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PRESENTATION

Operator
Ladies and gentlemen, welcome to the TotalEnergies Second Quarter and First Half 2022 Results Conference Call. I now hand over to Patrick Pouyanné, CEO; and Jean-Pierre Sbraire, CFO, who will lead you through this call. Gentlemen, please go ahead.

Patrick Pouyanné ***TotalEnergies SE - Chairman & CEO***
Hello, everyone. Patrick Pouyanné here. I'm happy to join you today for this call to comment our results, together with Jean-Pierre, on how TotalEnergies is taking action to take the most out of the very favorable environment for energy companies. I will also comment, of course, the actions we are taking to execute and deliver on our strategy in such an environment. And Jean-Pierre will review the results, and then we'll go to the Q&A.

So of course, the environment is very supportive, the price of oil, the price of European gas, the price of LNG and the refining margins for this quarter. It is the first time in 25 years in the industry that I am observing such an environment where all segments of our Company are benefiting at the same time of strong prices or margin. As Jean-Pierre will show you, our ability to fully leverage the commodity price environment is significantly strengthening our balance sheet and increasing our cash flow to record cash flows for a quarter, and we are performing very well and using this opportunity to accelerate our transformation and benefit our shareholders.

TotalEnergies is indeed fundamentally a commodity company, and we recognize that we are high in the commodity price cycle. On the supply side, the global system will struggle over the coming year to develop additional spare production capacity for both oil and LNG, and this implies medium-term support for high prices. On the demand side, global demand is increasing as economies continue to reopen, but the threat is a potential slide into recession because of inflation.

The Russia-Ukraine conflict and sanctions have pushed refining margins for this quarter to the sky. They have been falling quite sharply in July, but still remain high. This obviously had a strong impact on gasoline prices at the pump for our customers. And in this context, TotalEnergies extended the fuel price reduction program for its entire network in France through the end of the year. We prefer indeed to share the benefit immediately and directly with our customers rather than to make ourselves a target for additional taxation in this current environment.

Ultimately, energy prices, and we should not forget this, are cyclical. So we do not expect to remain at the top of the cycle for the long term. We have been through this type of cycles before, and we're taking a balanced approach to best execute and deliver on our strategy to profitably grow the Company through our energy transformation.

Our first priority, as you know, is to invest in the Company to prepare the future. And in this period of strong cash flow generation, as explained to you in April, the Board is giving priority to accelerating the transformation, potentially through countercyclical opportunities, and this is what we are doing. In the second quarter, we have announced 3 major new opportunities, which will join our portfolio: our entry into Qatar giant North Field Expansion for LNG; the acquisition of a 50% stake in Clearway, the fifth largest U.S. player in renewable energy; and a new venture in India in partnership with Adani for green hydrogen production. We have managed to have access to these new opportunities in very good conditions because of the relationships and the strong positions we have developed in key growth areas.

We are also acting opportunistically at a more tactical level by, for example, moving to floating LNG regas terminals to France and possibly Germany, where we are already maximizing our position as the largest LNG regas provider in Europe. We also are accelerating development of short-cycle projects, for example and notably, to increase gas deliveries to the European market from the North Sea, but also on the oil side, for example, in Angola, with several infill wells on Block 17, on Girassol, and Rosa.

By the way, Angola will be another showcase of our multi-energy strategy as we are just sanctioning many different projects. Two oil projects, each of 30,000 barrel per day capacity, CLOV 3 on Block 17 and Begonia on Block 17/06. The first non-associated gas projects on the fields of Quiluma and Maboqueiro in order to fill Angola LNG plant and deliver more LNG to Europe and Asia and the first solar plant 45 megawatts in partnership with Sonangol.

As a result of the acceleration of our transition, like we announced in last April, our first half 2022 CapEx were close to $8 billion. And we now anticipate that the 2022 CapEx will be in the range of $15-$16 billion, probably close to $16 billion rather than $15 billion depending on the timing of acquisition and asset sales. I remind you that in March, we gave a guidance of $13 - $16 billion for the years 2022-25. So close to $16 billion is in the range, as I answered to a question during the last call.

The Qatar LNG deal will contribute obviously to our future LNG growth. And thanks to this new addition to our portfolio, we maintain our growth ambition in the LNG segment despite a decision not to invest anymore in any new project in Russia.

A word on Russia. As you have observed, we implemented our principle of actions announced on March 22. And we are exiting fully from the oil business, both production and trading, with the recently negotiated exit of the Kharyaga oil field during the last quarter. TotalEnergies recorded in its second quarter account a new $3.5 billion impairment related to the potential impact of international sanctions on the value of its stake in Novatek. Russia represents about 5% of our capital employed and cash flow and starting with the Investor Day in September, we will present our strategic plans for TotalEnergies in future without taking Russia into account. Fundamentally, that will change some volume figures, for example, the production of 2022 would be 2.3 million barrels oil per day, but not the global financial performance nor the return to shareholders growth. More details will be given to you at the end of September at the strategic presentation.

Also, a priority at the level of the Board is increasing shareholder return to reflect the current environment and strong cash flow generation. The Board approved the second interim dividend of $0.69 per share, an increase of 5%, supported by the underlying or structural growth in our cash flow. Plus another tranche of share buybacks of $2 billion for the third quarter, which will represent globally between the fourth quarter 2021 to the third quarter 2022, a global amount of 5% of our market cap, which will have been bought back. You can deduct from this guidance of $2 billion for the third quarter, the same rate but in the second quarter but doubling the rate of the first quarter buyback, that the buyback should reach at least $7 billion for the year 2022, and I can come back on that.

On a relative valuation basis, frankly, on any reasonable basis, by the way, the TotalEnergies share price is compelling particularly in light of the dividends we are paying, and that we never cut.

Now I will leave Jean-Pierre presenting, and he is quite happy, a strong set of results. It will be an easy exercise for him today. But let me just summarize what I just told you. Yes, we are in a clearly very positive and dynamic environment marked by elevated commodity prices. This may persist for the medium term in our view. The Company is demonstrating its capacity to leverage such a positive environment in all the indicators, in particular in terms of cash flow generation, and we will act accordingly to maximize performance with our strategic objectives and financial discipline to allocate capital to energy transformation, to return value to shareholders and of course, to maintain a strong balance sheet for the future.

Jean-Pierre, the floor is yours.

Jean-Pierre Sbraire ***TotalEnergies SE - CFO***
Thank you, Patrick. So reported IFRS net income for the second quarter of '22 was $5.7 billion, which takes into account the $3.5 billion impairment that Patrick mentioned. Adjusted net results were $9.8 billion, up 9% from the first quarter. Earnings per share were $3.75, up by more than 10% with the benefits of buybacks. The second quarter and first half results reflect the dramatic increase in oil, gas and LNG prices as well as record refining margins over the second quarter.

Debt adjusted cash flow was $13.6 billion, an increase of 14% from the first quarter and double the level of the same quarter last year. For the first half, cash flow was $25.6 billion, again doubling the same period last year and strong enough to cover the full year '22 CapEx plus dividends. This illustrates the leverage that TotalEnergies as a low-cost producer has to the strong commodity price environment in terms of free cash flow generation.

Operationally, upstream oil and gas production decreased by 100,000 barrels of oil equivalent per day to 2.7 million in the second quarter from 2.8 million in the first quarter. This is mainly due to higher planned maintenance and production cuts in Nigeria and Libya that were partially offset by the entry into Sepia and Atapu fields in Brazil. We expect planned turnarounds to be about 40,000 barrels per day higher in the third quarter than in the second quarter and production to be stable at the level of the second quarter, thanks to ramp-ups from the new projects. In the downstream oil business, refinery throughput was 1.6 million barrels per day in the second quarter, and the utilization rate increased to 88%. We target the same high utilization rates for the third quarter.

Looking now at the results by segments. iGRP, Integrated Gas, Renewables & Power is the growth engine of the Company. Adjusted net operating income was $2.6 billion in the second quarter, 3x the level of the same quarter last year. Excellent performance but down $500 million quarter-to-quarter mainly due to decrease from the exceptional high contribution from gas, LNG and electricity trading in the first quarter. iGRP cash flow was $2.4 billion in the second quarter compared to $2.6 billion in the first quarter.

Important to point out that cash flow from operation in the second quarter was $4 billion, reflecting a reversal of the margin calls and working capital changes in the first quarter. LNG sales were 11.7 million tonnes in the second quarter, down from 13.3 million tonnes in the first quarter due to lower spot sales, but the 1Q was a record spot sales quarter. The average LNG selling price increased to $14 per MBtu in the second quarter, in line with our guidance ,and is expected to increase to more than $15 per MBtu in the third quarter, given the evolution of oil and gas prices and the lag effect on price formulas.

Gross installed renewable power generation capacity grew to 11.6 gigawatts at the end of the second quarter, up 0.9 gigawatts in the quarter, including 0.4 gigawatts related to the start-up of the first phase of the Al Kharsaah solar project in Qatar. Including the pipeline of development projects, our renewable portfolio has grown to more than 50 gigawatts of gross power generation. So we are very confident that we can achieve our 2025 growth target of 35 gigawatts.

E&P is performing well in this environment and contributed $4.7 billion of adjusted net operating income in the second quarter, which corresponds to return on average capital employed of more than 20% over the past 12 months. This quarter is a bit lower, down 6% from the first quarter, mainly due to the lower production and the impact of sanctions on the result of Russian assets. Cash flow was $7.4 billion in the second quarter, slightly above the very strong performance of the first quarter, and reflecting the higher liquids price, which was partially offset by lower gas price realization and lower production volumes.

Downstream performed impressively as well, a reminder of the importance of the integrated model, generated $3.2 billion of adjusted net operating income and $3.5 billion of cash flow in the second quarter as it increased refined product volumes to fully capture record high margins in the context of reduced imports of Russian products, plus the exceptional result of trading 2 quarters in a row, $500 million.

At the Company level, adjusted net operating income was $18.8 billion for the first half, which represents an annualized return on capital employed of more than 25%. Operating cash flow before working cap changes was $24.9 billion in the first half '22 or more than twice what we generated in the first half of last year.

Our net investment in the first half were $7.8 billion. We are able to reduce net debt by $4.1 billion to $13 billion at the end of June, so our gearing is below 10%. And in addition to paying the dividends, we bought back, as Patrick mentioned already, $2 billion of our shares during the second quarter as announced.

The Company is financially stronger and operationally performing better than anyone here can ever recall. While we do not expect this environment to last for a long run, the reality is that we are using this time to fortify the balance sheet, accelerate the transformation and return value to our shareholders.

And on that point, I think we are ready for the Q&A.

Patrick Pouyanné ***TotalEnergies SE - Chairman & CEO***
So the floor is yours.

QUESTIONS AND ANSWERS

Operator
(Operator Instructions) We have a first question from Christyan Malek from JPMorgan.

Christyan Fawzi Malek ***JPMorgan Chase & Co, Research Division - MD and Head of the EMEA Oil & Gas Equity Research***
First question I have is just around your CapEx guide. It seems to be sort of a long-term target, which you've clearly reached the top of. Could you provide any guidance around how you're going to think about capital allocation in the medium term, particularly as it pertains to your CapEx profile both in terms of the absolute level given your absolute right to take advantage of countercyclical investments, but that could come at

the risk of an even higher guide going forward? So is it a hard ceiling? Is it a soft ceiling? And maybe some clear line of sight around the medium term and also as it pertains to the mix given there are some great opportunities also within oil. Could we see you taking advantage, Patrick, of as you have done so exceptionally of good deals, be it sort of wholesale assets, which links back to my question around the CapEx?

And then the second question is around demand, you mentioned, the sort of recessionary risks as a result of inflation. Can you elaborate more on what you're seeing, particularly sort of a 6- to 12-month view on the demand dynamics? Because it does feel as though the sector is being viewed as good as it gets around the risk premium associated with Russia as opposed to anything more structural because demand is clearly not clear in people's minds.

Patrick Pouyanné *TotalEnergies SE - Chairman & CEO*
Thank you, Christyan, for the 2 questions. First, on the CapEx. In March, we told you $13 billion-$16 billion as a guidance for '22-'25. At the beginning of the year, in February, we said $14 billion-$15 billion. We just use the guidance we gave you to go to $15 billion -$16 billion, close to $16 billion. Why? Becausewe have decided to accelerate on some opportunities. We have managed to make that deal on the renewables in the U.S. on Clearway. We have also given instruction to accelerate short cycles: I have given several examples of fields in Angola, for example, on Rosa, Girassol, Begonia. So it's an opportunity to do it well, and to launch these projects before, by the way, cost increase in the industry: we benefit from a good environment today.

An energy company like us spends a lot of energy, so the energy costs are increasing in the Company: I have asked the teams to accelerate some CapEx programs on energy efficiency, which, by the way, is good for costs structurally in the long term, and also good for the emissions, so this is another source. So I'm very comfortable to see the Company, in such an environment, spend this year next to $16 billion rather than the initial $14 billion-$15 billion. It’s our capacity to react to the positive environment.

Having said that, and we'll give you more information in end of September; the guidance we gave you at $14 billion-$16 billion for me is a reasonable guidance for CapEx at that point.

On the split, that’s true, we are very happy to have acquired the 2 oil fields in Brazil of Atapu and Sepia in the ToR Surplus round: there were not many contenders in December. We acquired that on a basis of $60 per barrel, and since beginning of May, we receive a share of 40,000-50,000 barrel per day at $100 per barrel. So I can tell you I am ready to do other deals like this one, if there are opportunities. I'm afraid when the price of oil is high that of course, it's more complex because the expectations might be higher, but we'll be active.

Speaking of CapEx, at this stage, I'm remaining between my range around, let's say, 50% around oil, 20%-25% around LNG and 25%-30% around new energies, I think, is still valid even if we go up to $16 billion, but it's more or less what I have in mind.

On the demand side, the question is a tricky one. Because on one side, we see no real decrease of demand today. Even with reopening after COVID, we've seen that jet fuel demand is quite strong,aviation is coming back and it's not yet at the level of 2019, so there is still room for improvement. We have seen in the last quarter that China was closed, and so the demand in China was weak, but China is reopening. I see some positive room for increasing demand for oil. At the same time, there is this question mark about financial markets, not so strong today. Interest rates are raising. Inflation is rising again. So we could have a risk to see a recession. I'm not the macroeconomic expert, but this is what I'm reading, including in the U.S. So this could have impact on the demand. And we know that when the price remain high, subsidies in particular in emerging countries are a big burden for government, and that impacts the demand. We've seen it in Sri Lanka, a small country, but other countries could put some policies in order to control thebudget burden, by subsidizing oil prices, gasoline prices. So that could be a negative, I would say.

So all in all, I see some more positive trends on the demand than negative, but there is these macroeconomic risks. And you remember, in 2008 when we had the financial crisis, the last huge macro crisis, the impact on the demand was quite strong. So that's something.

Having said that, I repeat what I said. I don't see, as well on the supply side, much room for improvement. And I think OPEC countries are almost at the maximum today. You have Libya, you have Venezuela, but there are other geopolitical difficulties. And you have the U.S. shale oil, where we are not the best expert, but today, increase of production is facing some shortage of workforce on rig crews, and so it's not so easy to increase quickly the production.

Operator
The next question comes from Irene Himona, Societe Generale.

Irene Himona ***Societe Generale Cross Asset Research - Equity Analyst***
I had 2 questions, please. And congratulations on the strong results. Firstly, with the U.K. windfall profit tax in the North Sea. Can you say roughly what you would expect the cost to be for Total?

And then secondly, in the context of the $16 billion CapEx aside of the new strategic opportunities, which you are exploiting as you accelerate the transition, do you also see inflation starting to creep in the new oil and gas projects and also your renewables where you're constructing about 5 gigawatts?

Patrick Pouyanné ***TotalEnergies SE - Chairman & CEO***
Thank you, Irene, for the 2 questions. On the second one, no, it's not inflation, which is leading the raise of our CapEx guidance next to $16 billion. It's fundamentally opportunities, short cycles, but I cannot tell you inflation is there in our industry. We've seen some few rig rates going up, but we have managed to have access to very acceptable rig rates.

And I would say on the project side, the only point which where we see an increase are raw materials, like steel, for example. We took the decision recently to postpone the order for steel for a big pipeline in Africa because we consider that it was at the top of the market, and we better to wait and see some deflation.

So the raw material part may have some impact, but it's not the reason why we have given you $15 billion-$16 billion, next to $16 billion. It's more the results, as you said, of being opportunistic on some M&A activities, which are fitting our strategy and accelerating short-cycle CapEx.

On the U.K. side, the evaluation we have for this year is around $500 million of impact of these taxes. The cash, by the way, which is generated today with the European gas price from the U.K. operation is also much higher than expectedThe U.K., I would say, have been always quite active in the history, they were lowering the tax when the prices were low,and increasing when they are high. It will be absorbed in the cash flow that we are generating there in the U.K.

Operator
The next question comes from Lydia Rainforth from Barclays.

Lydia Rose Emma Rainforth ***Barclays Bank PLC, Research Division - Director & Equity Analyst***
Two questions if I could. The first one, and if I can come back to the CapEx side, and as you're spending more money and the idea of being able to actually define business models in the low-carbon space, are you actually taking more risk? So I'm thinking about things a little bit like Clearway. So effectively how confident should we be about the returns of that additional CapEx?

And then the second one if I come back to the buybacks and the cash return to shareholders. I know, Patrick, you talked about this early, but that balance between how you share the additional CapEx on additional cash flow across stakeholders, be it the share buybacks, and the customer. So I'm just trying to get a balance over time how much more can you do in terms of the shareholder returns.

Patrick Pouyanné ***TotalEnergies SE - Chairman & CEO***
Okay. On the second question, first, let's be clear. The CapEx guidance is, for us, a question of medium- and long-term profitability of our business model. It's an experience we draw from the year 2010-2015: if we overspend the CapEx, when the low cycle will come back, we will have some few difficulties in terms of profitability.

So we look to the CapEx in a sustainable medium-, long-term CapEx. So it could vary:this is why we gave you a range of $13 billion-$16 billion. So we adapt it, in the range that we gave you, according to the circumstances. For our shareholders, obviously, it's quite valuable to accelerate short-cycle projects today when the price are very high. So I think it's quite reasonable to behave that way and to maintain on the medium and long term, a reasonable level of CapEx.

The buyback is not arbitrated against the CapEx. The buyback is another questions, that is: what is the global return to shareholders. I think you can see that we have generated almost $25 billion of cash flow from operations in the first half. If the second half of the year is the same, we'll see, it would be $50 billion. So it's much higher than the $30 billion-$35 billion we had in mind.

So the question for us is, how do we share the extra profits. The Board wants to use this opportunity again to accelerate the transition and also to strengthen the balance sheet. So it's possible that by the end of the year, the net debt will be not far from under 5%. But we see that, as I explained to you already, as giving us the opportunity if the macro environment is changing, when you think about interest rate raising, you could see more opportunities coming. It's a matter to be patient. So we don't want to just spend the money quickly, but we want to keep the capacity to act in order to continue to strengthen our business model.

So the buyback level, as I told you, for the year, we started at $1 billion for per quarter. We raised to $2 billion. Now I told you that the $2 billion will be maintained. It will be at least $7 billion for the year. What we have in mind, if you are adding dividends, around $8 billion, it's something around $15 billion of global return. We'll monitor that according to the results and the cash flow generated for the second half. This is the way we look at that.

To come back to your first question, low carbon and returns, I repeat what I told you already on this question: when you look at fields like biogas: when you have biogas, and you sell it at the European gas price, the profitability is quite high. And on the renewables story, fundamentally, our business model, as I explained last March, is not to cover all these renewable projects by regulated prices, which are giving you a return which could reach 10% after some farm downs: it's to keep part of these renewable productions in order to sell them on the merchant market at the commodity price.

If you made the math today with the electricity price we can observe in Europe, you would see that the profitability is much higher than the 10% that we have put as a minimum target. So this gives us some comfort that when we look at this: it's not only renewables, it's the renewables and electricity value chain. You need to look to the whole value chain and the way to manage not only the renewable production as part of your electricity production, but also the electricity trading you can do, to valorize part of these electrons on the spot prices and not only on guaranteed price, which would limit your IRR.

This is, for example why, recently in the U.K. on the Seagreen offshore wind farm, we decided not to apply for a new CfD, a new contract for difference, but to keep 30% of the production on the free market, on the spot market and not to cover the whole production as a guaranteed price because the auction price was around GBP 36, GBP 37, GBP 38 per megawatt hour, and we considered that it was better to keep 30% of our production to valorize these assets in a better way in the future.

Operator

The next question comes from Martijn Rats from Morgan Stanley.

Martijn Rats ***Morgan Stanley, Research Division - MD and Head of Oil Research***

I've got 2. First of all, I briefly want to ask about the dividend. The dividend is up 5% year-on-year, but I was wondering if there is a case to be made that we should be starting to see that as a future trend rate of growth rather than just what it is for this year. And the reason for asking is, of course, that the buyback is now sufficiently large to effectively allow the dividend to grow 5% a year just by shrinking the share count. Would you see that 5% more as a trend rate going forward? Or is it still a bit of a sort of one-off, above-trend rate sort of type of hike?

And the other one I wanted to ask perhaps a bit more macro and slightly less related to the company, but you'd be well suited to answer it. So I wanted to ask it, nonetheless. I was hoping you could say a few words of what you expect will happen to the European diesel market, and the reason I'm asking it is that European diesel imports from Russia continue at about 700,000 barrels a day or so. It's about 10% of our European diesel consumption simply comes from Russian imports. And they are all seaborne, they're fully subject to the embargo that kicks in, in February. In theory, they should all fall away. In your estimates, are European refineries suited to ramp up diesel production? Can they do that with less gas being available? Can we import it from somewhere else? It seems there's an awful lot of tension in that market, and I was hoping you could say a few words about it.

Patrick Pouyanné ***TotalEnergies SE – Chairman & CEO***
Thank you, Martijn, for the 2 questions. The first one is clear to me. It's not at all a one-off, the 5% increase. We told you, if I remember, in September '21, that we anticipate a growth of our cash flows by 5% per year for the next 5 years. In the meantime, there was the Russia hiccup. But as I will explain you in September, we've had other opportunities like Qatar. And you are very right as well: because we made buybacks for around 5% of the capital, the 5% is a guidance that we are willing to follow not only as a one-off for the next year, but also the following next years - potentially the next 5 years. We have room in our portfolio. This is why we said the growth of dividend must be supported by sustainable underlying CFFO growth. So thank you for the question to clarify that. It's a guidance that you can put in your model, 5%.

And it's really true that despite Russia, the fact that we bought back 5% of our capital will obviously represent 1 year of 5% increase and this is the intent for me. When you bought back shares, it's somewhere the return to shareholder is effective only if you put it in your dividend the year after. So that's very good point.

On diesel, yes, you're right. It's very interesting what is happening today on the European margins. I told you that they were at the sky during the second quarter. And strangely it was gasoline and diesel, which went to the roof. The gasoline spread is beginning to go down, but the diesel one continues to remain high. And I think there is a good reason for that: it's that fundamentally, our European system does not produce enough diesel. Just like for natural gas. The refining system in Europe was mostly designed to produce gasoline in the past, we made some investments, but not enough to cover the diesel demand. That's why the spread of diesel is quite high: because the market is anticipating some difficulties. That's one of the concerns by the way, among the government.

That's why, for example, the French government signed last week an agreement with Abu Dhabi in order to have a security of 300,000 tonnes of supply of diesel. And by the way, TotalEnergies trading arm will be the intermediate between Abu Dhabi and the French state to ensure the supply of diesel. I think the market has that in mind.

So my view is that the refining margin will not stay at the sky where we were in the second quarter, it will go down, but the diesel spread should be supported in the future. And it's necessary because, as you know, in a refinery, you spend quite a lot of energy. And so the cost of energy in our refining has grown from something like $5 per ton to $20-$25 per tonne. So all in all, if we want these refineries to continue to be utilized at almost 90% rate, we need to have some support. Otherwise, because of the cost of energy, refineries will be less utilized. And if they are less utilized, you have an impact on the supply to the market. So I think there you have a support for these refining margins because of the diesel position, and that's something that we have identified as a key element in Europe.

Operator
The next question is from Lucas Herrmann from BNP Paribas.

Lucas Oliver Herrmann ***BNP Paribas Exane, Research Division - Head of Oil and Gas Research***
Patrick, just going back to opportunities that you see, and the chance to act opportunistically. The deals that we've seen certainly in renewables over the course of the last 2, 3 years have generally been $1 billion, $2 billion. They've been relatively modest. So when you look at the market at the present time, can you see yourself doing something of significantly greater scale, which I think given the comments made today is obviously something that investors are pondering on? So that's the first question.

And the second, just back to Russia in refining Urals, within Leuna, I presume that you've been benefiting from the price that you paid for Urals given the facility was obliged to run on it. Can you give us any indication what the benefit has been, but equally, whether the plan to remove Urals from production, remains in place by end of year? I guess it's got to be given it's a line of sanctions.

Patrick Pouyanné ***TotalEnergies SE - Chairman, CEO & President***
Again, on the first question, you know my point of view: renewable assets are today valorized at too high multiples, so it's difficult to make large acquisitions. There is no way for me to pay too much for some assets. We have done, like you said, some deals which were directly negotiated with companies because they see added value of having TotalEnergies as a partner.

For example, in the Clearway deal, we managed to close that deal because we are bringing additional value to Clearway from the shareholder (GIP) point of view: our trading capacity to get the most of these renewable assets in the U.S., but also some potential added value since we can make corporate PPAs at a large scale, thanks to our strong footprint. So, this is what we are looking for.

Making large acquisitions in that field, honestly, we should see a large decrease of the value of these companies before we could contemplate that, so it will not be as large as you think.
Second one on Leuna. Leuna, we have been very clear, we have begun to stop. One of the contracts, which was feeding Leuna from Rosneft, has been stopped as we announced in March '22. So today, Leuna is no more supplied with Russian crude oil only and the share of Russian crude oil feed will decrease until December 2022 because the contract runs and sanctions will be applied from December 5, 2022. We are on our road map: Leuna will be fed by crude oil coming from the North Sea, probably Ekofisk and others, via a pipeline coming through Poland. There are discussions today with Germany as there are 2 refineries,

Schwedt and Leuna, sharing this alternative route. So, the position is clear.

But again, the small benefit we had during these few months is not commensurate with the results of our refining business. Refining & Chemicals segment has benefited firstly from $145 per ton of average margin: we have never seen that before, but it's beginning to decrease. I think we are today more in the range of $80 per ton rather than $140 per ton. So again, my comments on the gasoline spreads, which are sharply going down.

Refining & Chemicals also benefited, as mentioned by Jean-Pierre, from a very strong performance, an exceptional performance I would say, of our oil trading for 2 quarters in a row: a little similar to what they've done in the second quarter of 2020. You can consider $500 million of super performance of our oil trading in these results. Last quarter, it was the gas and power trading. But it's true that in this type of very volatile market, our traders can benefit from these dislocations in the markets. I don't know if it will be repeated for the coming quarters because it's a question of volatility. Your remark on Leuna is right. But again, it does not have a fundamental impact on the results.

Operator
The next question is from Biraj Borkhataria from RBC.

Biraj Borkhataria ***RBC Capital Markets, Research Division - Director, Co-Head of European Energy Research Team & Lead Analyst***
The first one is on Qatar. Congratulations for being the first major to enter the expansion project. Can you disclose the entry or payment structure for that project? And just confirm whether that's included in the $16 billion CapEx budget?

And then the second question is on your Russian assets and particularly on the LNG side. So there were some articles recently around Gazprom potentially adding LNG to the gas -- rubles for gas scheme. Can you just talk about if that was implemented, how you're thinking about -- how that would impact your operations at Yamal?

Patrick Pouyanné ***TotalEnergies SE - Chairman, CEO & President***
First, on NFE, I cannot disclose it now, but let's be clear: there is a very limited bonus in the CapEx. The Qatar deal was fundamentally a fiscal bid. We'll have to pay, of course, for the past costs because NFE has already started, it has been sanctioned 1 year ago by Qatar Energy, I think. So of course, they'll have to recover our share of the past costs and there is a small additional bonus, but very limited.

This payment will take place when we close the deal. There are some antitrust conditions precedent to follow-up. It's part of the anticipation we have for '22 or '23. But it's linked to what I said in my speech: I told you it will depend on the acquisitions and sales planning and it's part of the uncertainty we have for this. But we have put into our forecast these past costs of NFE.

Second question, the ruble, honestly, it's not the case today: it’s still in Euro. It's linked to the project financing and there are some contracts in place. In fact, we will behave exactly as the gas pipe buyers are behaving today, which is, as I understand, to have a euro account and a ruble account in the same bank and to match the two accounts. The question will be regarding the legal frontier if I understand. But today, the discussion is not there, and I don't see a major impact on operations. Having said that, the impact, obviously, is on project financing because this could have some global consequences. So, there is no debate at this stage, but with we'll manage that.

Operator
The next question comes from Bertrand Hodee from Kepler Cheuvreux.

Bertrand Hodee ***Kepler Cheuvreux, Research Division - Head of Oil and Gas Sector Research***
Two questions related to LNG, please. In H1 2022, you delivered very strong LNG contribution despite having already some hedges in place, especially on your advantage LNG offtake out of the U.S. Can you give us a color about your hedging policies for 2023 in LNG given that your structure -- what I want to try to understand is that if current high spot LNG spot prices are sustained in 2023, can we expect a further improvement on your LNG marketing side? Any color would be helpful.

And the second question is more a very short-term question is, can you quantify the impact of the U.S. Freeport LNG outages in your Q3 operation, your 2.2 million tonne of takers from that project? So wondering if you had already presold or hedged some of those volumes and what kind of negative impact you expect in Q3 from that outages.

Patrick Pouyanné ***TotalEnergies SE - Chairman, CEO & President***
On the second one, obviously, we had to replace the missing cargoes because we have customers we are committed to. There were 2 cargoes in the second quarter, we planned accordingly 8 missing cargoes for the next quarter. Freeport is planning to restart by end of September but it will be also according to the U.S. authorities, which have to give the green light.

So of course, we will have to replace these cargoes on the spot market, so it has a cost. But I will tell you it's already taken into account somewhere in our results partially. We will not use that excuse to tell you that the results in Q3 are lower than in Q2. Our teams have opportunities to offset. We have a very large portfolio, a large source of production. So up to our LNG teams to manage that. And it's part, by the way, of our business model. We are sourcing LNG in 10 different plants, and so we must be able to manage this type of hiccups, which led by the way, to your other questions about hedging policies, because this type of event could happen. Our teams are not hedging 100% of our capacity. We don't hedge Yamal for an obvious reason, for example. Because Yamal, we don't know what will be the future, so we are prudent. But we are hedging a sizeable volume of our LNG supplies. So the answer to your first question is positive. Yes, 2023 will benefit from hedges, which are put in place, month after month on a certain percentage of our portfolio. The second question is on the short-term, a negative impact, but it has to be absorbed in the global portfolio.

Operator

The next question is from Christopher Kuplent from Bank of America.

Christopher Kuplent ***BofA Securities, Research Division - Head of European Energy Equity Research***
Just a few minor ones, hopefully, to hoover up. I just wanted to ask you whether you can give us a bit more detail how much the impact is in your Q2 results and how much you expect for the full year from offering to your French customers a lower price at the pump. And if you can be explicit in terms of earnings versus working capital on a number of these government-funded rebates, that would be great.

Otherwise, I just wanted to ask, your effective tax rate has remained below 40%. In this environment, obviously, the high contribution from downstream helps. But I wonder what your thoughts are regarding upstream effective taxation, whether that is going to approach 50% sooner or later in this price environment or not?

And lastly, if I may, just a quick one on the net working capital inflows that you've seen in the second quarter. Any indication of how much of that is sustainable or you expect to be reversed in the second half would be fantastic.

Jean-Pierre Sbraire ***TotalEnergies SE - CFO***
I will take the question regarding the effective tax rate. We're around 40% -- 39% to be precise over the second quarter. So it's in line with the guidance we gave because this reflects 47%-48% for effective tax rate for E&P. It's close to 50%, reflecting the environment above the $100 per barrel. It's exactly what we have already said: I can remind you what the guidance we gave for the group at $80 per barrel. We gave for the group a tax rate around 40%, reflecting the E&P tax rate around 45%.

And regarding working cap, yes, we cash in more than $3 billion of working cap during the second quarter. The main driver is what I mentioned in my speech, is that we were able to cash in more than $1 billion coming from margins in relation with our gas and electricity businesses. And the balance came from the debt in relation with the tax because of course, in a higher environment, we generate more results. And of course, we will pay more tax in the coming months. So 2 main elements behind this $3 billion cash in for the second quarter.

Patrick Pouyanné ***TotalEnergies SE - Chairman, CEO & President***
On the fuel discount, I can refer to what the economy minister, the French economy minister mentioned to the parliament. He spoke about EUR 500 million impact. We sell 10 billion-liter per year. So you make a guess about the volumes and multiply by the discount. This is before taxes.

Operator
The next question is from Kim Fustier from HSBC.

Kim Anne-Laure Fustier ***HSBC, Research Division - Analyst of Oil and Gas***
Just 2 questions for me, please. Firstly, could you offer any comments on the sort of discussions you've had with the German government or German corporates on the proposed floating LNG project at Lubmin

in Germany? Have you secured any long-term offtake agreements from German gas buyers that help to underpin the project? And how realistic is the startup date to 1st of December this year?

And then secondly, is there anything that you've seen in the final Repower EU plan whether that's on wind, solar, hydrogen or biomethane that would encourage Total to make incremental low-carbon investments in Europe that you would not have made otherwise?

Patrick Pouyanné *TotalEnergies SE – Chairman & CEO*
On the German project, the project is the following one. There is a German promoter who have identified a location, next to the Nord Stream 1 pipeline landing area, and they are proposing this location to bring our FSRU and to connect it. The location is quite good because it's very near connection to the pipe gas network of Germany because it's just next to the landing point of Nord Stream 1. It's very easy to accommodate. There is some complexity because the LNG tankers could not come to that harbor. We should have a sort of shuttle system to take the LNG from the LNG tankers to bring it to the FSRUs. So we are developing that project.

The German promoter who has designed this project is developing that in connection with the German government to get the authorization. Having said that, if we bring some LNG in that FSRU, it will be put in the European gas market. So no, the answer is no: we don't have a long-term contract beyond the terminal for German customers. But there is no problem to find some LNG to feed that FSRU. We have enough LNG in our portfolio. And if the gas prices in Europe are remaining at the level they are, obviously, our priority will be given to feeding this FSRU with LNG. So we don't need long-term contracts beyond because it's a floating unit. And a floating unit, if there is no more market, you can put it elsewhere. It's a question of duration.

In the debate, by the way, about the gas terminals in Europe, I'm very comfortable to bring floating units because if the market is moving, because policymakers want to change their policy around natural gas, we can move it. If you build an onshore regas terminal, you take a longer commitment, and then it's not exactly from my point of view the same commitment for us to invest in onshore regas terminal than the floating one. It's an opportunistic move, I would say.

The question linked to Europe and REN in Europe. I mentioned previously biogas in Europe: It's an obvious very good case. Biogas will be encouraged in Europe, and if you develop biogas today and you sell it at natural gas market price, it's quite a good investment. There might be some segments where Europe is looking good.

The main question in Europe for me is a question of access to the space and capacity to develop the projects, acceptability with the neighbors, a lot of stakeholders: all that is quite slow. I'm listening to political leaders, who say we will accelerate. But for the time being, I don't see much acceleration.

So yes, we will consider Europe. Because Europe, fundamentally, is a continent with a lack of energy. We have a lack of energy: a lack of natural gas, a lack of diesel, a lack of energy. For me, the future of Europe is a little like Japan: security of supply will be there, and so the local energies that we can develop in Europe will benefit from a higher price of energy in Europe. That's true for us for natural gas, and that's true as well for electricity because all this transition has quite a cost whatever it is, nuclear or renewable. The fundamental trend for us in the European market for energy prices is on the medium term and long term is elevated prices.

Operator
The next question is from Amy Wong from Credit Suisse.

Amy Wong ***Crédit Suisse AG, Research Division - Research Analyst***
A couple of questions from me, please. The first one is on Papua LNG. You've launched a FEED for the upstream facilities, and I understand you have plans to then also move on to the liquefaction facility later this year. My understanding, though, is the operator of PNG LNG has not yet moved. And how much support, if any, are you dependent on PNG LNG also simultaneously looking to modify to incorporate your plans for Papua LNG? So that's my first question.

My second question relates to a couple of smaller transactions you did, but nonetheless important. You've done a couple in the carbon sinks area. I mean that's an area that's growing really quickly, but transparency and credibility on this market is a huge topic at the moment. So could you talk a bit about your strategy in the carbon sinks space, please?

Patrick Pouyanné ***TotalEnergies SE - Chairman & CEO***
Papua LNG: of course, it's very coordinated with the operator of PNG LNG with Exxon. Exxon is also a shareholder of Papua LNG. We decided a few years ago that we needed to leverage the potential synergies. In the meantime, there was a decision by PNG LNG to postpone their own additional train. The three trains became 2 trains for Papua. Today, they are working on what is the best possible scheme in order to be efficient, and we are working closely with them. They are on both sides.

By the way, there are a lot of alignment because there is another company from PNG LNG who joined Papua LNG. It's Santos after the acquisition of Oil Search. So when we took together the decision to launch the FEED on the upstream part of Papua, I think these 2 partners are consistent in their will to also move forward the FEED for PNG LNG. The reality is that on the time line to reach production, the upstream part is a little longer than the downstream part in this project. So the 6-month difference that we see today should disappear in the end and both parts will be together in order to take the FID.. So I see there a goodwill from both parties to converge.

On the carbon sinks, yes, we are making some new steps in Congo, in Gabon, I think also in Peru recently. This is not an easy one because we want to take into account the transparency, credibility. So our teams of specialists, we have 20 people working together, have one clear axis, which is that they invest in high-value carbon credits. And we attach a lot of importance at our level: we're not there to make greenwashing, it's really about making these projects sustainable long-term projects. There are some standards, the Verra standards for the experts, which we follow very carefully.

We think that to develop such very credible projects, it takes time. We are dedicating $100 million per year, and we are not convinced that we could spend much more because each project is really a project by itself involving a lot of stakeholders. So if you want more color on it, Amy, I will encourage my IR team to connect you with our head of the nature-based solutions Adrien Henry. He could give you more details about it if you are interested. And I encourage Renaud and his team to connect you. Your concern is very well taken into account in the way we invest.

Operator
The next question is from Paul Cheng from Scotiabank.

Paul Cheng ***Scotiabank Global Banking and Markets, Research Division - Analyst***
Two questions. First, I think you have mentioned previously, you hope to finalize the first project in Suriname by year-end. Just wanted to see if there's any update on that.

Second question. With the rising fear of recession, how does that impact your next-year planning for budget, balance sheet and capital return to shareholders?

Patrick Pouyanné ***TotalEnergies SE - Chairman & CEO***
Suriname, we are continuing to drill and progressing positively. Good news, not an easy plan. I think we gave you a meeting point by the end of the year. I don't have more to give you. Our partner has released a lot of data. I'm not sure it helps anybody to understand where we are. So we find hydrocarbons, there is oil, there is gas. And of course, gas, we don't flare. How do we valorize the gas ? Can we inject it in the reservoir? So there are studies going on. And we'll have clarity by the end of the year, on our potential development plans.

The best way to face the recession is to have a strong balance sheet. It’s the lesson I learned, and I faced several crises in 2015, and again in 2020. With what we are doing, deleveraging the Company, gearing is under 10% and we plan to have it under 5%. We have never been in such a situation within TotalEnergies. For me, it's the best guarantee to ensure the return to shareholders even through a recession, and you know we've done it with COVID. We were the only European major to maintain the dividend through COVID. By the way, before COVID end of 2019, our gearing was lower than 15%. So we accepted the gearing to go a little above 20%, and we were right because it went down 1 year after.

What I strongly believe is that the best protection for return to shareholders through the cycles and through events and recessions is a very strong balance sheet. I repeat my commitment to you. During my introductory speech, I reminded you that we never cut the dividend since 1991. I can tell you it will be the same if we have a recession coming in 2023.

Operator
The next question comes from Henri Patricot from UBS.

Henri Jerome Dieudonne Marie Patricot ***UBS Investment Bank, Research Division - Associate Director and Equity Research Analyst***
A couple of questions for me. The first one, just on the Russian impairment of $3.5 billion. So I was wondering if you can expand on your why that was triggered this quarter, I mean to get to $3.5 billion?

And secondly, on the gas prices, and you discussed earlier, the LNG price, but more broadly for the upstream. Is it still fair to use sensitivity that you used at the beginning of the year given the NBP sensitivity may be impacted by events like the U.K. windfall tax? Should that be different for the second half?

Patrick Pouyanné ***TotalEnergies SE - Chairman & CEO***
On impairment: every quarter, we make some impairment tests. The first quarter impairments were linked to Arctic 2. We were considering that the capacity to execute the project would be much more complex because of the sanction. So we made that first decision. And this one, if you read the press release, we said that we have made an evaluation of our stake in Novatek. And we concluded that according to our accounting rules, we had to make an impairment according to the calculation. It's around $3.5 billion.

As you have noticed, by the way, in the annex of the press release, there was strange story where our capital employed in Russia were going up by $2 billion just because we had to apply on the 30th of June the ruble/euro or dollar exchange rate, which were better for Russia than the one on 31st of March. There was a revaluation of our capital employed, which would have been quite funny, to be honest. We have to follow the accounting rules, but at the time where we want to gradually lower our exposure to Russia, we made all these calculations.

So it's applying the rules. And we'll continue it's monitoring. We closely monitor with our auditors and with the Board. And taking all the news that we can, and there are many news coming on Russia. It's our duty to review quarter after quarter the situation of our Russian assets. As I told you, however, in my speech, and I think it was an important news statement for you, we will present to you end of September the strategy of TotalEnergies putting aside Russia. Because there is no more growth in Russia, no new projects. So we want you to consider the future of TotalEnergies without Russia. What it means is that, as I said, there will be a volume impact but not really any financial impact on performance, and the return to shareholders will not be affected by the fact that we put aside Russia in this presentation, and we will explain you why, we have the opportunities in our portfolio to continue to see the future of TotalEnergies even putting aside Russia from our perspective.

On the gas price, the answer, Jean-Pierre. I don't think it changed.

Jean-Pierre Sbraire ***TotalEnergies SE - CFO***
No, nothing changed, and we publish the sensitivity in the press release. It's the same: $3 billion per $10 per million Btu NBP.

Patrick Pouyanné ***TotalEnergies SE - Chairman & CEO***
What has changed is the absolute value of NBP. That has changed a lot. You see the absolute value impact

in our results. And as it's going sometimes from $20 to $50 down to $30. It's volatile, but it's a volatile for good. What is changing as well, is that our long-term assumption on European gas price, and we will explain you that in September, is higher than before. Because with Russian gas out of the European system, European gas price is driven by the LNG price from the U.S.. So that has also changed the perspective of TotalEnergies. And as we are very well positioned with our portfolio on European gas as a producer in Norway, Denmark, U.K. and also as LNG regas importer, we will benefit from that for the future.

Operator
There is no further question.

Patrick Pouyanné ***TotalEnergies SE - Chairman & CEO***
Thank you for your attendance on this call and very interesting questions, which I think will help you to better understand how TotalEnergies can continue to deliver strong results and strong return to our shareholders, whatever the cycle, high or low. And of course, we continue to monitor that very carefully with the Board of Directors in terms of level of return to shareholders.

And I invite you to put on your agenda, an important date, the Investor Day on September 28. We'll be in New York, coming back, for the first time in several years, to a meeting in presence together, and I hope you will be able to join us from both sides of the Atlantic on the U.S. or in the European continent there in New York. Everything will be done to be sure that your health is well taken into account, and I think it will be an important event, and we are happy to welcome you there.

Thank you. I wish you a very good summer vacation. Maybe some of you are already in vacation, but you were nice to attend the call for us after 2 long years. I can tell you, Jean-Pierre is just aspiring to take the plane in 2 hours to...

Jean-Pierre Sbraire ***TotalEnergies SE - CFO***
Immediately.

Patrick Pouyanné ***TotalEnergies SE - Chairman & CEO***
Immediately. Thank you for your attendance and for your support.

Jean-Pierre Sbraire ***TotalEnergies SE - CFO***
Thank you.