TCFD

Summary Report

CEPSA

The Task Force on Climate-Related Financial Disclosure (TCFD)

According to TCFD, one of the **most significant**, and perhaps **most misunderstood, risks** that organizations face today relates to **climate change**. While it is widely recognized that continued emission of greenhouse gases will cause further warming of the planet and this warming could lead to damaging economic and social consequences, the exact timing and severity of physical effects are difficult to estimate.

The large-scale and long-term nature of the problem makes it uniquely challenging, especially in the context of **economic decision making**. The potential impacts of climate change on organizations, however, are not only physical and do not manifest only in the long term.

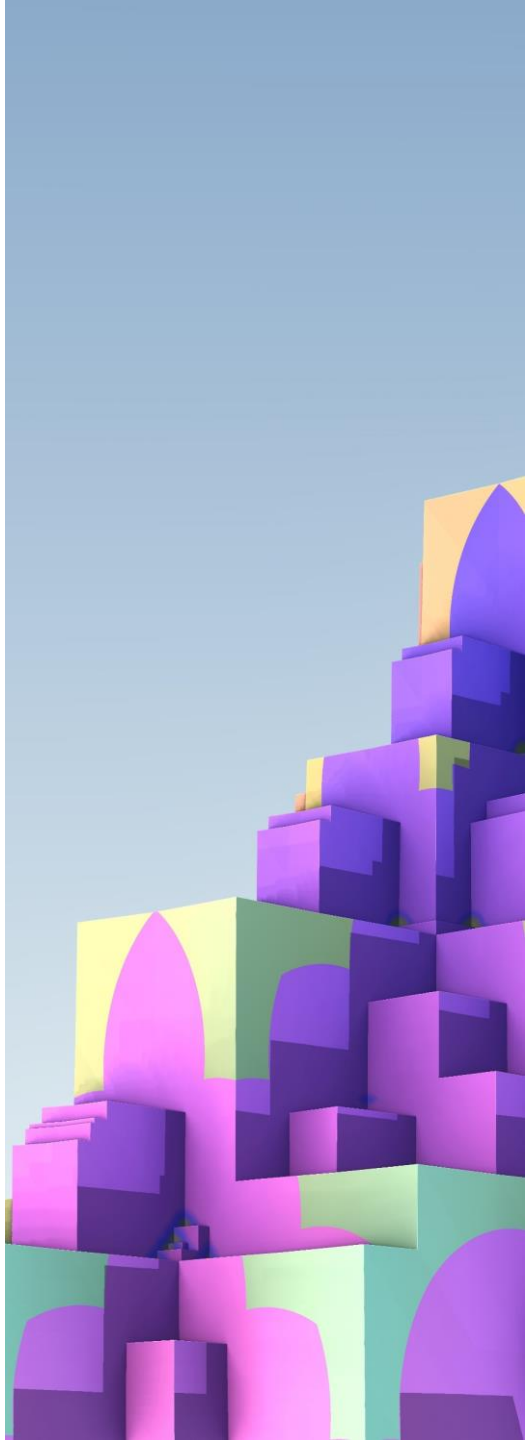
In fact, climate-related risks and the expected transition to a lower-carbon economy affect most economic sectors and industries.

While changes associated with a transition to a lower-carbon economy present **significant risk**, they also **create significant opportunities** for organizations focused on climate change mitigation and adaptation solutions.

The Task Force structured its recommendations around **four thematic areas that represent core elements** of how organizations operate: **governance, strategy, risk management, and metrics and targets**. The four overarching recommendations are supported by recommended disclosures that build out the framework with information that will help investors and others understand how reporting organizations assess climate-related risks and opportunities.

In this summary report, **Cepsa has adapted these core elements** to the following structure:

1. **Governance**
2. **Metrics**
3. **Climate Strategy and Targets**
4. **Risk and Opportunity Management**



1 Governance

The **Board of Directors** is tasked with approving strategic climate change targets and signing off on the matters delegated in its advisory committees:

- The **Strategy and Sustainability Committee** supervises the Decarbonization Plan.
- The **Audit, Compliance, Ethics and Risk Committee** supervises climate change risks and compliance matters.
- The **Nomination and Compensation Committee** supervises the correlation between the company's climate targets and its variable compensation.

The **Management Committee** is responsible for decision making and resource allocation and checking that the company is performing in line with the established target.

There are two **multidisciplinary panels** to monitor the sustainability goals related to climate mitigation and adaptation:

Energy Transition Panel: made up of a multidisciplinary team from all across the company, which is tasked with implementing the Decarbonization Plan and monitoring the climate change mitigation measures put in place to address transition risks.

Water Panel: monitors the risks associated with water scarcity, related with climate change adaptation measures put in place to address this kind of physical risks.

Moreover, the company has **specific functional units** that address all these measures **along with the business units**.

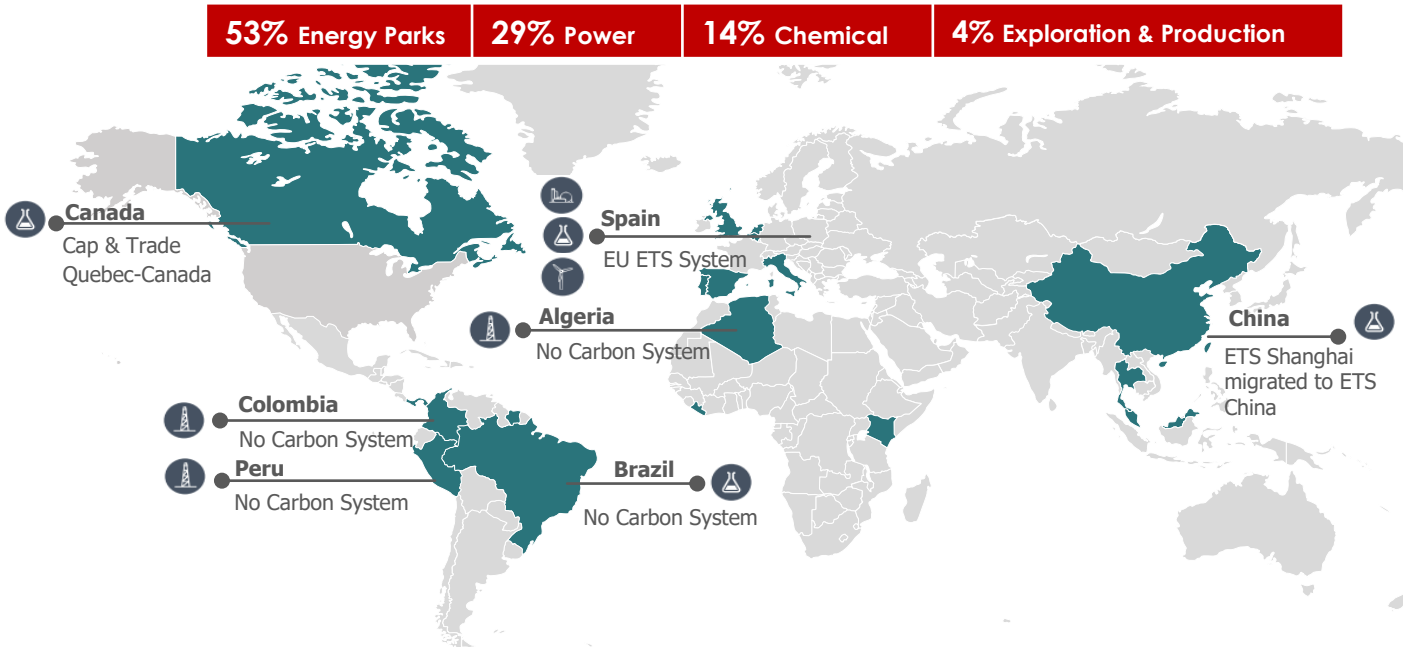
For further information, please see the **Integrated Management Report 2023** (p. 39, 42-43, 52)

2 Metrics

Cepsa is committed to a **transparent GHG reporting**, covering **scope 1, 2 and 3 emissions** across all facilities under operational control both at European and non-European level.

Over 90% of scope 1 and 2 emissions are both under **Carbon Systems** and the ambitious **European Energy and Climate regulation,** in which **the Positive Motion strategy by 2030 and the Net Zero Ambition by 2050** are framed. Considering the share of GHG emissions across different business units allows us to better evaluate the impact related to the climate risks. Moreover, there are different, current and potential, Carbon Systems implemented in our operation sites that allow us to address different financial impacts.

Share of scope 1+2 by business unit



Scope 1 and 2 emissions are core in our strategy by 2030 as they are coming from our operations and are monitored though our Decarbonization Plan. **Scope 3** shows how **carbon intensive the energy sold is** and is used by the organization to **assess climate-related risks and opportunities in line with its strategy and risk management process.**

For further information, please see the **Scope 1, 2 and 3 emissions from 2019 to 2023** and the **Integrated Management Report 2023** (p.58-59, 119-120).

3 Climate Strategy and Targets

Our goal is to achieve **net zero emissions before 2050**. We aim to be an active and leading player in the transition towards a carbon-neutral economy by embracing more sustainable business models and providing our customers with **lower-carbon types of energy and chemical products**.

Both monthly and annually, we **measure performance against climate targets**. The targets themselves are erected as a **mitigation measure for climate risks** and as such are closely monitored.

Climate targets

55% reduction of the **scope 1+2** emissions by **2030** vs 2019

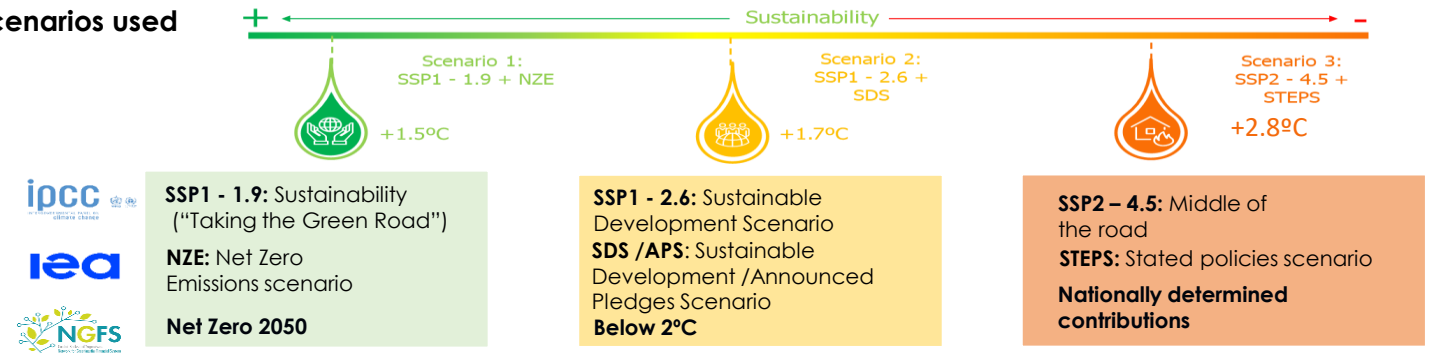
15-20% reduction of the **Carbon Intensity Index (CII) of the energy we sell** by **2030** vs 2019

Net zero emissions before **2050**

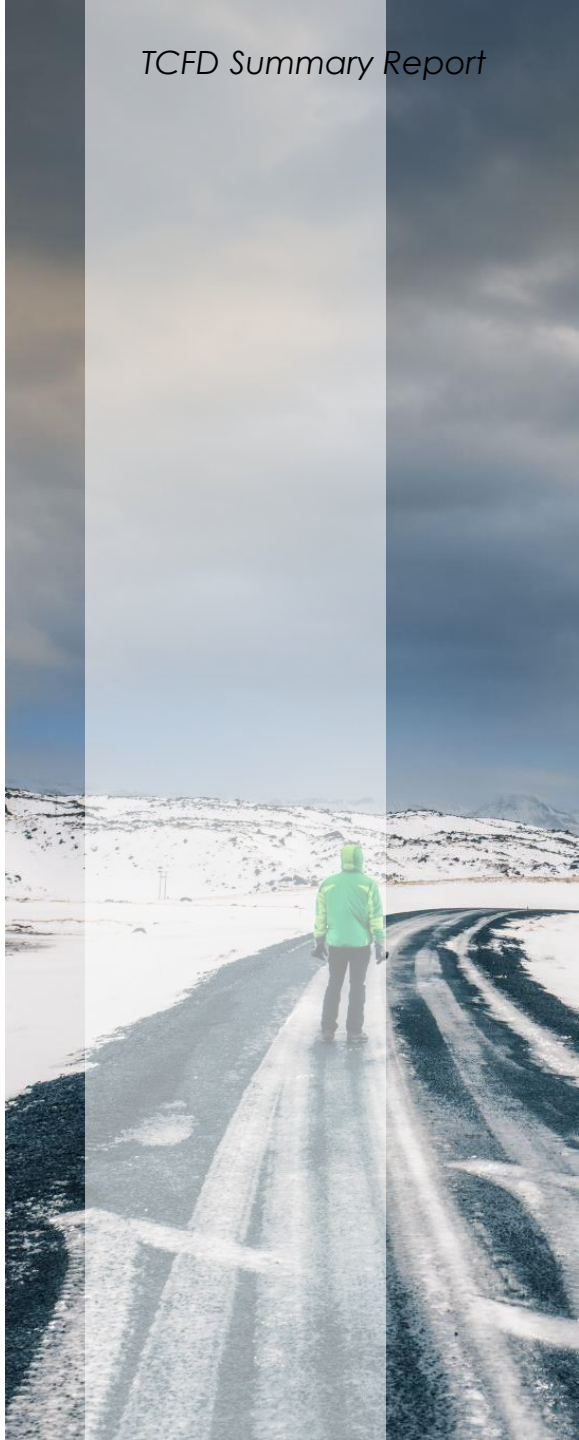
Our **strategy** has been **qualitatively and quantitatively evaluated to determine its resilience under three climate scenarios** which are defined with the following assumptions, in **short- (2030), medium- (2040) and long-term (2050)**, to be aligned with European and International Climate Scenarios and Net Ambition.

The time horizon of the targets (2030) and goal (2050) of the Positive Motion strategy have allowed to build 2030, 2040 and 2050 business scenarios, which have been modelled according to the Net Zero Ambition by 2050. The Oil&Gas reference scenario from the International Energy Agency (IEA) is the main one used to assess our resilience, which only considers energy supply and demand projections until 2050.

Reference scenarios used



For further information, please see the **Positive Motion Strategy by 2030**, the **Sustainability Plan** and the **Integrated Management Report 2023** (p.54-55, 57).



4 Risks and Opportunities Management

Risks

- **Processes for identifying and assessing climate-related risks**, both transition and physical, have been designed according to the **TCFD Taxonomy (Transition and Physical Risks)** and Cepsa's **Global Risks Management Model**, being part of the **corporate risk management process.** For further information, please see the **Risk Management and Opportunities process**
- This assessment is focused on assessing and calculating the **financial impact of these risks** in the business by **2030, 2040 and 2050**. Some of the risks that have been assessed have resulted in no financial impact and others can vary depending on the time horizon and severity of the scenarios.
- Risks have been evaluated across **upstream and downstream in the value chain.** For example: supply of raw materials, energy supply (upstream), and customer behavior and reputational value (downstream).
- The financial impact calculation has allowed Cepsa to **confirm the resilience of its strategy by 2030 and Business Ambition by 2050**, since the financial figures variation across climate scenarios and timing has not reached a variation higher than 10%. Therefore, the resilience and preparedness of the business model to any fluctuation in scenarios has been assessed. For further information, please see the **Integrated Management Report 2023** (p.119-120).

Managing Mitigation and Adaptation to Risks

- **Mitigation** of transition risks are addressed through the Positive Motion strategy, the Decarbonization Plan, and their targets and levers, such as renewable energy consumption, electrification of industrial processes, energy efficiency measures, and the production of low-carbon products, among others.
- **Adaptation** to physical risks is reflected in Cepsa's Sustainability Plan which includes the target of reducing our withdrawal of freshwater from water stressed areas by 20% in 2025 vs 2019. To achieve this target, several measures have been implemented in our facilities (for example, a water reutilization facility in San Roque). In addition, we use the WWF Water Risk Filter tool to identify and assess water risks.

For further information, please see the **Integrated Management Report 2023** (p. 38, 56-57) and the **Sustainability Plan** .

Opportunities

- **Climate opportunities by 2030 have been assessed in accordance with the Positive Motion strategy**, considering that new low-carbon products are projected to be sold (advanced biofuels, green hydrogen and derivatives, ultra fast EV charging infrastructure, etc.) and there are new opportunities in enhanced energy efficiency, electrification and the use of new low-carbon energies in our operations. The financial cost of all these opportunities are included in the Positive Motion public budget (7-8 billion euros of investment, more than 60% sustainable), being integrated in the financial planning.
- **Ambitions by 2050 have been assessed to collect any climate opportunities beyond 2030,** including new technologies arising and new customers and alliances to support the strategy.

For further information, please see the **Positive Motion Strategy by 2030** and the **Integrated Management Report 2023** (p. 57)

Transition Risks: description and financial impact identified

Transition Risks have been **assessed following the TCFD Taxonomy**: **Policy and Legal, Market, Technology and Reputational** risks. The classification and naming of the risks allows to observe the coverage of the **entire value chain, both upstream and downstream**, from our supplies, operations, customers, different stakeholders such as regulators, administrations, competitors, so it allows to affirm that the assessment and reporting of these risks is complete.

Policy and Legal risks

- **Operating limits:** energy prices, operating limits such as cap in emissions and fossil energy use **directly affect our operations.** Fit for 55 Energy Package and Net Zero Ambition impose severe obligations and limits in energy use and production. Cepsa, as an Integrated Oil & Gas Company, **may have potential financial impact by the energy regulation** (this risk is related to Scope 1 emissions).
- **Regulatory changes in products:** Cepsa's energy and chemical products based on fossil fuels **may have potential financial impact by the regulation** such as the one linked to the ban of vehicles that use fossil fuels. The carbon budget for the Net Zero Climate scenario will force to stop the consumption of fossil fuels. These regulatory changes force companies to build new business lines and new raw materials that will be supplied to replace fossil fuels (this risk is related to Scope 3 emissions).
- **Increase in GHG emission prices:** Cepsa's operations are **affected by CO_2 prices** in most of its operations, so this **may have a potential financial impact.** More than 90% our emissions are covered by Carbon Systems and according to the World Bank Report potential Carbon Systems are appearing (this risk is related to Scope 1 emissions).
- **New reporting obligations and exposure to litigation:** this risk **does not result in financial impact** for Cepsa's strategy since this risk has been evaluated and mitigated in the strategy itself.

Market risks

- **Increased cost and/or reduction of availability of raw materials:** Fit for 55 Energy Package with RefuelEU Aviation and FuelEU Maritime **may have potential financial impact, since they will force to increasing and challenging targets in Advanced Fuels and RFNBO Renewable Fuels of Non-Biological Origin.** These advanced fuels will move to a high demand in waste-based raw materials. Price and supply chain will be key points to manage the risks and impact (this risk is related to Scope 3 emissions).
- **Entry of new competitors: can affect business projections** in new energies and chemical products, **so this may have a potential financial impact**. New competitors could imply new actors in the value chain and also on potential collaborations in energy business.
- **Change in customer behavior:** Energy and Climate Net Zero Ambition at European level and the last COP have placed multiple regulations oriented to increase low-carbon energy demand and electrification in road transport, and society is more willing to acquire sustainable fuels and products. New customer trends **can increase the demand of sustainable fuels** but can also **reduce the pace of the energy transition due to increasing prices, so this may have potential financial impact** (this risk is related to Scope 3 emissions).
- **Difficulty and/or cost increase of financing:** this risk **does not result in financial impact** for Cepsa's strategy since this risk has been evaluated and mitigated in the strategy itself.

Technology risks

- **Technological obsolescence:** refers to the devaluation of an item due to a technological progress and innovation. Cepsa`s strategy is based on business-as-usual operations which will be decarbonized by implementing different mitigation levers and new business lines based on new low-carbon energies, as waste-based biofuels and electrolytic hydrogen facilities. Our Energy Parks and Chemical sites are traditional refining and petrochemical operations which **are being migrated to lower carbon and non-fossil raw materials** to be aligned to climate ambition. These traditional operations are being transformed by investments to achieve the energy transition at Cepsa, which leaves them exposed to **a risk of obsolescence due to the emergence of new technologies, so this may have a potential financial impact.**
- **Unsuccessful investments in new technologies:** refers to the possibility that the actual returns on an investment may differ from the expected returns. Cepsa's strategy is **highly influenced by the new regulation, the climate policy scenario and the Energy and Net Zero Ambition**, hence the investments are aligned with new technologies around new low-carbon and neutral energies. The field of R&D&i is agile and fast and motivated by subsidies and regulatory objectives that could lead to the **emergence of new technologies** that could quickly leave behind those already present in our business plan, **so this may have a potential financial impact.**
- **Disruptive technologies in production processes:** this risk **does not result in financial impact** for Cepsa's strategy since this risk has been evaluated and mitigated in the strategy itself.

Reputational risks

- **Stigmatization of the industry:** this risk **does not result in financial impact** for Cepsa's strategy since this risk has been evaluated and mitigated in the strategy itself.
- **Concern of stakeholders:** this risk **does not result in financial impact** for Cepsa's strategy since this risk has been evaluated and mitigated in the strategy itself.

For further information, please see the **Integrated Management Report 2023** (p. 56-57).

Physical Risks: description and financial impact identified

Physical Risks have been **assessed following the TCFD Taxonomy**: **Acute and Chronic**. The classification and naming of the risks allows to observe that they cover both the chronic risks (which are driven by longer-term shifts in climate patterns) and acute risks (which are driven by specific weather events or "hazards"), so it allows to affirm that the assessment and reporting of these risks is complete.

Chronic Risks

- **Temperature increases, sea level rise, soil moisture, solar radiation and average precipitation:** these are the risks that have been evaluated under this TCFD category. No sufficiently high variations have been identified in the evaluated time horizons (2030, 2040 and 2050) to set a relevant financial impact. Our operational sites, Energy Parks, Chemical, Power and Exploration & Production are adapted until 2050 to these impacts, so **no significant financial impact has been identified.** It has been noted that post 2050 major variations in climate variables are predicted by IPCC physical scenarios, so **chronic risks may have higher financial impacts after 2050**. **Cepsa will update physical scenarios across the Copernicus Climate Tool** and will report any variation on the assessment.

Acute Risks

- **Heat waves:** periods where local excess heat accumulates over a sequence of unusually hot days and nights. This risk has been evaluated for our Energy Parks and Chemical sites. **No relevant financial impact has been identified for Chemical sites**. **Energy Parks** located in the Andalusian region **may have potential financial impact under the three climate scenarios**, with higher figures in the least sustainable scenario. Technological impact and potential damage causing operation interruption has been translated into financial figures.
- **Extreme events winds:** events that have extreme values of certain meteorological variables, in this case related to winds. This risk has been evaluated for our Energy Parks and Chemical sites, and the Trading business. **No relevant financial impact** has been identified for **Chemical sites and Trading business. Energy Parks** located in the Andalusian region **may have potential financial impact under the three climate scenarios**, with higher figures in a less sustainable scenario. Technological impact and potential damage causing operation interruption has been translated into financial figures.
- **Extreme events rains:** events that have extreme values of certain meteorological variables, in this case related to rains**.** This risk has been evaluated for our Energy Parks and Chemical sites. **Energy Parks and Chemical facilities** located in the Andalusian region **may have potential financial impact under the three climate scenarios**, with higher figures in the least sustainable scenario. Technological impact and potential damage causing operation interruption has been translated into financial figures.
- **Periods of drought:** are defined as periods of abnormally dry weather sufficiently long enough to cause a serious hydrological imbalance. This risk has been evaluated for our **Energy Parks and Chemical sites, considering both our business-as-usual operations and the future new business operations**, such as biofuels production and electrolytic hydrogen production facilities and it has been identified that this **may have potential financial impact under the three climate scenarios**, with higher figures in the least sustainable scenario. These facilities are in the Andalusian region where the local administration has defined drought as a **serious topic at industrial level** and coordinate a Water Task force Group to assess risks and adaptation measures. Cepsa is in continuous conversation with the local administration in relation to this issue and collaborates closely within the scope of this working group. It has also established **targets for reducing water consumption in these water-stressed areas as an adaptation measure**. Technological impact and potential damage causing operation interruption has been translated into financial figures.
- **Cold waves:** this risk **does not result in financial impact** for Cepsa's strategy, operational sites and geographies.
- **Extreme events fires:** this risk **does not result in financial impact** for Cepsa's strategy, operational sites and geographies.

For further information, please see the **Integrated Management Report 2023** (p. 56-57).