2024

REPSOL Group

Main Alternative Performance Measures (APM)

1st Quarter

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

ALTERNATIVE PERFORMANCE MEASURES

Repsol's financial disclosures contain figures and measures prepared in accordance with the regulations applicable to financial information, as well as other measures prepared in accordance with the Group's Reporting Model known as Alternative Performance Measures (APMs). APMs are measures which are "adjusted" compared to those presented as IFRS-EU or with the *Report on oil and gas exploration and production activities*, and readers should therefore consider them in conjunction with, rather than instead of, the latter.

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.

Repsol's business segment reporting model

Repsol presents the results and other financial aggregates of its business segments (Upstream, Industrial, Customer and LCG) in its segment reporting model, taking into consideration the operating and financial figures of its joint ventures, in accordance with the Group's interest in each joint venture, using the same methodology and with the same level of detail as for fully consolidated companies[1].

Using this approach, the results are broken down into several components (adjusted income, inventory effect, special items, non-controlling interests) until the net income is obtained, which reflects the income obtained by the Group attributable to the parent.

- A measure of segment profit is used known as ***Adjusted Income***, which corresponds to net income from continuing operations at replacement cost ("Current Cost of Supply" or CCS), net of taxes and without including certain income and expenses ("Special items") or income attributable to non-controlling interests ("Non-controlling interests"), which are presented separately. The financial result and the intersegment consolidation adjustments are assigned to "Income" under Corporate and other.

  Specifically, the current cost of supply (CCS) considers the cost of volumes sold to correspond to the procurement and production costs for the period itself. This is the criterion commonly used in the sector to present the results of businesses in the Industrial or Customer segments that must work with significant inventories subject to constant price fluctuations, thus facilitating comparability with other companies and the monitoring of businesses independently of the impact of price variations on their inventories. However, this measure of income is not accepted in European accounting standards and, therefore, is not applied by Repsol, which uses the weighted average cost method to determine its income in accordance with European accounting standards. The difference between the income at CCS and the income at weighted average cost is reflected in the ***Inventory effect***, which is presented separately, net of tax and not taking into account the income attributable to non-controlling interests.

- ***Special items*** includes certain material items whose separate presentation is considered appropriate in order to facilitate analysis of the ordinary business performance. This heading includes gains/losses on divestments, restructuring costs, asset impairment losses (provisions/reversals), provisions for contingencies and charges, and other relevant income/expenses that do not form part of the ordinary management of the businesses. These results are presented separately, net of tax and not taking into account the income attributable to non-controlling interests.

- The share of minority shareholders in the Group's income is reflected in a separate line item ***Non-controlling interests, net of taxes, immediately before Net income***.

[1] Except in the case of the renewable electricity generation business (LCG segment) where, due to the way in which the results of these projects are analyzed and management decisions are made, the key financial figures of the Chilean joint venture are integrated using the equity method.

1. Financial performance measurements

Adjusted income

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

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

Adjusted 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

Under income at CCS, the cost of volumes sold during the reporting period is calculated using the procurement and production costs incurred[2] during that same period. The difference between CCS earnings and WAC earnings[3] 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 excluding results attributable to non-controlling interests. This Inventory effect largely affects the Industrial segment.

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, tax relief, 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 without counting income attributable to non-controlling interests.

Non-controlling interests

Shows results attributable to non-controlling interests in relation to operating income, the Inventory effect and Special items, which are presented separately before Net income.

EBITDA

EBITDA, ("Earnings Before Interest, Taxes, Depreciation and Amortization"), is a financial indicator that measures the operating margin of a company prior to deducting interest, taxes, impairment, losses, depreciation, 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 + depreciation and amortization + impairment as well as other items which do not represent cash inflows or outflows from (restructurings, 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 ***EBITDA at CCS***.

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[2] To calculate the cost of supply, international quotations on the benchmark markets in which the Company operates are used. The relevant average monthly price is applied to each quality of distilled crude. Quotations are obtained from daily crude oil publications according to Platts, plus freight costs estimated by Worldscale (an association that publishes world reference prices for freight costs between specific ports). All other production costs (fixed and variable costs) are valued at the cost recognized in the accounts.

[3] 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.

ROACE

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

The ***ROACE*** ("Return on average capital employed") is calculated as: (Adjusted income excluding financial income + Inventory effect + Special items) / (Average ***capital employed*** for the period from operations, which measures the capital invested in the Company from its own and third-party sources, and corresponds to Total equity + ***Net debt***). It includes the amount pertaining to in joint ventures or other companies whose operations are managed as joint such. If the inventory effect is not used in the calculation process, it is known as ***CCS ROACE***.

2. Cash flow measurements

Cash flows from operations

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

Free cash flow

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

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, (capital dilutions, contributions, dividends, etc.) net interest payments, and payments for leases and treasury stock. This APM measures the funds generated by the Company before financial transactions (mainly from 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 (acquisition of projects, assets or companies for the expansion of the Group's activities) or inorganic (funds invested in the development or maintenance of the Group's projects and assets). 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 metrics

Debt and financial position ratios

Net debt is the main APM 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) 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.