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PRESENTATION

Operator

Hello, and welcome to the Repsol's First Quarter 2021 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 must advise you today's conference is being recorded.

I would now like to hand the call over to Mr. Álvarez-Pedrosa. Sir, you may begin.

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

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

Before we start, I advise you to read our disclaimer. During this presentation, we may make forward-looking statements, which are identified by the use of words such as will, expect and similar phrases. Please note that actual results may differ materially depending on a number of factors, as indicated in the disclaimer.

I will now hand the call over to Josu Jon.

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

Thank you, Ramón, and thank you to everyone joining this conference call. I hope that all of you are keeping healthy and well. Today, I'd like to cover the following main topics: firstly, a review of the key messages of the quarter; secondly, the operating highlights and financial results; and finally, an update outlook for 2021. With 4 of our peers also releasing their quarterly results today, I'll make my best go straight to the main points. Of course, at the end of the presentation, we'll be available to answer your questions.

Let me start with the key messages. Supported on a solid set of quarterly results and cash generation, Repsol's performance in the first quarter has continued the positive momentum achieved in the last part of 2020. More than 1 year since the start of the pandemic, I think it's fair to say that our industry as a whole, and Repsol in particular, have successfully demonstrated their capacity to navigate through a crisis that still has profound implications in our lives. All business segments delivered a positive operating and free cash flow in the quarter. A weaker refining environment was more than compensated by the recovery of the oil and gas prices and outstanding performance in chemicals and the contribution of the customer-centric business.

The adjusted net income reached EUR 471 million, a 17% improvement over the fourth quarter of 2020 and 5% higher than in the first quarter a year ago. Cash flow from operations amounted to EUR 1 billion, 73% higher year-on-year.

Operating cash flow cover CapEx, interest, dividends and most of the treasury shares acquired. Compared to pre-COVID levels, the

operating cash flow was 11% lower than in the first quarter of 2019, which had a similar level of oil and gas prices, but a 10% higher production and a refining margin in the \$5 range at that time, I mean.

Net debt, including leases, stood at EUR 6.5 billion, a EUR 300 million reduction compared to December. And excluding the effect of the hybrid bonds issue and repurchase during the quarter, the net debt was in line with the end of 2020.

Let me highlight that Standard & Poor and Fitch recognized Repsol's financial strength, reaffirming their credit rating at BBB with that stable outlook. We delivered on our remuneration commitment for January 2021, following the implementation of our buyback program to purchase and redeem the shares issued with the January scrip. A total of 38.9 million shares were purchased in the quarter, and the remaining 1.5 million shares have been bought in April. The share capital reduction was executed in April, resulting in a final share capital of 1,527 million shares. Going forward, dividends will be fully paid in cash.

Given the slower recovery of Europe's and Spain's economies, we remain cautious in the short term as Repsol is already working in this transformation. We are accelerating the investment in Low Carbon and progression on the decarbonization of our Industrial assets. In the first quarter of 2021, 40% of our CapEx was deployed in Low Carbon platforms. Aligned with our strategy, the Upstream division is one of the cash generators that finances this transition, maximizing value generation while getting ready to benefit from higher prices, thanks to the flexibility of this portfolio.

Looking now briefly to the macroeconomic environment of the quarter. Brent crude averaged \$61, 38% higher quarter-on-quarter and 22% above the same quarter a year ago. An improved outlook for oil demand together with the extension of our production cuts supported the recovery of prices through the quarter.

Henry Hub averaged 7.2 -- sorry, \$2.70 per million BTUs compared to the previous quarter and 35% higher than in the same period of 2020. Driven by the strength of most regional gas references, Repsol's realization gas price rose to \$3.4 per 1,000 square cubic feet in this quarter, 26% higher than in the fourth quarter of 2020 and 42% higher than a year ago. In Refining, the margin indicator decreased quarter-on-quarter, negatively impacted by the higher energy cost due to the Brent price that offset the stronger gasoline spreads.

Let me now review the main operating highlights of the quarter. The Upstream business benefits from better prices, lower cost and unstable contribution from Libya. Organic free cash flow amounted to EUR 0.5 billion, 86% higher than in the same quarter a year ago. Production continued to be managed with a flexible and value-focused approach. Quarterly volumes averaged 638,000 barrel of oil equivalent per day, a 2% increase quarter-on-quarter and 10% below a year ago.

Year-over-year, volumes were negatively impacted by the weather issues in Eagle Ford, maintenance activities and the natural decline of sales. These impacts more than offset the higher production in Libya, Bolivia and Venezuela.

Libya contributed 37,000 net barrels per day comparing to an average of 6,000 barrels per day in the same period a year ago. Although the environment is complex, there have been positive signs of stabilization in the country. Our budget expects an average production of 36,000 barrels per day in 2021.

The Upstream CapEx in dollar terms rose 14% higher than in the fourth quarter of 2020, increasing the capital intensity per barrel produced, thanks to our capacity to accelerate investments in a higher price scenario.

OpEx, in GAAP term I mean, were 21% lower than in the first quarter of 2020. Even compared to the average of the last 3 quarters of 2020 that were impacted by the pandemic, on the resilience measures, OpEx were 5% lower. Our leaner and more focused exploration strategy delivered another significant discovery in the Boicobo Sur well in the Caipipendi block in Bolivia. This discovery added 1 Tcf of new gas resources to what already is a profitable producing asset. Development activity remain focused on the 14 key projects that we expect to put on stream within the horizon of our strategic plan.

In Norway, the development of Yme completed the successful installation of the drilling and production unit. First oil is expected in the fourth quarter this year. In Alaska, the development of Pikka keeps moving ahead. The operator expects the final investment decision by

the end of the year with first oil projected by 2025. We are working together with them in finding a new partner to step into the project. In Indonesia, the development plan for Sakakemang was approved by the government, allowing us to monetize the recent exploration success. FID is expected by the end of 2021 or the beginning of 2022, with first gas 2 years later. And in Brazil, the partners of Campos 33 license approved the development concept of this important gas and condensate field.

Let me now continue with the operating performance of the Industrial business. Despite the challenging refining scenario driven by a weak demand for petroleum products, this division was able to generate a positive free cash flow of EUR 0.1 billion in the quarter.

Starting with Refining, our margin indicator averaged \$0.20 per barrel, which compares to \$1 in the first quarter of 2020 and \$4.7 a year ago. The premium achieved in the CCS margin was \$0.60 over the indicator. Year-on-year, margins were negatively impacted by narrower middle distillates spreads, tighter heavy crude spreads and higher energy costs. The relative strength of heavy crudes weighs against complex refiners like Repsol. The utilization of our distillation and conversion units was 76% and 82%, respectively. This was a modest quarter-on-quarter improvement, but still below the utilization rates of the first quarter in 2020.

The Chemicals business remained resilient through the crisis, delivering an exceptional quarter that was supported by high margins, superior utilization rates and stable sales. International margins of intermediate products and polyolefins reached their highest levels in decades, driven by a solid demand, the disruption in the Gulf of Mexico and supply restrictions in Europe. Higher product prices more than compensated the increase in the price of the feedstocks. During the quarter, our Chemical business completed its third sale of Repsol's propylene oxide, styrene and polyols technology license for the construction of new plants in China.

Moving now to Commercial and Renewables, starting with Mobility. Sales in our service stations in Spain were 14% lower than in the first quarter of 2020, reflecting the impact of mobility restrictions due to COVID-19 and the effect of the Filomena storm. Remember that Filomena was the largest snowstorm we have experienced in Spain, mainly in the high plains area, affecting Harley to Madrid over the last century. Compared to pre-COVID levels, sales were 22% lower than the first quarter of 2019. After quarter closing, we reached an agreement to divest our Italian service stations network and direct fuel sales business. This transaction will allow us to focus on the geographic areas where we have the greatest competitive advantage.

In Retail, Electricity and Gas, Repsol acquired a majority stake in Gana Energia, a company with 37,000 clients that operates online and markets 100% green energy. With this acquisition and our -- the organic growth in the quarter, we currently have more than 1.2 million clients in this business. The Lubricants, Asphalts and Specialties business had another solid quarter, improving its sales compared to the first quarter of 2020.

In Renewables and generation, the electricity generated by Repsol was 23% higher than in the first quarter of 2020, thanks to the start-up of Delta. Remember that Delta is the green production in the Aragon, the Northeast part of Spain, and a higher contribution from hydro. Kappa, our first solar farm in Spain in the southern high plains in Ciudad Real with 126 megawatts of capacity is starting operations. And during next week, we'll receive final administrative authorizations. We keep on working on the development and construction of the rest of the projects in our portfolio.

In Chile, our JV with Iberoólica signed a 14-year PPA for the development of the Atacama wind project, guaranteeing double-digit profitability of this asset. Moreover, Repsol signed a PPA with Microsoft to supply renewable wind and solar power to their operations in Europe. This agreement expands the collaboration between both companies to accelerate digital innovation and energy transition.

Finally, aligned with our strategic objective to explore either an IPO or finding a suitable partner for our renewable business, we are taking the necessary steps for the proper rearrangement of our corporate legal structure.

At this point, I want to take you briefly through the progress in the energy transition and the transformation of our portfolio. In Cartagena, southeast part of Spain, procurement work has started ahead of the development of the new ecoplant that we start operations in 2023. In our Petronor refinery, in the north part of Spain, engineering work has started in the 10-megawatt renewable hydrogen plant. In Tarragona, Northeast, Repsol has joined Enerkem and Agbar to build a waste-to-chemicals plant. And in this plant, we will transform 400,000 tons per year of urban waste from the area in more than 220,000 tons of methanol from renewable plastic

advanced biofuels. In Puertollano, we will build the first plant in Spain to produce chemically recycled polyurethane foam. This facility will be able to treat around 2,000 tons of waste per year and will be under operation in 2022.

In customer-centric, we continue adding new energy services with multi-energy approach, offering comprehensive solutions in Mobility and adding products and services at home for our customers.

In Iberia, Repsol opened its first ultra-fast charging point in Portugal. In Spain, we continue expanding our recharging network with the ambition of reaching more than 1,000 charging points in our service stations.

And finally, within the framework of the Next Generation of European Fund, Repsol has a portfolio of more than EUR 6 billion in projects associated with the energy transition for the 2021 to 2026 period, that could be candidates for the next green funds.

Let me now review the financial results. The group's adjusted net income was EUR 471 million, which compares to EUR 447 million in the same period a year ago. By division, the adjusted net income of the Upstream was EUR 327 million, EUR 237 million higher year-on-year, mainly due to higher realization prices, lower costs and lower amortization rates.

In Industrial, the adjusted net income was EUR 73 million, which compares to EUR 288 million a year ago. Reduction is mostly driven by refining in Peru, partially offset by the strong performance of the Chemical business. The result in Commercial and Renewables was EUR 101 million, EUR 20 million lower than in the same quarter of 2020, primarily driven by Mobility and LPG. In Corporate and others, the adjusted net income was EUR 30 million negative, a EUR 22 million improvement over the same period a year ago, mostly due to higher results from derivatives from treasury stock positions.

The group's EBITDA CCS stood at EUR 1.4 billion in the quarter, 4% lower year-on-year. For further detail on Repsol's results, I encourage you to refer to the detailed documents that were released this morning.

Looking now at our updated outlook, we are increasingly optimistic on the macroeconomic scenario for 2021, but will remain under resilience mode until we have clear signs of the end of the mobility restrictions and effects of the pandemic. In the Upstream, we have increased our CapEx budget by 10% in 2021 with a focus on increasing activity in unconventional. We expect to start drilling in Marcellus and Eagle Ford by midyear after bringing 1 rig to each asset. The flexibility of our portfolio will allow us to select the best targets with a short payback to benefit from sustained higher price scenarios.

In Chemicals, the fundamentals of the first quarter have continued in April at the same level that we saw in March, and we have raised the full year expected contribution of this business being in April.

In Refining, the margin indicator has averaged \$1.2 per barrel in April. We now expect an average full year Refining Margin Indicator of \$2 per barrel. I mean there is the mathematical effect of the delay in the exiting process of the pandemic. And this increase of the margin, from our point of view, is going to be helped by the gradual recovery of demand and the adjustment of overcapacity in Europe during the second half of the year. Our expected full year EBITDA CCS increases to EUR 5.8 billion as a result, and I underline this fact of higher oil and gas price assumptions and stronger petrochemical margins, partially offset by the lower Refining Margin Indicator. CapEx remains unchanged at EUR 2.6 billion as the higher investment in unconventional will be largely offset by other moving parts in the portfolio.

Lastly, let me update you on the arbitration proceeding with Sinopec. In connection with the purchase in 2012 of 49% of the shares in Talisman Energy U.K., on 20 April, 2021, the arbitration tribunal has issued a new partial award in connection with the 4 issues pending resolution in the liability phase, dismissing Sinopec claims on 3 of the claims: decommissioning, projects and maintenance and finding Talisman liable in relation to production, that in some ways, overlapping with the previous award related to reserves. After this award, the arbitration proceeding will continue to the quantum phase.

The new award is under analysis internally and with external counsel. However, our preliminary view is positive. The award dismissed most of the claims and allowed us to outline with more clarity the potential consequences of the conduct of Talisman group, limiting our risks. Once we have completed our analysis, we will review the current accounting provision, which presumably will result in a reduction

of the amount initially registered.

To conclude, our solid performance in the first quarter of the year has brought us one step closer to pre-COVID normalized levels. The resilience of Repsol's integrated model has allowed us to deliver a strong set of results and a positive operating and free cash flow contribution in all our segments. Downstream is not just refining, the exceptional performance of chemicals and the contribution of the customer-centric, even with this one-shot event I have related before, Filomena, that paralyzed mobility for 2 weeks in a main part of Spain, is allowing us to navigate what still is a challenging refining demand scenario. Upstream is performing aligned with our strategy, working in a agile and focus mode, reducing costs and maximizing cash generation while getting ready to capitalize on higher prices.

We continue maturing the projects that will concentrate our E&P investment during the horizon of our strategic plan with most of the FIDs coming in next 24 months. The development of our renewables pipeline remains on track. By year-end, we expect to have 710 additional megawatts of capacity in operation or advanced stages of construction. This includes 517 megawatts in Spain and 193 megawatts in Chile, corresponding to a 50% stake in the JV we have with Ibereólic.

The transformation of our industrial assets is ongoing. Advanced biofuels and renewable hydrogen will play a key role in the future of this division. Looking into the rest of 2021, we will maintain a prudent capital allocation policy, even though our revised macro outlook has allowed us to improve by 10% the expected full year EBITDA of CCS and operating cash flow generation.

With that, I now hand the call back to Ramón, who will lead us through a question-and-answer session. Thank you very much.

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 the Q&A session, I would like the operator to remind us of the process to ask a question. Operator, please go ahead.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

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

Our first question comes from Irene Himona at Societe Generale.

Irene Himona Societe Generale Cross Asset Research - Equity Analyst

Two quick questions, please. Libya, can you say what the contribution was to your Upstream EBIT, please, in the quarter? And then secondly, you mentioned Refining margins so far in Q2. What are you seeing in terms of oil product demand and oil product sales in April, please?

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

Thank you. Irene, I mean, first of all, going to Libya, let me say that in terms of production, the average has been at around 300 -- sorry, 36,000 barrels per day. And the estimate EBIT in the whole quarter has been more or less EUR 24 million. Anyway, I'm going to check the figures with our team, but I think that are more or less there.

Going to the Refining margins. I mean, we are seeing a slight recovery of demand in April comparing with the first quarter. More or less, the first quarter, we have experienced a 23% of total reduction of the demand in Spain. And what we are seeing in April is that the figure could be at around 21% in service stations in Spain and 18% in Portugal. I'm comparing with 2019, of course, because you know, Irene, that comparing with 2020 taking into account that we were confined at that time was -- is a nonsense. So comparing with 2019 figures, there is a slight recovery. And we are seeing, of course, this recovery in a clear way in margins. Still, we have a low margin, \$1.20 per barrel as margin indicator in April.

But I mean there is an important milestone in coming days. And of course, I don't have a full clarity about that. But on May 9, the alarmed state that was declared 6, 7 months ago by Spanish Parliament is going to end. And it seems to me that the restrictions, in some way, we have experienced or suffered because of the pandemic over the last months are going to be clearly easier from this day on in Spain.

So I think that we are going to see and we are prepared to experience a clear demand increase in case of seeing in coming weeks, this demand -- or sorry, this restriction is in process and demand increase as we expect due to the end of this grave of the pandemic that is in some way overlapping with the vaccination process in -- sorry, I'm going -- the EBIT figure, Irene, was EUR 140 million in Libya, excuse me. It was my mistake. I was checking a partial month figure, EUR 140 million.

So going to your second question, we are seeing and expecting a clear demand increase in coming weeks as a consequence of the end of the restriction. In some way, we are still prudent. The game is not fully over. But after 1 year, I could say that Repsol has overcome the worst of this pandemic, and we are prepared to recover and to go on in our growth process.

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

Next question comes from Oswald Clint at Bernstein.

Oswald C. Clint Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst

I mean there's always lots of rumors around your proposed transactions, renewable IPO, the customer-centric business. I mean, I know the rumors tend to be 80%, 90% wrong. But I wonder if you could just update us on your intent to execute those particular transactions, say, within the next 12 to 18 months, please? And then secondly, just on unconventional CapEx, the Marcellus and Eagle Ford. Of course, gas prices in the U.S. are not as high as international and others are adding rigs into the gas plays as well. So could you outline what are those payback periods you're assuming? And what happens if gas was to perhaps pull back to mid-\$2 levels or even below \$2.50 per Mcf. Would you scale back that CapEx again?

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

Thank you, Oswald. I mean, going to your first question, I mean, let me again underline that what we announced -- I announced last time, 8 weeks ago, presenting the fourth quarter results, was that we are going to launch an IPO or alternatively find a sustainable partner for our renewable business, and we still have 13 months ahead to take a final decision, I mean, fitting with our commitment. And I mean, the rationale of this decision is mainly to have the right vehicle, a clear visibility of the Low Carbon business and decreasing the cost of capital of the company.

That is the rationale we have behind this decision. I mean it's nothing related to the moment that renewables are leading and nothing to do with the market current situation. So we have no rush to launch an IPO or find a partner. We are analyzing the process. We are in talks with potential partners and so on. And we will take a final decision once we decide it is the best moment to do so. But I mean, our target is not divesting. It is, first of all, having the right vehicle with low-cost of capital; two, grow, and secondly, to push, to foster, to enhance the growth in this business that is going to be important and core for Repsol.

I mean in the case of the customer-centric business, let me say, Oswald, that we are always monitoring the market in order to search for inorganic opportunities that could be beneficial for our shareholders. And in this approach, I mean, we have to sometimes evaluate the possibility to sell a minority stake in our customer-centric business. But I'm going to be very clear. We are only to consider this option if a potential partner have the capacity to add value through the current Repsol customer-centric business proposal. And let me say, that is not going to be an easy task. You know that we have a strong position as a brilliant energy leader with a high-growth power customer business, with more than 24 million customers and a strong brand, a good reputation and a growth project.

I mean, we have the expectation to grow at 40% in the EBITDA of this business by 2025 compared with 2019 levels. I mean, it's not easy to find a partner to improve this pathway. But in any case, I mean, we are always -- because it's our duty analyzing the market. But let me say that in this case, it's going to be harder than in the first one.

Going to the Marcellus. I mean, first of all, the payback is around 3.5 years if we take this increase we are going to have. Secondly, I mean

-- and I know you know that, Oswald, but in the Eagle Ford, we have mainly liquids. I mean 2/3 of the production or 70% is either oil or condensate. So in the case of Eagle Ford, we have a clear exposure to liquids that increase the economics. In the case of Marcellus, you are right, it's dry gas. The drilling in the Marcellus is going to be the year of increase. We are going to have in CapEx terms at around \$48 million, \$50 million. I hope that I'm giving you the right figure after the mistake -- sorry, I did with Irene, talking about Libya.

And going to the breakeven, we are comfortable in cash terms because slightly below \$2 per million of BTUs Henry Hub in the new drilling process, we are going to -- we are comfortable in breakeven terms. Of course, working, exploring, and in this case, increasing CapEx has always some risks, but we are quite comfortable taking into account the expectation for this gas price, taking into account the payback and taking into account the low breakeven in cash terms of the new production we are going to drill in this campaign from June on with this new rig. Thank you, Oswald.

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

Our next question comes from Biraj Borkhataria at Royal Bank of Canada.

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

2 please. The first one is on Chemicals. And I look at -- to my model, it looks like one of the best results in several years. I was wondering if there's anything unusual in there or anything you can call out that was driving that significant improvement? Or is it just a broad-based kind of Chemicals recovery there? And then the second question is on working capital. I think last year, you talked about one of the strategic initiatives, and it was -- one of them was to reduce working capital to help protect the balance sheet. How should we think about that into 2021? Have you baked anything into your net debt guidance for this year? Because I would have thought with higher commodity prices, you might have a bit of a headwind there. Any comments on that would be helpful.

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

Thank you, Biraj. I was checking some days ago, this Monday, Tuesday, the tracking we have internally of chemical internal index, I mean, that is related to international margin and our own units from 1991 on, that is the tracking we have. March, and let me say, April are the highest numbers, the highest figures in margin terms in the series we have in Repsol. I mean, growth is in some way behind. I mean, it's true that even in 2020 with consumer goods, the automotive sector, construction negatively impacted because the COVID. The petrochemical demand kept globally steady, sustained by applications like packaging, health care and so on. But it's true that in 2020, we are seeing a clear demand growth that continues to provide a support to the market with certain recovery in some of those sectors that were more negatively in some way impacted in 2020.

We have to add that this quarter, we are seeing some supply constraints due to production and logistic issues in the case of the chemicals and in the Gulf of Mexico in January, you'll remember the weather problems they have and so on. And in some way, I think that the maintenance in some trackers and so on is also impacting in a positive way. But our perception is that performance in this business is expected to continue, at least, in this -- throughout the second quarter.

And it will be quite rational to expect a small decline in the third quarter as supply/demand balance normalizes. But as I said before, we are seeing a clear results track in Repsol. And in April, we are, in some way, fitting or overcoming the full expectation we have for the whole 2021 year. So I don't know what is going to happen. But let me say that even seeing the end of this restriction, the second half, it seems to me that it's going to be a good second half for the Chemical business.

Going to the working capital for the whole year. I mean it seems to me that -- I mean, decoupling any -- and excluding any price effect, our expectation was to have EUR 300 million increase in working capital over the whole 2021 year, more or less EUR 100 million, EUR 150 million could be related to the Upstream, mainly Venezuela. And I mean EUR 150 million could be related to Downstream activity, receivables, some part of the stalled recovery we had at the end of December, that was very low and so on.

On top of that, we could expect -- I mean, being at \$60, \$64, \$65 per barrel at the end of the year, in that case, perhaps you have to add EUR 500 million, maximum EUR 600 million, to this working capital due to the price you need to sustain your inventory. So I mean, from

EUR 300 million, that will be the figure at \$50 per barrel at the end of the year, and something close to EUR 800 million as the total working capital increase over the whole year in a scenario put in the end through the year in a range of \$60 to \$65 per barrel, more or less.

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

Next question comes from Michele Della Vigna at Goldman Sachs.

Michele Della Vigna Goldman Sachs Group, Inc., Research Division - Co-Head of European Equity Research & MD

Two quick questions, if I may. On the tax rate, what should we expect in a normalized environment as your Downstream business recovers? Is it still fair to assume something between 35% and 40%? And then finally, on your commercial business, is it fair to assume that as the restrictions start to ease and traffic comes back into the summer that we could assume that the EBIT would go back to the EUR 200 million plus per quarter, perhaps starting from Q3? Would you find that a reasonable modeling assumption?

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

Thank you, Michele. I mean, you know, more or less, all in all, in our Downstream, the average tax rate is around 25%. And in the case of the Upstream, I mean, I think that this quarter, we have been in the 45%, even having a bit more Libya because we also have more North America and so on. And all in all, we have been in the 45%. That is true that because the weight of the results in the P&L of the Upstream has been higher in relative terms comparing with the Downstream because the situation in the Refining business and so on. We have been close to the 40% in the total figure as an average in the first quarter. I mean taking it into account, let me say, a more normalized year.

I mean, I think that we could be closer to 33%, 35% in case of having a more normalized Downstream. But of course, that is going to be the great of every business in the tax basket. I mean, let me again underline what happened in Spain in January because we not only experienced a restriction in mobility for 2 weeks, even the nonoil business in the main part of Spain was not selling in a normal way because there was snowstorm and we suffered in January. So all that, of course, added to the restriction of mobility in the commercial side, has impacted this quarter in this business.

In any case, I think that we are going to see a clear recovery of this business in this quarter. The easing of restrictions is going to be clear. And in some way, I mean, the customer-centric business in this quarter -- I mean, in next quarter, could have more or less an average. In the whole year, we could have an EBITDA more or less of EUR 800 million -- EUR 900 million. And in a normalized quarter, and I think that next quarter is going to be quite normalized, in the customer-centric area, we could be close to EUR 250 million of EBITDA. And EBIT, that could be something between EUR 150 million, EUR 170 million. But I think that things are going to be clearly better after the end of the state of alarm from May on, Michele. Thank you very much.

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

The next question comes from Thomas Adolff at Credit Suisse.

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

A couple of questions going back to Commercial and the Renewable business. Just on the commercial to clarify. So you've mentioned just now that any potential partner will find it really hard to add value. But the fact that you started the process, to me, suggests that you were looking for a good valuation, which you then clearly didn't get. And then I guess my other question would have been, why do you need the proceeds for the commercial business considering you can't really grow in Spain? You've got a very strong position there, unless the intention was to use the proceeds to maybe add another geography in Renewables. So just a little bit not sure about how to read your activities in the commercial business?

And then secondly, maybe just on the Renewables. You've said you're not in a rush right now. But obviously, since you last spoke was the 4Q results, maybe you can at least provide us with a progress report over the past 2 to 3 months, what have you learned? Are you incrementing more positive about the process or not?

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

I mean -- I'm going to be very clear. We don't need the proceeds of any divestment coming from the customer-centric business. Saying that, it's true that, I mean, in case of seeing, let me say, a enterprise value EBITDA proposals or offers, I mean, above 11x, 12x. In that case, I mean, I had to rethink what I said some seconds ago. But saying that, Thomas, I mean in case of having a partner, and as I said, that is not going to be an easy task at all. I mean, it's not today our central scenario. We need someone ready to add capabilities to our business. I mean to grow in some way to fulfill in a better way the strategic plan we have and so on.

In the case of the renewable business, let me say, first of all, that we are delivering what we said. I mean, every step, we commit, we are delivering to the market what was our commitment. Secondly, we are building the business. We are building the capabilities to manage this business. I mean, today, we have a reputed team that is already our reference in the market.

Secondly, we are working internally in terms of carve-outs, legal entities and so on to prepare this business to have the right vehicle in financial terms to foster the growth of this business, and that is going to be quite similar in both cases for the JV with a potential partner or the IPO. And in some way, we are working -- finding the right partner for this business. The IPO is an option.

And let me say, a combination of both is also an option because perhaps we could have a partner that could, in some way, help us to build this vehicle with a lower cost of capital, preparing together the IPO that at the same time, in the midterm, in the long term could be also an exciting way for this potential partner. So we are working on that.

At the same time, we are progressing in the right way. As you have listened some minutes ago, we have -- we started the operation in a new plant this week in Kappa. We are also improving the mix of the merchant and PPA position of our business to have a more clear -- in some way, a more clear expectation of future cash flows coming from this business, what we did with Microsoft related to our Spanish assets goes in that direction. Same thing in Atacama in Chile, that thanks to the PPA we signed, I think that for coming 14 years is guaranteeing the double-digit return for the equity position we have in this wind farm in Chile.

So we are progressing in that direction. And what we are building in some way are the capabilities to have a competitive, profitable business that in some way is going to need, and that is what we are looking for now the right financial vehicle to improve the cost of capital of this business to compete in a better way. Thank you, Thomas.

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

Next question comes from Alastair Syme at Citi.

Alastair Roderick Syme Citigroup Inc., Research Division - MD & Global Head of Oil and Gas Research

Can I just get you to comment on Refining? I mean the low margins are clearly a signal for the industry to rationalize capacity. But then you've got this higher forecast and later on in the year, which I guess is consistent with the end of lockdowns. But I'm wondering if that's going to end up with the industry rationalizing enough capacity if that scenario happens. So I'm just sort of interested in your perspective. And then can you talk specifically on your own Refining portfolio, what you were doing? Because there has been some press around sort of temporary shutdowns, for instance, in Petronor, but they do seem to be sort of mid-term temporary shutdowns, if that makes sense? That's all I have.

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

Thank you, Alastair. I mean first of all, let me say that our 5 refineries are in the first quartile of the European competitiveness, I mean, in a normal situation. Remember that even in 2020, when we take, in the published figures, European refineries, more than half of them were -- had negative net cash margins. And all of our 5 refineries in Europe, they were in the positive side. It's true that we are seeing and experiencing a quite known usual situation in our market. I mean the pandemic, the mobility restrictions, they have impacted in a dramatic way on some factors that are important even in relative terms for our refining system.

First of all, I mean, the lack of jet sales in the world is impacted in a very negative way on the situation and the spreads of the middle distillates in the world. And you know that we have a system that is, in some way, very related to the middle distillates production unless

it's post to gasoline, what is advantage? Being in Europe, in a normal situation, in this pandemic has been in some way, in relative terms, a differential, negative competitiveness for our system.

Secondly, we are more exposed through the spread of discount, better said of heavy oils because the restrictions in production that hit and some other companies are enforcing or compliant due to the drop of demand in the world. The restriction of supply of this crude oil is higher than for some other alternatives, and that is impacting also in a negative way on our systems. And thirdly, due to the drop because the restrictions in our internal Spain, Portugal, France, that is also part of our internal and so on, we are changing some positions that are CIF for us with higher margins by FOB positions with lower margins for our system.

I mean, these 3 effects are impacted in a negative way, that is slightly recovering, but we are not still there because, I mean, we are waiting for the end of the mobility restrictions. And that is impacting in a temporary way and opening the door to shutdowns that are temporary, that are affecting to our -- 3 of our refineries, Petronor in north part in Spain in Bilbao, Puertollano in the high plains, Coruña. And in some way, we are prioritizing the continuity of our operations. But it's true that due to this demand drop, we are taking this kind of temporary shutdowns and temporary layoffs in our refineries with the target of improving the efficiency and increasing the competitiveness we have.

We are -- and we expect that in some weeks or in the next few months, this situation could recover because in competitiveness terms, I mean, we have a refining system of 5 refineries that are in the first European quartile. They are not threat in any scenario. They're not threat in any scenario, where 25% of the European capacity could be shut down in coming 5, 6 years because a lack of competitiveness of the European refining, we are going to be there. We are going to be operating. But our duty in the meantime is, of course, protecting our P&L, protecting our assets and investing to transform them and to have a more competitive refining system. We are doing that. Remember that we have in our strategic plan, the target of reducing 25% CO2 emissions of our refineries with a more higher production of ecofuels, reduction of energy costs, circular economy and so on. We are taking advantage of this time to accelerate this transformation to have after the recovery that is going to arrive, and is going to arrive probably soon, to have a more competitive refining system. Thank you.

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

The next question comes from Alessandro Pozzi of Mediobanca.

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

Yes, I have 3. You raised guidance on EBITDA by 10%. I was wondering if you can have a bit more color on the various moving parts there, thinking about what the oil price that you are using for this year, but also the impact of the petrochem on the new guidance? The second question is on recovery fund, I believe, in Spain, government approved the new recovery fund. And I was wondering how that could help Repsol investing in energy transition and especially believing that there are funds allocated for hydrogen as well. So I was wondering how you can benefit from those? And final question is you tweaked a little bit of the capital allocation, increasing CapEx in the Upstream against maybe to the -- with lower in Industrial. I was wondering if Refining margins also coming up in the second half, is it the right time maybe to increase the absolute level of CapEx? That's all for me.

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

Thank you, Alessandro. First of all, going to the EBITDA. All in all, we are giving a guidance where the EBITDA of the Industrial business is going to stay at the same level. And in some way, the petrochemical improvement is going to offset the reduction of the EBITDA coming from the Refining because we are also moving down the Refining index margin from the former \$3.5 per barrel we have for the whole year for 2020 to \$2 per barrel now. I mean, taking growth could be challenged some weeks ago. But today, I think that is a prudent approach of an EBITDA at around EUR 700 million, EUR 750 million for the petrochemical business for the whole year.

We are taking -- offsetting in some way, the effect coming from the EBITDA reduction because the -- pushing the margin index, the Refining margin index down. So the EUR 500 million that we are improving in terms of EBITDA, all of them, they come from the commodity prices. So what we are taking in this guidance, comparing with the \$50 per barrel Brent and \$3 per million of BTUs in terms of Henry Hub, what we are taking as assumption to give you this guidance for the whole year is around \$60 per barrel Brent as average for the whole year and \$2.8 per million of BTUs in terms of the Henry Hub.

Going to the recovery fund. Of course, we are going to be there. We have projects that, all in all, they accounts for EUR 6.3 billion to invest in coming years that are related to this Next Generation plan. And the main target we have, I mean, thanks to this public support, we can accelerate projects. And even in some cases, we could develop projects that currently perhaps don't meet our expectation in terms of profitability because they are technologies that are not fully mature now. But thanks to this public support and not totally in CapEx terms, I mean, in some way, it could come in regulatory terms, for instance, the electricity cost for the hydrogen production and so on. Thanks to that, we are going to be able to accelerate some projects to develop these projects and to have a privileged position as Repsol in the hydrogen market.

That is very important for us because that is the seat of the future of the industrial sides of the company. Circular economy and hydrogen market, we can forget that Spain is going to be the main European player in terms of hydrogen because the renewable production we have in the country and so on. And Repsol is going to be the main player. We are today the main Spanish consumer in hydrogen terms. We operate today in Cartagena, the largest hydrogen plant in Europe.

And on top of that, I mean, we are starting to analyze and build new markets for Repsol, that could be the Industrial fuels, that could be electricity storage, that could be in some way the substitution of domestic natural gas and even for some kinds of mobility transport fuels. All that is going to arrive. Repsol is going to be a player. We have competitive advantages to be there. And thanks to these European Next Generation programs and funds, we are going to have the capacity to accelerate these position vehicles have.

I mean the organic CapEx of the year, more or less, the total CapEx of the year is going to be at around EUR 2.6 billion, EUR 2.7 billion. We are more optimistic about the future. Let me say that today, of course, with all the concerns because the pandemic is still there, the view I have is more positive than the view I expressed and transmitted 8 weeks ago when we presented the fourth quarter result. But it's true that -- I mean, we are still in a resilience mode. We are going to be prudent. We are going to wait to see the end of the tunnel. And of course, we are going to analyze some other opportunities that could appear.

Even -- I mean, in a small -- in some way, inorganic, small projects acquisition that could accelerate the transformation of the future, always in a prudent way, I'm not talking about large acquisitions and things like that. But we are paving the way to have a framework where this excess of proceeds we could expect in coming months and coming years could accelerate the transformation of Repsol, building this '25 -- 2030 year company that is going to be profitable, but at the same time, less carbonized. Thank you.

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

The next question comes from James Hubbard at Deutsche Bank.

James Richard Hubbard Deutsche Bank AG, Research Division - Research Analyst

I've got 2 questions. Your guidance for net debt on your new macro assumption is less than EUR 6.8 billion at the end of the year. But I think and correct me if I'm wrong, it was the same guidance when you were using \$50 a barrel. So I'm wondering what's -- why you don't expect that net debt to fall a bit more? Is it just loss to working capital in the weak Refining in H1? So that's the first question. Second question is the Sakakemang projects in Indonesia. I believe that is your carbon-capture project. Again, correct me if I'm wrong. But assuming it is, then I'm wondering what's happening to the CO₂, I'm assuming, and maybe wrongly, that there's no carbon market in Indonesia and the government offers no incentives to people to not emit CO₂, especially given what they use their forest every year. But if that's the case, what's happening to the CO₂? Is -- I mean is this like a charity, you're doing it to be a good corporate citizen? Or is there a commercial use for the CO₂ that you found?

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

So thank you, James. I mean, you are right. We are not changing our guidance. When we say below or less than EUR 6.8 billion, it is true that is going to be exactly the same figure. It's going to be below the figure we have in the last presentation. But in some way, I mean, in case of seeing of, as we said before, these guidances, in case of seeing this recovery of the Refining margin and so on, I think that we have some small room to increase in some way the CapEx even in organic way, in this transformation process of the company. But in any case, my guidance by the end of the year is to have our net debt below EUR 6.8 billion.

In case of having, I mean, more proceeds, in case of having this -- the EBITDA, the cash flow from operation, we could expect in a better scenario. I mean, we are going to be -- a bit room to perhaps to invest a bit more, either with this flexibility we expressed before in the Downstream or in small pushes in this Low Carbon transformation. We are, of course, analyzing many potential opportunities.

And in case of seeing, let me say, something more material, I will deliver to the market. In any case, I also want to stress the fact that another way, I mean, to be before the end of the year, below this figure of EUR 6.8 billion is being less exposed in financial terms to the emission of what is taken into account the current debt we have today, that is EUR 6.5 billion. I think that we are going to be there, and we'll have the opportunity to perhaps having a bit more room to increase the CapEx of the company. Thank you.

Sorry, Sakakemang. You are right. We are negotiating now with the regulator. And we have an opportunity, a project to inject CO2 in Indonesia. We are negotiating the conditions of this injection. And in this case, of course, we will be able to launch the project. Thank you.

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

Next question comes from Jason Kenney at Santander.

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

Couple of questions on hydrogen, again, just going back to an earlier comment. How do you think it's best to model that renewable hydrogen volume or equivalent this decade? Do we simply back out feedstock cost or an energy input to future refining? Or are you assuming it as a commodity or a power revenue in its own right in this decade? And then separately on the theme of hydrogen. I was wondering if Repsol had any oil assets that could be tested or converted to in situ clean hydrogen production, which leaves CO2 in the ground, and obviously just produces clean hydrogen. I mean I'm looking at your international positions, I say mature, but maybe even the smaller, older Spanish assets, too.

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

I mean in the case of the hydrogen, first of all, the most competitive from our point of view of the hydrogen application is going to be the substitution of a part of the hydrogen. We are using today in our refineries coming from the reforming of natural gas. But we are going to need, let me say that prices, they have to be there to substitute this hydrogen in a competitive way. There are mainly 2 drivers that are going to help this hydrogen to be transformed. The first one is going to be what is reflected in the European RED II directive that considers this hydrogen that is going to be part of the molecules of our hydrocarbons as a biofuel that is changing dramatically in a positive way, the figures in competitive terms of this hydrogen.

And the second one is going to be the potential energy transition framework that the Spanish authority could launch in terms of reducing the burdens coming from distribution, transport and so on that could impact in a negative way the cost of electricity that has to be used to produce hydrogen. I mean, all in all, we expect to be able in coming years, over this period of 2021-2025, to have 400 megawatts that is what is in our targets by 2025 of hydrogen that could be competitive and could help us to reduce in an hermetic way the CO2 exposure of our industrial sites.

On top of that, I think that we are going to see new applications for this hydrogen that are going to come for sectors where electricity is not a solution for decarbonization. I mean, in sectors like the steel-making sector, paper mills, cement or some forms of mobility. That is going to come perhaps a bit later. Today, in our model of 5 years, growth we have is mainly a bit in favor of building this position in Repsol. In the case of the green, the oil assets to test green hydrogen, we have the possibility of injecting CO2 in Brazil, in Sapinhoa. And we are analyzing the rest of the assets. But I mean, in our first view, we could have places in the U.K., perhaps in the future prospect of Alaska. And Libya could be, in geological terms, a very suitable assets to inject the CO2.

And let me add a bit more that a part of this CO2 can't be transformed in some other ways, for instance is a project we have in Bilbao, to produce synthetic fuels and that is going to be in operation at the first scalable plant in 3, 4 years. What we are doing is taking this CO2, reducing the CO2 to carbon monoxide and using this carbon monoxide with hydrogen in pressure drop cycle to produce this synthetic fuel.

So what we are doing in some way is using the CO2 not to be injected, but after being reduced in chemical terms using this CO2 to

produce a synthetic fuels molecule. So I mean the future is going to be different. Different technologies are going to be competing. And what is our bet is to have these industrial sites new hubs where the output we are going to have is going to be, of course, energy for mobility and energy for homes, but the input is going to be different.

Oil is going to be there, of course. Gas is going to be there. But we are going to add to these raw materials. Through this input, we are going to add the green power electricity. We are going to add biogas coming from urban wastes. We are going to add some wastes coming from recycled plastics and so on. I mean, all that is going to transform and is changing our current sites. 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

Just one left, actually. I think during Q1, you didn't issue further hybrid bonds. Coming back to the previous question, I assume that when you've left net debt guidance for 2021 unchanged, that excludes that net benefit that's come from the hybrids and then linked to that, could you also just remind us how you think about the role of hybrids within Repsol's financing structure internally? And how you calibrate within the context of the broader debt and financing structure of the company?

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

So briefly, yes, you are right. We are excluding any positive effect coming from the issuing of hybrid bonds in this guidance. So I mean, today, the debt comparing with the debt we have at the end of 2020, will be EUR 6.8 billion today, it's EUR 6.5 billion due to the effect of the hybrid issuing and repurchase we have in this quarter, EUR 0.3 billion more or less. But what we are giving you as guidance is fully excluding any effect coming from this hybrid potential issuing process.

And let me only add the hybrids are an integral part of our capital structure. We consider these hybrids as baseline to preserve the flexibility of the company, to be prudent in financial terms. And the plan we have is, in any case, to maintain the equity content of the existing hybrids. But I mean, we are not going to take any of this figure to say that at the end of the year, we are going to be below EUR 6.8 billion. We are giving you this guidance, excluding any effect coming from the hybrid issuing.

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

And next question comes from Joshua Stone at Barclays.

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

Just a question on this waste, the chemical plant in Tarragona with the partnership with Enerkem and Agbar. Can you just talk about what still needs to be achieved to take an FID on this project? And the likely returns you're targeting? And separately, when you think about this 20% recycling target of the polyolefin production, could this technology be rolled out across the rest of the portfolio? Or would you consider different technologies to get there?

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

Thank you, Joshua. I mean, first of all, I mean, you know that's the transformation process of -- I think I remember that there are 400,000 tons of mainly waste coming from the urban Tarragona earlier, they are going to produce -- I have in mind the figure of 200,000 to 220,000 tons per year of methanol. What is going to be the total CapEx of Repsol that is going to be at around EUR 130 million, EUR 140 million in equity terms because you know that we are in a JV with 2 other companies, Enerkem and Agbar, is going to be in the EUR 60 million, EUR 70 million, roughly speaking, I could check the figure later if you would like, Joshua. And what we are seeing in terms of return, is around -- I have to check the figure, but 16%, 17% more or less. So it's a profitable business. It's increasing the competitiveness of our Tarragona site that you know that is the most performant and competitive chemical site we have in Repsol, is fully integrated in our circular economy strategy using wastes to produce methanol that is going to be used either to produce fuels or to produce materials, chemical products.

And in some way, I mean, that is a -- thank you for the question, Joshua. Because it's a good example of what we -- I was saying some minutes before. I mean, we are transforming our industrial sites. We don't have only the refineries or chemical plants. In some way, our

industrial sites are starting to be also part of the circular economy that is going to drive the future of the industrial activity in Europe in coming years. Thank you, Joshua.

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

That was our last question. At this point, I'll bring our first quarter conference to an end. Thank you very much for your attendance, and stay safe.

Operator

That does conclude our conference for today. Thank you for your participation. You may all disconnect.

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