discounts applied by Repsol in an effort to mitigate the impact of higher gasoline and diesel prices to our clients in Spain.

Cash flow from operations stood at EUR 1.8 billion for an accumulated figure of EUR 2.9 million in the first 6 months. Cash generation was held back by a significant investment in working capital, mostly related to higher inventories as we increased the storage of raw materials and products in a contribution to the supply security of the country in a complex moment for the whole European continent.

Excluding working capital movements, the cash flow from operations amounted to EUR 3.8 billion in the whole quarter and EUR 6.9 billion accumulated to June. Net debt closed at EUR 5 billion, a EUR 0.9 billion production compared to March. The gearing ratio stood at 17% as of June, down from 20% in March and below our long-term strategic target of 25%.

Overall, in a year in which we have recovered prepandemic levels of investment, this scenario has allowed us to move faster towards our long-term targets aligned with the capital allocation priorities defined in our strategy. And we are also accelerating our transformation into cargo. We are improving the remuneration to our shareholders and we continue to reinforce our financial position.

In June, we reached an agreement to dispose 25% of our renewable businesses valuing the entire business at EUR 4.4 billion, including debt and minority interest. This transaction validates our growth strategy in renewables and crystallizes value in a complex environment, not less important. We incorporated 2 experienced partners that will support our ambitions on growth to become a key player in the energy transition.

Regarding shareholder remuneration after our AGM held in May, we canceled the 75 million shares previously committed, around 5% of our share capital. And today, we are increasing the number of additional shares to be canceled in coming months from 50 million to 75 million shares, aligned with our shareholder remuneration commitment.

In Refining, the structural changes derived from the current situation have moved us to register a EUR 1 billion pretax impairment of legacy refining assets in Spain against second quarter results. The accelerated pace of the decarbonization and the measures that we intend to reduce, Europe's reliance on fossil fuels has made us rebase our future demand assumptions. On the other hand, the expected lower availability of heavy crudes and higher prices will have a long-term negative impact in the optimization of our refining system.

Let me now briefly review the main macroeconomic indicators of the quarter. Brent crude averaged $114, a $12 increase quarter-on-quarter and $45 above the same period a year ago. The Henry Hub averaged $7.2 per million BTU, 44% above first quarter and 157% higher than a year ago.

Repsol refining margin indicator increased due to higher product spreads, mainly diesel and gasoline, and wider heavy-to-light crude discounts. Lastly, the U.S. dollar continued its escalate, averaging $1.06 per euro in the quarter approaching parity in July.

Moving on now to the performance of our businesses, starting with the Upstream. Second quarter adjusted net income was EUR 0.9 billion, a EUR 216 million increase over the first quarter and $596 million higher than in the same period of 2021. Year-over-year results were mainly driven by higher realization prices partially offset by a lower production due to our value-over-volume strategy and the portfolio actions taken last year.

Net production averaged 540,000 barrels of oil equivalent per day, 3% lower than in the previous quarter and 4% below the same period last year. Compared to the first quarter of the year, production was negatively impacted by Libya, maintenance in Norway and some PCS (sic) [PSC] effect due to prices. In the year-over-year comparison, the higher activity on unconventionals, lower maintenance and higher contribution from Peru wouldn't offset the impact of disposals, the outages in Libya and natural decline.

Libya was affected by a force majeure situation in the El-Sharara field. Production averaged 21,000 barrels net Repsol, around 7,000 barrels below first quarter and 14,000 barrels lower than a year ago. The force majeure has been lifted in July, and we are producing around 30,000 net barrels as of today.

Development activity remains strategically focused on capital efficiency and cash generation, unconventionals. Higher activity in Eagle Ford and the Marcellus increased production by 14,000 barrels equivalent compared to the same period of 2021 for a combined production of 114,000 barrels of oil equivalent. We currently have 2 rigs running in Marcellus and 3 in Eagle Ford after the third rig earlier than planned.

In the case of Mexico, our first well was trading, Buckskin, that will start producing in the second half of the year. And as discussed in our previous call, 3 months ago, we took the FID for the joint development of Leon-Castile with first oil expected in 2025. In Alaska, the final investment decision for the development of Pikka is expected to be taken this quarter with first oil forecast in the first half of 2026.

In Venezuela, we continue to monitor the situation after the oil-for-debt compensation scheme of previous years has been resumed. Our cargo with Venezuela crude oil already arrived some days ago to our refining system, and the second one is expected to unload this week.

Moving now to the Industrial circular economy division. The adjusted net income was EUR 1.2 billion, which compares to a result of EUR 236 million in the first quarter, and EUR 166 million a year ago. Year-over-year, second quarter results benefited from the contribution of refining and trading partially offset by lower results in the chemicals and wholesale and gas trading businesses.

In Refining, the margin indicator averaged $23.3 per barrel, which compares to $6.8 per barrel in the previous quarter and a $1.5 in the same period a year ago. The average premium in our unit CCS margin was [$0.4] over the indicator.

The market was highly volatile during the period due to the turmoil created by the war and the sanctions to Russia. Margins were mostly driven by product spreads due to the recovery of demand, the partial loss of Russian exports and the low levels of stocks. The utilization of our distillation capacity stood at 91% of the utilization of the conversion units -- our conversion unit, sorry, reached 97%. Once Bilbao completes its planned turnaround early in April, run rates benefit from the absence of any other major maintenance activity in the quarter.

Production was rebalanced to maximize the output of middle distillates, (inaudible) taking into account the [cracks] scenario. And we are incorporating new crude varieties to replace Russian crudes in diet. The return of cargoes from Venezuela is good news for refining. As the quality of those crudes matches perfectly with the high complexity of our system. In this high gas price scenario, we are also managing our assets with the aim of reducing its consumption using NAFTA in the hydrogen units or LPG to replace natural gas.

In July, a combination of lower demand and worst European economic outlook has brought margins down from the levels achieved in the second quarter. But the utilization of the distillation and conversion capacity is growing. July has averaged 95% and 105%, respectively.

Going on now with the Chemicals business. International margins improved over the previous quarter as selling prices reflected the increase in raw materials and energy costs. Year-over-year, margins were below second quarter of 2021, in which the Chemicals business delivered a historical performance.

In petrochemical, margins have come down in July. We see the market, let me say, already showing signs of a weakening demand worldwide, together with uncertainties on gas availability and a potential economic downturn.

Let me now update you briefly on the projects that are helping us to transform our industrial sites.

In Bilbao, construction work will start soon in the new decarbonization hub composed in our first stage by a synthetic fuels plant and our renewable hydrogen electrolyzer, involving an investment of EUR 103 million.

In Puertollano, we will invest EUR 105 million in our new plant to manufacture ultra-high molecular weight polyethylene, which will be the most differentiated polyethylene in our portfolio. The plant will be operational in 2024 and will have an annual capacity of 15,000 tons.

In sustainable aviation fuels, Iberia, Iberia the company, I mean, in collaboration with Repsol, operated its first long-haul flights with biofuel produced from waste in Spain in our refineries. This initiative is our step in the collaboration agreement signed last year between the 2 companies, Iberia and Repsol. This was an important agreement and (inaudible) we signed on this type of advanced fields.

Finally, some days ago, we have signed a collaboration agreement with Navantia to jointly explore business opportunities in renewable hydrogen production in Spain. The agreement includes the startup of an electrolyzer production line in Ferrol, in Galicia, the Northwest part of Spain.

Turning now to the Commercial and Renewables segment. The adjusted net income was EUR 98 million, EUR 19 million lower than the previous quarter and EUR 29 million below the same period a year ago. Year-over-year, the performance of low carbon generation and lubricants could then compensated for the lower results in mobility.

Retail prices in Spain reached new records driven by the sharp increase of international commodity prices and lower product availability in Europe mainly (inaudible). The earnings of the mobility business were dragged by the result in our service stations in Spain, which was reduced to basically zero, the result, due to the discounts voluntarily applied by Repsol to its clients. These discounts that will extend throughout the summer represented more than EUR 140 million during the second quarter.

Sales in service stations were 14% higher than in the second quarter of last year, although we're still 3% below prepandemic level. So that means the second quarter of 2019.

Our Waylet app has reached 4.5 million registered users in July, more than halfway to our strategic target in 2025. And considering all commercial businesses, we have achieved a figure of 5 million digital customers.

In Portugal, this moment, we have entered the retail electricity and gas markets aligned with our ambition to become the leading multi-energy provider in the Iberian Peninsula.

In Spain, we have partnered with Telefonica, a leading company in the telco sector to launch Solar360, a new joint venture that will be our platform to develop solar self-consumption business already in operation.

In low carbon generation, the average pool price in Spain was EUR 183 per megawatt hour, 20% lower than the first quarter, and the power generated by Repsol reached 2.3 terawatts hour, 19% higher than in the previous quarter.

In June, we reached an important milestone in the delivery of our strategy with the agreement to divest a 25% minority stake of our renewable business for EUR 905 million. The valuation achieved in the transaction multiplied by 3, the capital employed by Repsol. The incorporation of the new partners not only validates our business model, but also includes an investment commitment that reinforce our growth strategy towards the objective of having 6 gigawatts of installed capacity in 2025 including the entry in new markets and technologies.

The development of our project pipeline continues. In the U.S., the recently approved 600-megawatt solar project is expected to start construction this quarter.

Lastly, yesterday, we have completed our third asset level rotation by incorporating Pontegadea as a partner in the Kappa photovoltaic project in Spain. Kappa is in the south part of the Spanish High Plains in the south of Madrid and has an installed capacity of 127 megawatts. The total asset valuation has been EUR 109 million, and both companies are already partners in the Delta wind farm.

In this slide, you may find a summary of the financial results of the second quarter that we have discussed before when reviewing the performance of all our businesses. For further detail, I encourage you to refer to the complete documents that were released this morning.

Let me now review our updated outlook to the end of the year. We expect full year production to average 570,000 barrels per day, around 15,000 barrels below previous guidance, mostly due to the interruptions in Libya and a longer-than-expected ramp-up process in Norway.

Production is expected to average 590,000 barrels per day in the second half of the year due to the contribution that is already material of new wells in Marcellus and Eagle Ford, production stability in YME and the higher volumes in the Gulf of Mexico. CapEx remains at around EUR 3.8 billion to EUR 3.9 billion, EUR 1 billion higher than in 2021.

With regards to remuneration, we maintain our guidance to allocate between 25% to 30% of our organic cash flow from operations to shareholder remuneration. Earlier in the year, we increased the 2022 dividend by 5% to $0.63 per share, and we executed in May a 5% capital reduction through the redemption of 75 million shares.

Additionally, we announced the intention to cancel another 50 million shares subject to the confirmation of the macro assumptions for our annual budget. At this point, we are increasing this target from 50 million to 75 million shares. And for this purpose, today, we are launching a 50 million share BuyBack Programme. Once the program is finished, in coming months, we will execute the 75 million shares capital reduction.

All in all, as of the end of 2022, we expect to have canceled a minimum of 150 million shares, representing 10% of our share capital and 75% of the total share repurchases expected in our strategic plan until 2025. Total shareholder remuneration in 2022 will comfortably surpass the EUR 1 per share guidance originally expected by 2025.

In our third quarter conference call, we will provide an update for next remuneration plans including the cash dividend to be paid next year or any additional measure depending on the evolution of the cash flow over this next quarter. Let me say that we have enough time to talk about that in the call of the first quarter of the year.

To conclude, the recent changes in geopolitical context have reshaped the energy paradigm. The pace of decarbonization is a must, but security of supply now joins energy transition as the most critical priorities for governments and companies alike.

In this context, we are moving faster in most of our strategic guidelines: accelerating portfolio transformation, improving shareholder remuneration and reinforcing our financial position. Moreover, the transaction in renewables completes a process that has generated great interest among investors. The multiples achieved demonstrate how Repsol can generate value in this environment after building a new solid and profitable business in record time.

Looking forward, we still see a very complex and volatile scenario ahead that will test the new energy paradigm this winter. With that in mind, we will remain committed to a disciplined capital approach and our value-over-volume strategy as those factors that are the only ones that are fully under our control.

During the second quarter, most indicators were supporting, but we can't forget that we are in a cyclical business. Our industry operates at risk and have great regulatory scrutiny, but with no regulated tariff ensuring profitability. Risk management is probably one of the core competencies of any successful oil and gas company. Just 2 years ago, Brent plummet to $30 and our refining margin was negative.

We have to deploy ambitious, resilient measures to navigate our real and pretty challenging scenario of prices and demand without any external support. And honestly, I think we did a remarkable job protecting our financials and maintaining the continuity of our operations through the worst of the pandemic.

Having said that, we approach, confidently, the second part of our strategic plan from 2023 to 2025 with a very strong financial position. We are reducing our gearing, building headroom to face uncertainty in any macro scenario, and being ready to take advantage of potential opportunities we'll call fine in the way. We will keep running our business in the most efficient, reliable and safe way as possible, and it is a duty to be at the forefront to guarantee the delivery of energy products and services that are essential to industries, for our society, and people's daily lives.

With that, I now hand the call back to Ramon, and I expect to see you in person, in our upcoming ESG Day to be held in London on the fourth of October. Thank you. Ramon?

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, investor.relations@repsol.com, and we will contact you immediately to try to solve it. Before moving on to the Q&A section, I'd like the operator to remind us of the process to ask a question. Please go ahead.

QUESTIONS AND ANSWERS

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

(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 Biraj Borkhataria of RBC.

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

Questions, the first ones are, I gather the Spanish government is due to formally propose windfall taxes in the next couple of hours. Do you have a view on what you expect the impact to be on Repsol in 2023? And the second question is, obviously, there's an energy crisis in Europe, particularly on the gas front. And if we look at the latest data for Spain, refining is one of the industries where gas demand has actually reduced very significantly year-on-year, but your utilization remains high.

So can you talk about what you're doing to lower gas demand and what the implications are for sort of run rate or conversion rates or anything else? And then one final add-on would be post the impairments on the Refining business, could you just highlight what the remaining book value is on your refining assets and what your long-term margin assumptions are now?

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

Thank you and I appreciate. Your questions are pointing perhaps the hottest issues today. I mean first, I'd like to point out that Repsol doesn't have windfall profits. I mean in the oil and gas sector, margins are cyclical. Margins are, by definition, volatile. And we must not forget the billion of euros losses we recorded in previous years.

So I think that there is, in the media arena, a confusion among regulated and nonregulated activities. When an activity is regulated, for instance, and utility, the regulator tries to accommodate the interest of the producer with the interest of consumers. And if there is a disruption, as we are seeing and experiencing today, that is impacting on the interest of one of the parts, it makes sense to see some intervention from the regulator. It makes sense in a regulated business. Frankly speaking, it doesn't make sense in a free, open and nonregulated market.

And as I said before, in my speech, the oil and gas activities and activity at risk, there is no regulated tariff that ensures its profitability. I mean long-term investment decisions are made based on our assumptions and, however, are subject to enormous volatility and risk.

Going to the taxes issue. First of all, let me start saying that taxes in our E&P activity are paid in countries where we are producers. In most cases, at high rates and are generally not subject to tax in any other jurisdiction. So it will be even illegal in many cases.

Going to industrial activities, so Refining business, during the past years, Repsol kept investing to reinforce our industrial facilities, even though refining margins were low, and other companies were closing capacity due to these low margins. We have invested a lot of billion euros in our refining system over the last 15 years. And thanks to this investment, we enjoy a high security of supply.

In every -- let me define complicated business for other European countries. Last year, we experienced the lowest refining margins recorded in decades. I mean comparing our margins and results this year with last year, results is not accurate. Let me say more, [these are] nonsense. And it will be an attack to industrial activity and the industrial jobs in spend doing that.

I mean when prices fall, revenues fall and companies are not compensated in a free market. And our Refining business lost hundreds of million euros in 2020 and 2021. And I didn't see any government talking about supporting these extraordinary losses. But I believe and I firmly think we live in a safe jurisdiction.

And let me say that I have no doubt that our constitutional framework, the Spanish legal system and our internal European legal system are going to protect us from any potential arbitrary initiatives. So against arbitrary measures, rule of law, and legal security are a must particularly in the European Union.

So let me say here, I'm comfortable. We know that we have a solid constitutional and legal framework, both Spanish and European, that are protecting markets, that are protecting entrepreneurial activity from any arbitrary initiative, and we'll do our best to avoid any kind of impact of any arbitrary measure on our company.

Going to your second question, the gas demand reduction in Europe. So your question makes sense, Biraj, because we are close to -- I mean, the risk of a disruption in European gas system. It's also true that, I mean, security of supply is more protected in Spain because -- and in the Iberian Peninsula because we are not dependent at all from Russian gas. We are decoupled from the continent from the worst and, in this case, also from the best, and we have a spare capacity to import gas to Spanish terminals.

I mean going to Repsol. In Repsol, we are long positioned in gas. I mean growth we have in the Gulf of Mexico overcomes the needs of cash we have in spend. If I take the figures of this year, we could have contracts that are covering 120% more or less of our industrial needs, and 104% if we take into account our retail gas business. If we go to coming 2 years, in 2024, these figures are even more evident. I think that we achieved a long position of 140% more or less of the needs we have in our industrial activity.

Saying that, we are working hard to focus on security of supply. And for that reason, we have start to reduce in a dramatic way the gas consumption in our refineries, in our industries. Over this year, we have reducing 1 bcm, the gas consumption in our industrial sites, mainly substituting our hydrogen plants, gas by NAFTA, LPG and some other kind of fields. I mean 1 bcm is a huge figure. It's at 3% of the total Spanish consumption. And if we take or we decouple the part of combined cycles, I mean, power production and so on, I mean, our reduction accounts for a 5% of the total Spanish consumption.

So our production is not at all at risk. We have enough gas. But saying that, we are fully solid -- we have a full of solidarity with the needs of the European society has at this crucial moment. And for that reason, in Repsol, we have taken strong measures to reduce the gas consumption and the gas needs we have today, and we are going to have in coming months. But because from my point of view, Europe needs this effort.

My third question -- Biraj, or you forgot to say your third question, I mean, goes to the refining. First of all, let me say that my duty is to be proud. It's true that now, we could say that in the short term, the war and all these sanctions and so on are disrupting the supply chain, are making raw materials more expensive, are reducing the supply of products. And because of this situation, we are seeing a strengthening of industrial margins. All that is true. However, it's also part of my duty to try to forecast the long-term projections. And as to the good is happening, it could accelerate the energy transition in Europe.

And there are public policies that some of them has been stated, has been approved. This half that are impacting, for instance, I'm talking about REPower Europe road map that are accelerating this decarbonization. We have seen measures like the decision coming from the European Commission to ban the combustion engine cars by 2035. So we have to prepare our balance sheet and our accounts for that scenario.

I'm saying that our refining is going to be competitive, not at all because I want to split in a clear way. We have, in our industrial business, new businesses, new activities, biofuels, advanced biofuels, e-fuels, hydrogen that are growing and are going to give new cash flows to this company in coming years. And all that is going to be very positive. And all this part of the coin is going to reap benefit from this kind of decarbonization measures that authorities are taking in Europe.

But I mean, I can't hide that all that is going to have an impact in the accounting of the old assets of some plants of the, let me say, the oldest part of these refineries. We have, of course, for so -- we have foreseen, sorry, what is the impact in cash flows in these assets. And for that reason, we have [impaired] them to be prudent because I think that is part of our duty. And let me say, Biraj, that remember what we did in 2019, in December, adapting the company E&P and the commodity price to the most asset scenario in energy transition terms. What we are doing now is exactly the same, but applies to our industrial assets. We are taking the most asset scenario for the coming years in terms of energy transition in Europe, and we are adapting our balance sheet to this reality.

And I think that is part of the prudency that our manager fully committed as we are and as I'm personally I am in terms of decarbonizing the company and boosting in favor of the energy transition has to do. I mean trying to solve your question, I think that if we take all the stocks, inventories and so on, our Industrial business could account, the Refining business, better said, at around EUR 7 billion. But I mean here, all the working capital, inventories and so on are included. Thank you, Biraj.

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

Thank you, Biraj. The next question comes from Irene Himona at Societe Generale.

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

Thank you. Good morning. Two questions, please. Firstly, is there any comments you can make regarding the approach you have had or the offer to sell 1/4 of your Upstream business? And then secondly, on investor distributions. In the first half, I think the cash cost of your dividend and the buyback was around 30% of your CFFO. In this very strong macro environment, do you expect to go on distributing at the top end of that range? Or is it possible you might move to above that 30%?

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

Thank you, Irene. As you know, E&P is one of our company's core businesses, is going to go on being one of the core businesses of Repsol in any place, in any case, sorry. I think that this business, as we mentioned when we presented the strat plan, explain a key role in creating and generating the cash the company needs to support the financing, our energy transition ambition.

And saying that, in the context of a dynamic portfolio management, we always apply the company financing energy transition ambition. And I mean saying that, in the context of a dynamic portfolio management, we always apply. The company always analyze all the opportunities and proposals related to any business of the company. And of course, we are doing the same, analyzing any opportunity and proposal coming from the market related to this business. But let me say that any decision being made has been made -- has not been made in this regard.

So going to your question about shareholders' distribution. You know that I always try to be very transparent, Irene, in terms of giving guidances and so on. But in such a volatile environment, I'm not comfortable giving you guidances where the price of oil, the price of gas, and so on, of the economic environment in terms of growth or decrease of this growth, either in Europe or worldwide, could be decisive in coming months to give you a guidance. I'm going to give you the guidances that are in our hands.

Going to our operational guidance. 590,000 barrels per day of production in the second half, as I said. Going to our Refining business, in July, we are already with an installation level of 95% and that conversion rate -- that conversion utilization of 106% in the whole system, that could be, let me say, the picture over the half year, excluding probably 40 days in October and the first half of November when we are going to shut down Tarragona as a refinery. On top of that, my perception today and seeing the improvement we have developed in terms of optimizing our Refining business, I think that we are not going to have any difficulty to get a clear premium over the refining margin in coming months.

And until now, I'm talking about facts. I'm going perhaps to be in contradiction with my first statement, Irene. But seeing what is happening in the Refining business, perhaps I could give you some clue. In July, the refining margin index in Repsol today has been at 12.8 -- almost $13 per barrel in July. And my perception is that in this second half, I mean, the figure is going to be close to $10 per barrel for this half. But of course, again, it's going to depend on the evolution of the demand.

I'm seeing very solid the demand in service stations in Spain this July. You know that in the aviation sector, the demand is growing in a dramatic way. Tourism is going to have a very positive impact in our main markets this quarter because summer in Spain is plenty of visitors and tourists. Saying that, I could have -- I prefer to be more prudent related to the second or last quarter of the year.

So that's my perception. And again, Irene, we are going to honor this commitment of the 25%, 30% of the operation cash flow devoted to the distribution to our shareholders. And that means that in the third quarter conference, I mean, in case of going on in the current situation, we will present, for sure, an increase probably of the dividend in cash for next year, 2023. But of course, that will be my proposal to the Board. It's the Board, the organization that has to approve it. And probably to fulfill this cut between what is going to be our distribution proposal and the commitment in terms of distributing the operating cash flow in this range, I don't discard depending, of course, of the economic mood at the end of the year that we could perhaps add some additional BuyBack Programme before the end of the year. But that is going to depend on the evolution of the economy. And today, Irene, I prefer to be prudent in terms of guidance and commitments.

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

Our next question comes from Sasikanth Chilukuru at Morgan Stanley.

Sasikanth Chilukuru - *Morgan Stanley, Research Division - Equity Analyst*

I had some related question regarding the pecking order of the uses of operating cash flow generated. Excluding working capital movements, Repsol generated material cash flow from operations in the first half this year, and we've already seen net debt and gearing levels decrease as well. In the second half, you're talking about production are expected to be materially higher compared to the first half refining, you're talking about generating refining premium. And you will also receive the proceeds of sales of the stake on the renewables business.

In this context, again, what should we expect again in the near term from the cash flow generated? Would we likely see more further drawdown of the net debt? Or would we see the proceeds, the cash flow being invested in low-carbon businesses and potentially higher CapEx? Or the likelihood for higher dividends and buybacks is that much more higher? If you could place the probability or some kind of level of importance on these 3 buckets, that would be quite useful.

Also slightly related to this, if you could explain how you arrived at the figure of 50 million shares expected to be repurchased from the market. Just wondering, the free cash flow generation has potential for higher repurchases of shares from the market. I was just wondering why the redemption of 75 million shares be entirely supported from the repurchase of shares from the market? Why use treasury shares in this?

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

Thank you, Sasi. I mean first of all, what should we expect, of course, is going to depend on the environment that is volatile as I said. But it's quite reasonable to think, as you mentioned, that in the second half, perhaps the cash flow from operations due to the lack of effect or probably the lack -- probable lack of effect of working capital could be even higher than in the first half of the year.

It's true, I mentioned before, that now we have increased our inventories in EUR 1 billion, EUR 1.1 billion, more or less, a bit more, EUR 1.2 billion because we want to be an actor guaranteeing the security of supply of fuels in coming months in Spain, and in the southwestern part of Europe. You know that we are also exporting some diesel to France. France is experiencing quite a complex shortage, a potential shortage, of diesel. France is importing a huge amount of this middle distillates.

And Repsol wants to be part of the solution of the progress we are going to have in Europe or we could have in Europe in coming months. For that reason, we took the decision that perhaps, in terms of financial, in terms of markets, perhaps it's not the best one. But I think that companies will have to be responsible taking into account what we are seeing and the environment we have around us. And we took the decision of increasing our inventories in EUR 1.2 billion to be prepared for next fall and next winter. So probably, the cash flow from operation could be, in some way, equivalent or higher.

So your point is, I mean, it makes sense. We are going to apply this cash first as we are doing -- are trying to accelerate our transformational process, investing in low-carbon businesses and technologies. Of course, always putting return written as a first condition to invest in these businesses. But you know that we approved an increase of this CapEx of EUR 1 billion in the low carbon day in October. And we have also the opportunity to talk perhaps deeper about that in October in London in our sustainability day. And we are going to complement this acceleration with the improvement of shareholder remuneration.

For us, it's a priority. Today, I have the full conviction and these results underline this point, that we have a very cheap stock price. And taking into account that -- taking into account the cash generation we have, reducing the capital number of shares of the company is going to be a priority in terms of increasing the shareholder distribution in coming months. Going to the technicality of how to redeem this 75 million shares, we have, currently, and you can see probably in our financial statements, we have already 25 million firm shares in our balance sheet, in our current treasury shares position.

And from now on, we are going to start buying in the framework of a share BuyBack Programme that is going to be launched today, the additional buyback of 50 million shares. So all in all, taking the 25 million we have in our balance sheet, plus 50 million, we are going to buy from -- today on -- and in coming months, we are going to get 75 million shares in our balance sheet that as soon as possible, we are going to amortize, we are going to redeem them.

And in any case, before year-end, all that is going to totalize a minimum, and I explained the term minimum in some seconds, a minimum of 150 million that will be canceled in 2022. That is more or less a 10% of capital and is a 75% of the strategic planned commitment.

And as I said before, in case of -- I prefer to be prudent today because in case of seeing all that in the third quarter, perhaps we could have room to something additional. But all that is going to depend on the evolution of economic growth in the world in coming months. And taking into account the current environment, let me say that I prefer to be very prudent. Thank you.

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

Next question comes from Matt Lofting at JPMorgan.

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

Josu Jon, first, coming back to the comments that you made at the beginning of Q&A on the topic of windfall taxes and fully acknowledging sort of the points that you made, in particular, the frame around regulated versus nonregulated businesses. Can you, nonetheless, to just share some data points with us and remind us, from the perspective of sort of revenue and PBT, the absolute and sort of relative share of profitability, the revenues that Repsol derives in Spain, please, perhaps what it was in 2021 and where you see it in the first half of this year?

And then secondly, coming back to restructuring and the renewable transaction that the company successfully delivered in June. Could you talk a bit more about the capital allocation and cost of capital optimization opportunities that come with that transaction and, on the former, how the proceeds, would it be deployed the extent to which they will be ring-fenced within the renewables business in order to support cost of capital efficiency?

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

So thank you, Matt. I think that you have, in the financial statements, a figure that is related to our revenues in Spain. But that is not the real figure because these revenues are including a part of taxes and so on. So the figure is lower. But again, I'm quite comfortable related to these news because I'm convinced that we have a legal framework and we have a rule of law that protects market and entrepreneurial activity, and protects Repsol from any arbitrary initiative. And believe me, Mark, we'll do our best to avoid any impact of any average value measure on our company. Saying that, Matt, you talked about the renewable transaction, about the cost. Could you repeat your second question, please, Matt?

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

Yes. Certainly, Josu Jon. It was just -- can you talk a bit more about the capital allocation and cost of capital benefits that go with the renewable minority transaction that the company delivered in June, please? And in particular, within the capital allocation side, how to the extent to which the proceeds, the EUR 900 million will be ring-fenced within the renewables business to support cost of capital efficiency?

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

Sorry, excuse me, Matt, thank you for repeating the question. First of all, let me say that this partner is mainly going to support our growth plan in this business. So it's going -- we are going to go on together, fully committed in this growth to get 6 gigawatts in operation by 2025 and by 2030. Saying that, growth, we are going to do with these proceeds is to finance and to grow in the low-carbon platforms. That is going to be -- all these proceeds are going to be used in this growth either in this business or in some other growth platforms, but mainly in this renewable business.

And in terms of profitability, efficiency and all, I mean, growth, we are fully engaged in this process of increasing the return on equity in this business through the portfolio rotation we are enforcing. This morning, we released, and I think that I mentioned some minutes ago also in my speech, the last one we did in Kappa, in the south part of Spanish High Plains with Pontegadea. They acquired 49%. And thanks to the [expertise] of a partner that is acquiring a nonoperated part and the stake of the business, probably with that cost of capital lower than the cost of capital [that have sold], we have -- we are increasing the return on equity of these assets. That is behind this strategy of making more efficient the use of capital in this business by Repsol. Thank you, Matt.

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

Next question comes from Joshua Stone at Barclays.

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

Two questions, please. Firstly, just coming back to shareholder returns. I mean, I know you want to wait until 3Q, but just want to understand, returning 25% to 30% of cash flow to shareholders, does that apply in principle for 2023 as well? And then secondly, on the fuel subsidies you're giving in Spain and the larger discounts to digital customers. Can you just talk about what was the take-up been on that? And how successful has that program been? And how sticky are these customers?

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

So thank you, Joshua. Let me say that the floor is going to be our commitment in the strategic plan. And the selling is going to be this 25%, 30% of the operating cash flow applied for our shareholders. So in case of seeing and having this environment in business terms, in our business, in a newer company, we will apply the same strategy of maintaining our shareholders' distribution next year, in 2023, that could range something in between the 25% and the 30% of the cash flow from operations. So definitely, yes.

Discounting service stations' impact. I mentioned before, I think that if we take what is happening in P&L terms, in our Spanish service station, April, May and June, the results, the P&L has been 0 month after month. That is our strategy. It's a strategy based, first of all, in our commitment. We want to be close to our customers that are experiencing a complex situation in price terms. And second is a strategy also in commercial terms because we are increasing sales, we have increased 16% in this quarter our sales in our service stations. And on top of that, we are building the digital strategy of this business, increasing in a dramatic way, either the number of people using Waylet, our app, to get the relationship with Repsol and the number of operations developed with Vale.

So that is part of our strategy and is an investment, an investment in our customers, in their needs and an investment in the future of this business. Saying that, in the operational result impacted by this discount has been EUR 142 million, more or less, this quarter. But I have to say that this impact has been positively impacted by an additional EUR 40 million, EUR 42 million positive because the margin is coming from the increase of volumes.

So all in all, we have -- our operation results in some way impacted negatively by this discount in service stations over the quarter has been EUR 100 million that this seems to me that after taxes could be EUR 75 million, after taxes. If you take our account 1 year ago, more or less, we were earning an average of EUR 23 million, EUR 25 million per month after taxes in this Spanish mobility business. So that is the past. We are reducing our P&L in the framework of the strategy I mentioned. We are going to maintain this policy over the summer, and we are going to adapt, of course, this policy to the evolution of prices and the evolution of the economic environment in our society, in our country.

As always, remember -- we anticipate any government in terms of supporting Spanish customers. Before any kind of initiative coming from the Spanish government, we were the first mover that reduced our prices, that increased our discount trying to be close to them. So we are going to be there. Thank you.

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

Next question comes from Giacomo Romeo at Jefferies.

Giacomo Romeo - *Jefferies LLC, Research Division - Equity Analyst*

2 questions. First one is a clarification of what you just said, Josu Jon, on the retail discount and in the context of the potential for a windfall tax in Spain. Are these 2 in any way related -- as in, would you take -- reduce or remove the discount should the windfall tax be introduced? Or is the windfall tax -- sorry, is the discount of the pump unrelated to whatever action the Spanish government decides to take?

And the second question I have is going back to the potential for divestments of a minority stake in the E&P business. I obviously understand that you look at a variety of -- are you looking at proposal, nothing is -- no decision has been made. But just wanted to check if should you divest any part of your businesses, would any of these be proceeds be considered for to be returned to shareholders? Or would they be invested to further your energy transition? And sort of how do you see the potential use of proceeds from divestments in other businesses?

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

Thank you, Giacomo. Going to your first question. Our clear priority is going to be being close to our clients, being close to their needs, that is the Repsol strategy. We are doing that when we are developing our multi-energy strategy to offer all kind of products where we want to be digital, is to offer in a better and more accurate way the service our clients' needs. And when we are reducing our prices because we are increasing discounts, that is because we want to be close to our clients. And our priority has to be being close to our clients. And it seems to me that governments have to decide what they prefer: to collect taxes, to get money or to be close to the customers, to be close to the Spanish society. So it's a decision that governments have to take.

Going to your second question, that is not -- that's -- it's not any decision related to that. So sorry, Giacomo, but that is not on the table. We are, of course, analyzing any opportunity. We are -- any asset, any business is always analyzed in terms of portfolio management, of portfolio rotation and so on. But -- be sure that the priority, capital allocation terms for any single penny or cent entering in Repsol is going to be, first of all, accelerating the energy transition of the company, always, that is going to be the first priority in case of not having enough profitable projects; the distribution to our shareholders; and of course, always trying to sustain as sound and strong financial balance sheet in the company, mainly when we are entering in a volatile time, where financial strength is an important asset to weather or to steer the vehicle in such tough times. Thank you, Giacomo.

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

Next question comes from Fernando Abril at Alantra.

Fernando Abril-Martorell - *Alantra Equities Sociedad de Valores, S.A., Research Division - Analyst*

Just a couple of questions, please. First is with regards to the refining margin premium. So I don't know how this evolved during the first part of the year, and what do you expect? Because you just mentioned, Josu Jon, that the second half could come better than the first one. And also what linked to this -- what would be, I don't know if you can quantify a bit the potential impact from the better situation with regards to Venezuela right now into your refining margins?

And then the second question is just kind of a clarification. I don't know how you calculate shareholder remuneration for this year. I mean, is this the dividend paid in 2022, plus the investments made in buybacks, and this is not including the ones that will be canceled because you had on your balance sheet figure to the (inaudible) to the investment?

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

Going to the refining margin premium. Let me say that -- of course, I don't know the exact figure before performing and operating the assets. But my rationale is that the premium is going to be significantly higher in the second half than in the first part of the year. What is the rationale for that? First, now if you analyze the conversion utilization rate we had in February, March, April, May, with the difficulty of adapting the slate of crude oils to the lack of Russian oil because the decision we took and all that, all in all, the utilization rate goes low. I mean that was impacting a very negative way in the capacity we have to get and to obtain this premium. And now operating at 105% to 106% as we are this conversion rate.

And it seems to me that, that is going to stay perhaps except in the period of October because Tarragona has shut down. But remember that we also had a full shutdown in Bilbao's refinery in March and April. We also have a unit in Cartagena, I remember, I think that it was the hydrocracker in March. So all in all, it's going to be significantly higher, the premium. And on top of that, the contribution of Venezuela -- what is Venezuela doing, this oil is mainly help us, that is going to be. I think that's more evident in coming weeks. We are going to fulfill in a better way the cokers because you know that the yield in the vacuum unit of a crude oil depends a lot of the API of this crude oil.

So if you are using, in our system, more heavy oil slate, I mean the impact is going to be that we are going to have a higher capacity to fulfill our cokers. And due to this impact, we are probably optimized in a better way the conversion units we have. So allow me and let me, Fernando, not giving you because I have this figure, of course, before operating the units, giving you a figure. But I think that it's going to be significantly better in the second half.

Going to your second question, you are fully right. What we are doing is exactly [contabilizing] or taking the shares we are acquiring over the whole year, this year, 2022. We are not taking into account what we have in our balance sheet in December 2021. So exactly what we have bought over (inaudible) acquired -- over this year, plus the dividend in cash. I don't have here the at figures in mind, but the cash could be at around EUR 900 million this year. We could have EUR 200 million, EUR 250 million that was used to acquire a part of the shares of the program before, more or less, 20 million shares that we acquired over the first part of 2022 to redeem the 75 million shares in May after the AGM, plus the EUR 1 billion we are going to use either because we are taking account the 25 million that we have acquired over the last month, and they are in our balance sheet. Plus this 50 million, we are going to acquire in the BuyBack Programme.

All in all, EUR 1 billion -- EUR 1 billion plus EUR 0.9 billion, plus EUR 0.2 billion -- EUR 0.3 billion, we are talking more or less about EUR 2.1 billion, EUR 2.2 billion applied this year in this remuneration policy of our shareholders, that, if you divide all that amount or by the number of shares, I mean, that is a figure that could be close to EUR 1.4, EUR 1.5 per share.

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

Next question comes from Ignacio Doménech at JB Capital.

Ignacio Doménech - *JB Capital Markets, Sociedad de Valores, S.A., Research Division - Associate*

My first question is on Canaport LNG in Canada. I would like to know your view on the possibility of reconverting Canaport into a liquefaction facility. And if this is something that could go ahead given the current environment. And then my second question is back on working capital. I'm not sure if I understood correctly, but on the higher working capital build, if you expect to revert this during the second half of the year.

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

(foreign language), Ignacio. Going to your first question. It's true because we have -- recently, we have met authorities, and there is an interest about Canaport in some European countries, Germany, even Canada as a provider, a potential provider, of gas towards Europe in the context of the war we are suffering. I think that this Canaport plant was part of the bilateral talks that, in the framework of the NATO summit happened -- was held here in Spain in the end of June.

Saying that, first of all, let me introduce a new word. We are not talking about converting, but adding a new facility, having the dual regasification plus liquefaction unit. Secondly, probably makes sense from a geopolitical point of view, taking into account the situation in Europe that what is crucial and important is, first of all, to have clearly an offtaker that is going to commit to buy this gas in coming 15, 20 years. That is needed to go ahead in such a project.

And secondly, to guarantee, and that is not easy. It could be done, but it's not easy to guarantee that the gas from Alberta is going to arrive to Atlantic Coast. Some additional -- I mean, it's not a large infrastructure because main part of it is there, that perhaps some kind of infrastructure is going to be needed. Some taller framework is going to be needed to have a competitive gas in the Atlantic Coast and so on. So I'm talking about things that are not in our hands, but it could be possible in the framework of the energy crisis we are seeing.

I mean saying that, if you have an offtaker committee for coming years and we have the access of gas, and we have a main part, one important part, like I said, of the facility that is there built, that would be a very interesting project for anybody and of course, for Repsol. But again, I want to put on the table that is not an easy game, that there are a lot of difficulties to arrive to this scenario I was describing.

Working capital. I don't know enough because -- now first of all, I said in the second quarter, I always try to be with the best information I have at that moment, fully transparent in my Q&As. And I said in the first quarter conference that an equivalent price, we will have a constant working capital this quarter. And first of all, it's true that prices has been higher in the second quarter than the first one, but the effect of these prices could be at around EUR 600 million, EUR 700 million more. That is a part of what has happened this quarter.

On top of that, we have EUR 100 million from Venezuela, this figure is going to be probably lower in coming months because we are starting -- if we take the 3 million tons of -- sorry, barrels of oil that are arriving this July to our system, and we take the 50% in the JV, that is the stake of Repsol, taking into account that we have a start in this business in May 17th, we are recovering almost 75% of the bills of the whole half -- the first half of the year. So it seems to me that we are entering in a new dynamic related to Venezuela, and this impact is going to be also positive in coming months.

And again, we took a decision that is not forecast 3 months ago. But taking into account the strong concern we have in Europe related to the security of supply and the risk of seeing European countries with that diesel shortage in coming months, we took the decision of increasing our inventories in 1.1 -- EUR 1.2 billion in volume terms. So it's going to depend on prices, Ignacio. I think that there is no room for increasing probably in volume terms because we have used the maximum of the capacity we have. And depending on the price, the working capital is going to increase or it's going to decrease in coming months. So thank you, Ignacio.

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

Next question comes from Kim Fustier at HSBC.

Kim Anne-Laure Fustier - *HSBC, Research Division - Analyst of Oil and Gas*

First one is, I wondered if you could comment on the degree to which Repsol is benefiting from high wholesale power prices in Spain in your generation business or is your pricing exposure mostly from PPAs? And also on your ability to pass on higher wholesale gas prices to your industrial and retail customers. So that's the first question.

The second question is coming back to refining margins and the premium you're expecting in the second half. You've got a very complex refining fleet. And I'm wondering whether the very weak fuel oil margins we're seeing are a net benefit to you as you're able to use cheap fuel oil as the feedstock or are they weighing negatively on margins?

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

Thank you, Kim. More or less, in Spain, what we have in P50 because you know that it depends on the hours of wind, depending on the season and so on. But all in all, we could have, in Spain, in our power business, a 40% -- 35% more or less of PPAs with third parties. We will have a 30%, 35% of PPAs with our own power retail business, and we could have a 30% of market open position.

So gas prices. You know that I expressed in the last conference call my opinion. As I've mentioned today, that in our regulated markets, it makes sense that a government or a regulator could intervene, trying to accommodate the -- what is the interest of the producer and the customer. And in terms of gas prices, you know that we have a framework that is discounting a part of this price in the market pool price.

So saying that, I think that is not material, this impact on Repsol. What is happening in gas terms, and that is not related to benefit, so to -- is related to the operation that due to the lack of green and hydro in Spain, this quarter, our CCGTs, they have operated to higher -- at higher rates. But again, we have to buy the gas to operate this facility and the impact on benefits is not material at all.

Going to the refining margin. First of all, in our refining margin, we have -- fortunately, we are in some way reducing the impact, the negative impact we have to use heavy oils. First of all, because we have maintained a significant amount of heavy oil as a feedstock over the last months from Mexico, from Colombia, from Canada and so on. On top of that, we are also using Venezuela's crude oil since July. So that is going to improve, in some way, the access we have to heavy oil.

And on top of that, fuel oil has always been an alternative in our system. It's always there, is an option of programming. If we see that the fuel oil of the alternatives to this kind of heavy products are there and the optimization of our programming of our refinery is saying that, that makes sense -- is saying that it makes sense to take this fuel as feedstock, we do it. The advantage of using either a heavy oil or lighter oil is better. That depends on the optimization of the programming, that depends on prices, depends on the yields of every crude oil and of this fuel. And of course, depends also on the relative discount of this fuel oil. So the alternative is always there. And it seems to me that perhaps we could have better conditions in the second half of the year to optimize the feedstock that we have had over the first half of the year. Thank you, Kim.

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

Next question comes from Irene Himona at Societe Generale.

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

It appears that Spain has just announced their measures. It appears that they're seeking 1.2% tax on domestic energy sales. You don't report by country, but functionally, I wonder if you could give us a sense of Spain's weight in your revenues or EBITDA.

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

So again, Irene, first of all, 1 hour ago, the leakage was in 1 direction. Now some minutes later, they are talking about 1.2% and, probably tomorrow, we are talking about a different kind of tax. So we don't have any clue, and we don't have any clue about that now. Saying that, I'm comfortable. First of all, we have to know growth is real in the draft of the bill.

Secondly, remember that this draft has to be analyzed, discussed and so on in a parliamentarian process of probably weeks or months. And saying that, we are quite comfortable because it doesn't make sense the application of the concept that is behind these kind of measures of the windfall profits to accompany nonregulated business that is cyclical. And let me say that I believe in the solid constitutional and legal framework we have either in Spain and in Europe. And we'll do our best to avoid any kind of impact of these kind of measures on our company. Thank you, Irene.

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

Next question comes from Alessandro Pozzi of Mediobanca.

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

First of all, I was intrigued by your comment about the resilient demand in Spain. The reason is that we are seeing a demand destruction in the U.S., in particular, for gasoline, probably the percentage change in the price of gasoline was probably higher than in Europe. But I was wondering whether that could have -- do you expect that to -- could have a spillover effect in Europe as well at some point maybe after the summer?

The second question is on the impairments in refining. I always thought Repsol had one of the best refining setup in Europe. And I was wondering if can you give us maybe a bit more color on those impairments and why now? And also maybe an update on Sakakemang (inaudible) there may be a [wells head] has not really performed within expectations. I was wondering whether you can give us an update on that project as well.

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

So first of all, Alessandro, it makes sense what you are saying about the demand destruction in the U.S. and so on. And perhaps all that could happen in Europe because it makes sense that there is a potential elasticity in this market. That is logical. But what we are seeing now in the market is not that. What we are seeing in the market is still a strong increase regarding the figures we had in 2021.

And as I said before, we are even close in a 3% below the prepandemic figures in what we are seeing in the market. And in some other business, it kind of feels like aviation and so on, the increase is dramatic. Perhaps, the demand is probably almost flat in Spain now, but because we are increasing our market share, we are increasing our sales in a dramatic way, we have increased in a 16% of sales, so what we are seeing is just the opposite. But again, Alessandro, what I'm saying for today, perhaps in 3, 4 months, could be different depending on the economic evolution in Europe because it makes sense that there is an elasticity also in this market.

Going with the Refining business. First of all, let me say that almost all European companies impair the refining assets over last years, saying more. A lot of European companies shut down their refineries over the last years. Remember that in France, half of the refineries were shut down over the last 14 years. In Italy, almost half of the refineries were shut down over the last 14 years since 2008. And in Spain, not only Repsol, also our competitors. Our [fair] competitors, Cepsa and BP, they also, as Repsol, they invested in their refineries in Spain in the midst of the crisis. And for that reason, we have a great refining system in Spain.

Saying that, it's -- we have -- I'm going to try to explain that because it could be, let me say, a bit surprising for some people. If you are experiencing a good quarter, why are you developing this impairment for your assets? I think that -- remember, the exercise we did 3 years, 2.5 years ago in terms of adapting our E&P and our commodity prices to energy transition, what we are seeing today in Europe due to the regulation and the REPower Europe program is that there is a clear aim, a clear political ambition in Europe of accelerating the energy transition. And it makes sense.

It makes sense in terms of decarbonizing the world. And it makes sense in terms of preparing Europe to be more self-sufficient in geopolitical terms taking into account the energy sector.

And I have to read the signals coming from regulators. And I have to try to imagine that this acceleration that could come and that is going to be evident from the milestone of 2035, where the combustion engine new car sales are going to be banned. All that is going to impact, not now, not next year, not probably in 2, 3 years, but it's going to impact in the future volumes and margins of our -- let me use the term, our former legacy units of the Refining business.

Of course, we are building at the same time over the last year's new units. We are building new plants. We are building new factories within our industrial sites that are linked to new activities, are linked to biofuels, are linked to advanced biofuels, are linked to hydrogen, and all that is going to grow. These cash flows are going to grow. But that is a new business. We have to take into account what is happening in our balance sheet with all our units that has been impaired. That is the rationale behind this prudency. But it's not only prudency in financial terms, it is also the full commitment of this company, of Repsol, of being a positive actor in the adaptation that the European Union has to be in terms of energy transition. We need to be agents of this decarbonization. And what we are doing today is adapting the balance sheet of our Refining business to this new reality.

Going to Sakakemang, what we are doing now is an appraisal activity because we want to evaluate, in an accurate way, what is the dimension of the asset of the play, the gas we have discovered. So we are in the appraisal process of the business. And we are also working, analyzing the development project, taking into account not only the part of the production of the gas, but also the part of carbon capture and net storage. We have to build this infrastructure to be able to -- to have, let me say, a production that is going to be in the international best standards in terms of fuel commission. We are discussing these activities with the regulator, with SKK in Indonesia. And I'm preparing what could be the future development of this project. Thank you very much, Alessandro.

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

That was our last question. At this point, I'll bring our second quarter conference call to an end. Looking forward to see you in London on the fourth of October at our ESG day. Thank you very much.
