



TRANSCRIPT PODCAST GREEN MOMENTUM

How can we help companies to accelerate their energy transition in a concrete way?

Introduction by Jérôme Libeskind

Hello, everyone. This is Jerome Libeskind speaking and you are listening to Green Momentum. This is the first podcast dedicated to green finance and its role in the global approach of companies and governments for a better preservation of the environment. Green Momentum is brought to you by Natixis. Today we are going to take you behind the scenes in the collaboration between a bank and a company. How do they work together to transform the company and become more carbon responsible? How do they talk to each other and set goals to achieve? That's what we will find out today with our two guests, Laurie Chesné, Co-Head of the Green & Sustainable Financing & Advisory Team within the Green & Sustainable Hub at Natixis. Hi, Laurie.

Laurie Chesné: Hi, Jérôme. Hi, everyone.

Jérôme Libeskind: And David de Cáceres, Director of Financing at Repsol, one of Spain's leading energy companies. Hello, David.

David de Cáceres Nuñez: Hello, everyone.

Question: So, Laurie, you've been working with Repsol and David for a long time now. How did it start?

Laurie Chesné: Yes, the dialogue with Repsol comes from our long-standing banking relationship. We initially had many discussions about the market and our views on the different relevant and complementary financing formats that could be explored to embed Repsol's strategy and intentions. Our advisory role has been focused on assisting the company in structuring their transitional financing framework toward net zero emissions, and at a later stage, their inaugural Sustainability-Linked bond. It was a great milestone for both Repsol and Natixis, taking into account the holistic approach of the framework and the success of this first transaction.

Question: David, Repsol has very strong commitments in the energy transition. I understand that you are far ahead of the sector's commitments. What are Repsol's commitments towards the energy transition?

David de Cáceres Nuñez: First of all, having safe, clean energy is key in the development of our society, and I think these factors must be taken into account in the energy transition. At Repsol we are convinced that a new energy model based on innovation and technology is absolutely necessary. The oil and gas sector has a key role to play, and every day we work at being part of the solution. Sustainability is at the core of Repsol's decision-making process. We were the first company in the oil and gas industry to support the Kyoto Protocol, and also the first to announce in 2019 the ambitious target of achieving net zero emissions. That means scope one, two, three by 2050. Our 2021-2025 Strategic Plan aims at transforming the company from an integrated oil and gas company to an integrated multi-energy company. This new strategy alignment is a very challenging roadmap. It integrates various technological options combining electrification and industrial transformation. That means hydrogen biofuel circularity with the use of low-carbon products, renewable generation and customer-centric businesses. During the celebration of our Low Carbon Day, we have increased the ambition of our targets, by reducing the carbon intensity indicator, reducing our methane intensity,

increasing internal carbon prices for capital allocations, reinforcing climate governance measures, and including a new set of reduction of absolute emissions. All of this will lead to an increase in the decarbonization ambition.

Question: So today the role of bankers is key for helping companies accelerate their transition towards net zero emissions. Laurie, how can banks help companies to achieve this goal, especially clients like Repsol?

Laurie Chesné: At Natixis, we acquired one conviction very early on: a seat for everyone is necessary at the climate action table, and sustainable finance will fail in its mission if it continues to confine high-emitting industries to the sidelines, where the largest GHG emission abatements potential lies. Contrary to popular belief, brown industries will prove pivotal in our transition to a low-carbon economy, and we cannot abandon these protagonists. In turn, channeling financing to support this objective in an appropriate and timely manner, of course, can be facilitated by the sustainable finance industry. Importantly, this is not a case of “diluting green”. Rather, it is about ensuring that all potential participants in the fight against climate change can be a part of the solution. So, one of the most prominent themes for investors today is tackling the impact of high-emitting companies such as Repsol and many others working across the oil and gas, cement, or mining and metals industries. Urgent action is required to support these entities in integrating sustainability considerations into their operating processes, business models, and their financing directly. So, we believe, like many investors and financiers, that the financing of these transitions requires a two-leg approach, a ‘pure green’, but also a compelling necessity to support ‘brown’ industries’ deep decarbonization, as embedded in Repsol’s framework, at the end. So, we believe that the transition is a matter of strategic dialogue with the company’s management. There is a huge potential for new financing instruments tied to companies’ decarbonization targets whereby entities put reputational and financial skin in the game vis-à-vis their transition target achievements, as reflected by Repsol’s last issuance.

Question: So, there is a strategic dialogue that is very important. What actions do companies need to take to face this energy transition, David?

David de Cáceres Nuñez: Well, the transition will take a lot of time and a lot of effort as well. Companies have to face a long and difficult pathway which implies a deep transformation in many cases. The energy sector must play a leading role in achieving their sustainable development goals. That means new technologies, new materials from the chemical industry, new, advanced and clean fuels, renewable generation, circular economy. There are many paths and many means to develop, and everyone’s effort should be welcomed. In our case, Repsol’s strategic plan marks the transformation of the company, accelerating its energy transition. And of course, in this roadmap, a huge amount of financial resources are needed for this transformation.

Question: You speak about financial resources, but the energy transition is not only a matter of money. David?

David de Cáceres Nuñez: Absolutely, Jérôme. Energy transition is a matter of preserving the health of the planet, a matter of transforming the energy model. You can look at it from many different ways and many different points of view, but it implies a big transformation in our lives. The majority of big, medium, and small companies of all kinds must adapt to this new model. Credible transition is required from all of us, and also on an individual level in our daily activities. We can see the impacts now. We need education. We need guidance, new rules. We will not be able transform ourselves and achieve a sustainable development of our society without access to the necessary financial resources to undertake such an ambitious project. Hence, we welcome all reasonable new forms of sustainable financing that the market can make available to us.

Question: Laurie, as a banker, would you say that the energy transition is a matter of money, or not only a matter of money?

Laurie Chesné: No, I really tend to agree with David. Of course, we are providing money as a bank, but we also provide guidance and advisory services to our clients. Repsol should focus on their ambition and their leverage, but beyond that, how much do we need to finance the energy transition? The questions of the level of ambition, and especially how fast are we going to move towards the low-carbon economy, will be key to achieve the challenges of a successful energy transition.

Question: David, what do you expect from your financial partners, including your banks and investors, to be able to lead this transition?

David de Cáceres Nuñez: Financial partners are critical actors in economic activity. They have a voice. They allow financial resources to be directed to productive activities. In a new environment, such as sustainable finance, they can play the key role of connecting issuers and investors. This market and the financial instruments using it also have particular rules and protocols and are subject to specific operating regulations such as the Green Bond Principles, or the Sustainability-Linked Bond Principles. The intermediation role played by banks allows them to acquire great experience in the different markets in which they operate. Investors also take their own decisions about allocation of funds and these are not only based on yields and rentability, but also depend on the final purpose of the investment. We believe in stable and long-term relationships of mutual interest, and we expect help and support in our energy transition. This includes or can include both direct financing of our transition activities and the structuring of operations in the markets and many other forms of collaboration as well. The work of our financial institutions in terms of the guidance and the advice we receive from them are crucial for succeeding in our operations. This is a trip that we have to make with all our stakeholders, and we need commitment and support from every one of them. We need a commitment from our banks to support and develop the market so that it is inclusive for all transitioning companies and develops the instruments that allow us to access the funds necessary to undertake the transformation. They are also part of the transition. Actually, none of us can afford to fail in achieving these goals.

Question: So, those are the expectations of a company. Laurie, today, financial institutions like yours have the will and the obligation to reduce their exposure to most polluting sectors. How do you do it, concretely?

Laurie Chesné: Yes, concretely, let's start with our new strategic plan that was released some months ago. One of the three principles behind our new ambition is commit to the energy transition and to responsible finance. So, we created our 'Green Weighting Factor', an in-house mechanism that allocates capital to financing deals based on their climate impact. So, for each transaction, we have an assessment according to a seven-scale color rating, going from dark brown to dark green, with a positive adjustment when classified as 'green' and a negative adjustment when classified as 'brown'. Currently many of our oil and gas clients are on the medium or dark-brown color rating, so we have some clear targets which have been announced within our strategic plan to shift our portfolio color rating to a greener color and therefore have fewer brown transactions. How we do that? To support this sector, we must continue to guide them in their own energy transition because our transition as a bank will highly depend on the transition of our clients. When we see that companies such as Repsol are clearly committed to the energy transition, we will, of course, continue to finance them. If this is not the case, potentially, we will have to stop financing them. So, we can clearly see that some clients do not have any strategy and they will continue to be dark brown in the coming years. Having said that, it won't happen today or tomorrow, but it's a step-by-step process and our advisory role will be key here to do as much as possible to not leave anyone behind. So, we are committed to aligning our portfolio with a 1.5-degree alignment by 2050, with a 2.5-degree intermediate milestone by the end of our strategic plan in 2024. So, this is why this tool is really precious, because we have this granularity in terms of assessment and going from dark brown to medium brown to light brown and then neutral is how this tool can be used to steer the energy transition of our portfolio. This is our intention: to help our clients progress beyond dark brown, and it is our ambition to accompany all of them in their transition journey.

Question: Yes. David, do you want to say something?

David de Cáceres Nuñez: Yes, it is not binary though.

Laurie Chesné: No, it is not binary at all. On the contrary, we will live on to support our clients by advising them, by creating this strategic dialogue and close relationship that we mentioned before. This is gradual, and it really is a step-by-step approach. It is part of our offer to do this. We can help them and accompany them in their transition. Actually, Repsol and Natixis are shifting progressively their strategies in the exact same direction. We all have this '1.5 degree-alignment by 2050' ambition.

Question: This is not only a matter of dialogue: you must do some things together. Last June, you launched the inaugural dual tranche of Sustainability-Linked bonds together. Laurie, can you tell us about this?

Laurie Chesné: Yes, this is as well another concrete financing product, and it's a really good example. Repsol has presented an innovative and overarching transition financing framework to accompany it in its transition strategy. The framework gives Repsol flexibility on potential financing instruments and formats, and it incorporates all applicable recommendations from the ICMA Climate Transition Finance handbook, positioning Repsol as a pioneer on this front. So, particularly with this Sustainability-Linked bond tied to their decarbonization pathway, Repsol is leading the oil and gas sector. This is the first time in the sector where the selected KPIs used in the bond structure includes scope three GHG emissions, which is obviously very relevant for the sector.

Question: David, is that kind of bond a way of keeping commitments with investors?

David de Cáceres Nuñez: Yes, absolutely. Concerning the framework, we wanted to have one that gives us flexibility to always adapt to the different needs of the company, so we could issue different instruments and different formats, that is, use of proceeds or Sustainability-Linked bonds. Talking about the commitments of the company as a new instrument with growing prominence, we consider that the Sustainability-Linked bond allows us to reinforce from the financial field our commitment to our sustainability strategy at the company level, with a transversal view and incorporating, as Laurie just said, scope three GHG emissions in the KPI. Which we considered was very well-received by the market. Obviously, this was all done with the help of our structuring banks.

Question: Now we have an idea of the way that you are doing things together. Before ending this discussion, I have one last ritual question in this podcast. Are you optimistic or pessimistic for the future, David?

David de Cáceres Nuñez: Well, I have to be optimistic. I think we cannot afford the possibility of being pessimistic. The goals are too ambitious, the goals must be achieved. And as I said, everyone's effort is very welcome and then let's all make it possible.

Question: Laurie, can you afford to be pessimistic or are you optimistic, too?

Laurie Chesné: I will tend to agree with David. We can only be optimistic considering where we are now, considering what we do in our everyday job. This is part of the job to be optimistic. Personally, it depends. I would say it depends on the day, on the trend, on the different announcements. It was really key to see some new announcements at COP26. I'm keen to see more concrete action. I would say optimistic, but I think 'challenging' is one of the key words that I have in mind when it comes to the energy transition. And I think the question is more about timing. We need to go fast. And I'm not sure that we are every day going on the good trend.

Conclusion by Jérôme Libeskind

We can see that the challenge that is coming is huge. Thank you to the both of you for being with us at Green Momentum today. Thank you, David. Thank you, Laurie. Green Momentum is over for today. I hope you enjoyed it. And I wish you a very good day. See you soon in Green Momentum.

David de Cáceres Nuñez: Thank very much.

Laurie Chesné : Thank you.

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