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REPSOL Group

# Main Alternative Performance Measures (APM)

3rd Quarter 2022

*Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails*

The Repsol Commitment
Net Zero Emissions
by 2050

REPSOL

**ALTERNATIVE PERFORMANCE MEASURES**

Repsol's financial information contains indicators and measures prepared in accordance with applicable financial reporting standards and regulations, as well as other measures prepared in accordance with the Group's Reporting Model, defined as Alternative Performance Measures (APMs). APMs are measures that are "adjusted" compared to those presented in accordance with IFRS-EU or with Supplementary Information on Oil and Gas Upstream Activities, and the reader should therefore consider them in addition to, but not instead of, the latter.

Repsol presents its segment performance measures including joint ventures or other companies which are jointly managed in accordance with the Group's investment percentage, considering its operational and economic indicators within the same perspective and degree of detail as those for companies consolidated under the full consolidation method. Thus, the Group considers that the nature of its businesses and the way in which results are analyzed for decision-making purposes is adequately reflected.

APMs are useful for users of financial information as they are the measures employed by Repsol's Management to evaluate its financial performance, cash flows or financial position when making operational or strategic decisions for the Group.

*For more historical quarterly APM information, see www.repsol.com.*

**1. Financial performance measures**

***Adjusted net income***

***Adjusted net income*** is the key financial performance measure that Management (the Executive Committee) consults when making decisions.

Adjusted net income is calculated as ***net income from operations at current cost of supply*** (or CCS) net of taxes and non-controlling interests. It excludes certain income and expenses (***Special items***) and the ***Inventory effect***. ***Financial income*** is allocated to the adjusted net income of the "Corporate and others" segment.

***Adjusted net income*** is a useful APM for investors in evaluating the performance of operating segments while enabling increased comparability with Oil & Gas sector companies that use different inventory measurement methods (see the following section).

***Inventory effect***

For current cost of supply (CCS) earnings, the cost of volumes sold is calculated on the basis of procurement and production costs[1] incurred during the period in question and not based on weighted average cost (WAC), which is the accepted methodology under European accounting law and regulations. The difference between CCS earnings and WAC earnings is included in the so-called ***Inventory effect***, which also includes other adjustments to the valuation of inventories (write-offs, economic hedges, etc.) and is presented net of taxes and minority interests. This Inventory effect largely affects the Industrial segment. Repsol management considers that this measurement is useful for investors, considering the significant variations arising in the prices of inventories between periods.

WAC is a generally accepted European accounting method for measuring inventories. It factors in purchase prices and historic production costs, valuing inventory at the lower between this cost and its market value.

[1] Cost of supplies is calculated on the basis of international quoted prices in the reference markets in which the Company operates. The relevant average monthly price is applied to each quality of distilled crude. Quoted prices are obtained from daily crude oil publications according to Platts, while freight rates are estimated by Worldscale (which publishes global reference prices for freight costs from one port to another). All other production costs (fixed and variable costs) are valued at the cost recognized in the accounts.

***Special items***

Significant items for which separate presentation is considered desirable to facilitate the task of monitoring the ordinary management of business operations and for comparison between periods and companies in the sector. This heading includes capital gains/losses due to divestments (capital gains and losses due to transfers or disposals of assets), restructuring costs (compensation costs...), impairments (provisions and reversals resulting from the impairment test on fixed assets, recoverability of tax credits, etc.), provisions for risks and expenses (provisions and reversals of provisions for tax, legal, environmental, geopolitical risks, etc.) and other major income or expense items outside the ordinary management of the businesses (provisions for dismantling and remediation; exchange rate impacts on fiscal positions in foreign currency; costs and compensation due to claims; sanctions and fines; valuation of financial instruments resulting from accounting asymmetries, etc.). Special items are presented net of taxes and minority interests.

***EBITDA***

***EBITDA***, or “Earnings Before Interest, Taxes, Depreciation, and Amortization,” is a financial indicator which determines the operating margin of a company prior to deducting interest, taxes, impairment, restructuring costs, and amortization. Since it does not include financial and tax indicators or accounting expenses not involving cash outflow, it is used by Management to evaluate the company’s results over time, for a more straightforward exercise in making comparisons with peers within the Oil & Gas sector.

***EBITDA*** is calculated as operating Income + amortization + impairment as well as other items which do not represent cash inflows or outflows from transactions (restructuring, capital gains/losses from divestment, provisions etc.). Operating income corresponds to the result from operations at weighted average cost (WAC). Where ***net income from operations at current cost of supply*** (CCS) is used, it is known as ***CCS EBITDA***.

***ROACE***

This APM is used by Repsol Management to evaluate the capacity of its operating assets to generate profit, and therefore measures the efficiency of capital employed (equity and debt).

***ROACE*** ("Return on average capital employed") is calculated as: (Adjusted Net Income before non-controlling interests and excluding finance income + Inventory effect + Special items) / (***average capital employed*** for the period in operations, which measures own and external Capital employed by the Company, and comprises Total equity + ***Net debt***). This includes capital employed in joint ventures or other companies managed operationally as joint ventures. If the Inventory effect is not used in the calculation process, it is known as CCS ROACE.

**2. Cash flow measurements**

***Cash flow from operations***

***Cash flow from operations*** measures the generation of cash flow corresponding to operations and is calculated as: EBITDA +/- changes in working capital + collection of dividends + collection / - payment of income tax + other collections / - payments relating to operating activities. For its usefulness and to show how cash flow evolves between periods by isolating changes in working capital, Cash flow from operations can be presented excluding working capital (Cash flow from operations "ex working capital" or "OCF exWC”.

***Free cash flow***

***Free cash flow*** measures cash flow generation from operating and investment activities, and is useful for evaluating the funds available for paying shareholder dividends and servicing debt.

***Cash flow generation***

***Cash generation*** is ***free cash flow*** less dividend payments, payment of remuneration for other equity instruments (coupons on perpetual bonds), transactions with non-controlling interests, net interest payments, and payments for leases and treasury shares. This APM measures the funds generated by the Company before financial transactions (mainly debt issuance and repayments).

***Liquidity***

The Group measures ***Liquidity*** as the sum of "cash and cash equivalents" on-demand cash deposits at financial institutions, and short and long-term credit facilities that remain undrawn at the end of the period, i.e., credit facilities granted by financial institutions that may be drawn on by the Company on the terms, in the amount and subject to the other conditions agreed in the contract.

***Operating investments (investments)***

Group Management uses this APM to measure each period's investment effort and allocation by business segment, reflecting operating investments by the various Group business units (including accrued and unpaid investments). The figure includes joint ventures or other companies managed operationally as joint ventures.

Investments may be presented as organic (funds invested in the development or maintenance of the Group's projects and assets) or inorganic (acquisition of projects, assets or companies for the expansion of the Group's activities). This distinction is useful in understanding how the Group's Management allocates its resources and allows for a more reliable comparison of investment between periods.

**3. Financial position measures**

***Debt and financial position ratios***

***Net debt*** is the main APMs used by Management to measure the Company's level of debt. The figure is made up of financial liabilities less financial assets, cash and cash equivalents, and the effect arising from the mark-to-market of financial derivatives. It also includes the net debt of joint ventures and other companies operationally managed as such.

***Gross debt*** is the measure used to analyze the Group's solvency and includes financial liabilities and the mark-to-market value of derivatives. It also includes the net debt of joint ventures and other companies operationally managed as such.

The following ratios are used by Group Management to evaluate Leverage ratios and Group Solvency.

- The ***Leverage ratio*** is ***Net debt*** divided by ***Capital employed*** at the end of the period. This ratio can be used to examine financial structure and degree of indebtedness in relation to capital contributed by shareholders and financing entities. Leverage is the chief measure used to evaluate and compare the Company's financial position with respect to its peers in the Oil & Gas industry.

- The ***Solvency ratio*** is calculated as ***Liquidity*** (section 2 of this Appendix) divided by ***current Gross debt*** and is used to determine the number of times the Group may service its current debt using its existing liquidity.