



COMPENSATION COMMITTEE

REMUNERATION POLICY OF THE DIRECTORS OF REPSOL, S.A.

29 March 2017

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REMUNERATION POLICY FOR THE DIRECTORS OF REPSOL, S.A.

In accordance with the provisions of article 529 *novodecies* of the Companies Act, it is the responsibility of the General Shareholders' Meeting to approve the remuneration policy for directors, at least every three years, as a separate item on the agenda.

The Board of Directors of Repsol, S.A. ("**Repsol**" or the "**Company**"), in response to a proposal from the Compensation Committee, has agreed in its meeting of 29 March 2017, to propose to the General Shareholders' Meeting the remuneration policy for the Directors of Repsol (hereinafter, the "**Remuneration Policy**") contained in this document, for its implementation in 2018, 2019 and 2020.

In accordance with Article 529 *novodecies* of the Companies Act, this proposed remuneration policy for the Board of Directors is accompanied by a reasoned legal report from the Compensation Committee. This report will be available to the shareholders on the company's website from the announcement of the General Meeting.

1. PHILOSOPHY OF THE REMUNERATION POLICY: PRINCIPLES AND CRITERIA

The overall principle defining Repsol's remuneration policy is the search for the mutual generation of value for the Group and for the Directors and the alignment of their interests with those of the shareholders, ensuring total transparency.

1.1. Concerning the Executive Directors

The remuneration of the Executive Directors for the performance of their executive functions follows the principles outlined below:

- To ensure that the remuneration, in terms of its structure and overall amount, complies with best practice and is competitive with that paid by other comparable organisations in order to attract, retain and motivate the best professionals.
- To establish remuneration based on objective criteria related to the individual performance of the Executive Directors and the achievement of the business objectives of the Company and the Group.
- To maintain an annual variable component linked to the achievement of specific and quantifiable targets, aligned with the company's interests, with control and measurement systems that determine the payment of the variable remuneration based on individual performance assessments and the personal contribution to the achievement of the established goals.

- To incorporate multiannual variable remuneration systems that promote the achievement of medium/long term targets and the retention of key people.
- To maintain an appropriate balance between the different compensation items, in line with best market practice.
- To ensure alignment of interests with those of the shareholders, encouraging the demand for shares.
- To ensure sustained alignment between the remuneration policy for the Executive Directors and that for the Senior Management.

1.2. Regarding Directors in their capacity as such

The remuneration of Directors in their capacity as such is based on the following principles:

- The remuneration should be sufficient and appropriate given the dedication, qualifications and responsibilities of the Directors, but without compromising their independent judgement.
- The remuneration should be in line with that paid in the market. To ensure this, the company takes into account the remuneration of Directors in other listed business groups similar to Repsol in terms of size, complexity of business and operations and geographic distribution of assets.

1.3. Regular review of the Remuneration Policy

The Directors' remuneration policy is reviewed periodically by the Compensation Committee and by the Board of Directors, to maintain it aligned with best practice and market trends.

2. REMUNERATION SYSTEM APPLICABLE TO THE EXECUTIVE DIRECTORS

The Compensation Committee follows the principles outlined above when determining the remuneration package of the Executive Directors for the performance of executive duties, whose elements are listed below.

2.1. Fixed Remuneration

The fixed remuneration of the Executive Directors for the performance of their leadership positions and roles mainly reflects their level of responsibility in the organisation, the positions they hold and their professional expertise, ensuring that it is competitive with the remuneration offered by companies comparable to Repsol, in order to attract and retain the best professionals.

On this basis, each year the Compensation Committee, comprising exclusively Non-Executive Directors, most of whom are Independent Directors, proposes the amount of the fixed remuneration for the Executive Directors for the performance of their executive duties, for approval by the Board of Directors within the framework of the Remuneration Policy.

To determine the remuneration and potential updates, the Compensation Committee, in addition to the criteria described, will take into account, among others, factors such as the characteristics of each position and workload, the market analyses carried out or the average increases in remuneration for the Senior Management of the Company. All this in order to establish appropriate compensation for the duties performed, ensuring its competitiveness with respect to the reference market.

These amounts (1,200 thousand euros for the CEO and 983 thousand euros for the General Counsel) will remain fixed while the Board of Directors does not agree to update them in accordance with the criteria described. In certain situations the Compensation Committee may recognise, for example, a change of responsibility, development in the position and/or a special necessity for retention and motivation that may justify increases for certain Executive Directors. The underlying reasons will be explained in the corresponding annual report on Directors' remuneration. In any case, any increases that may be agreed according to the above parameters for each of the Executive Directors during the term of the Policy, may not exceed 10 % of their current fixed remuneration.

2.2. Variable Remuneration

2.2.1. Annual Variable Remuneration

The annual variable remuneration seeks to encourage the achievement of predetermined, specific and quantifiable strategic objectives related to the management of the Executive Directors, assessing their individual contribution to the achievement of these targets.

The Board of Directors, with the proposal of the Compensation Committee is responsible for determining the targets at the start of each financial year and for assessing compliance with these once it has ended. In this role it has support from the internal areas of the company, which provide it with information on the various categories of targets and the results obtained.

In order to establish the appropriate metrics weighting and to determinate the levels of achievement of each objective, the Compensation Committee takes into account historical performance, projections and forecasts for the Company's results. The annual variable remuneration of the CEO is linked to the achievement of quantitative business targets including operational and financial targets for the Company, value creation objectives and sustainability goals. As applicable, the Compensation Committee may also propose the inclusion of qualitative objectives related to the Company's strategy, which will have a maximum weight of 20%.

In this regard, each metric has associated a scale of achievement defined in function of its variability and its level of demand. These scales have a minimal compliance threshold, below

which they do not generate a right to an incentive, and a maximum, fixed at 120%, although the overall degree of achievement of the targets will not be above 100%. The Compensation Committee, on the basis of the level of compliance with each target and its weighting, determines a weighted average level of compliance, which allows it to compensate excellent compliance (above 100% or above the expected standard) in one metric with a lower level of compliance in others.

The conditions of the annual variable remuneration system that apply to the Executive Directors, including its structure, maximum pay levels, targets and metrics set and the individual weight, are reviewed annually by the Compensation Committee to ensure that they are sufficiently demanding given the strategic priorities of Repsol, both long and short term, its needs and the position of the business.

The amount of the annual variable remuneration is defined as a target percentage of the fixed remuneration. For the CEO this may vary between 0%, if overall compliance above a minimum threshold is not reached and 100% of the fixed remuneration (maximum limit for payment of variable remuneration) in the event that the overall level of compliance with the targets is 100% or higher. Notwithstanding that, the Board of Directors retains the ability to adjust, to a maximum of 20% upwards or downwards, the final quantitative results for the annual variable remuneration, depending on the quality of results, individual performance and other issues that require qualitative measurement.

Similarly, the General Counsel's annual variable remuneration may vary between 0% and 90% of the fixed remuneration.

In order to ensure that the annual variable remuneration retains an effective relationship with the professional performance of the Executive Directors, when determining the level of compliance with the quantitative objectives, positive or negative economic effects that arise from extraordinary events and that could distort the assessment results are eliminated. These adjustments will be set out in the annual report on Directors' remuneration.

2.2.2. Long-Term Multiannual Variable Remuneration

Repsol has traditionally implemented long-term multiannual variable remuneration plans in the Company with the aims of promoting the mutual creation of value for the Group, its shareholders and its employees, as well as strengthening the commitment of its beneficiaries and reward the creation of sustainable value for the shareholders in the long run.

The company has currently implemented several long-term incentive plans for all directors, including the Executive Directors, and other professionals with high qualifications and potential. These programs are independent of each other, but their main characteristics are the same. They are all structured as overlapping plans that last at least four years.

Each plan is linked to the continuance in office of the Executive Directors until the end of the measurement period and to the compliance with a series of targets and commitments expressed in the Group's Strategic Plan in force at any time and directly aligned with the

sustained maximisation of the Company's value. Among the targets are metrics related to Exploration and Production (Upstream), Downstream, value creation, financial discipline and sustainability.

Each metric has associated a scale of achievement defined in function of its variability and its level of demand. These scales have a minimal compliance threshold, below which they do not generate a right to an incentive, and a maximum level, set at 120%, although the degree of achievement overall the objectives to be determined by the Compensation Committee shall not exceed 100%.

Each year the Compensation Committee determines the weighting of these objectives and the associated target levels in response to Repsol's strategy, needs and business situation.

The amount of the multiannual variable remuneration is defined as a target percentage of the fixed remuneration. In the case of the CEO, this amount may vary between 0%, if an overall compliance above a minimum threshold is not reached and 120% of the fixed remuneration, which is the maximum limit for their multiannual variable remuneration, in the event that both the overall level of compliance with the targets and the assessment of individual performance are 100% or higher. Notwithstanding the above, the Board of Directors retains the ability to adjust, to a maximum of 20% upwards or downwards, the final quantitative results for the multiannual variable remuneration, depending on the quality of results, individual performance and other issues that require qualitative measurement.

Similarly, the General Counsel's multiannual variable remuneration may vary between 0% and 100% of the fixed remuneration.

At the end of the measurement period, the Compensation Committee assesses the degree of achievement based on the overall level of achievement of the objectives in the incentive program and the personal performance of each Executive Director.

The multiannual variable remuneration may be paid in cash, in shares or a combination of both instruments. The amount of the multiannual variable remuneration payable to the Executive Directors will be disbursed in the following proportion:

- 70% of the total will be paid in cash.
- 30% of the total will be paid in Company shares.

The Executive Directors may not convey the Company shares delivered to them nor directly or indirectly perform hedging transactions on them for one year from the delivery of the shares. Neither may they perform hedging actions, directly or indirectly, prior to their delivery.

Any shares delivered to the Executive Directors under each long-term variable remuneration plan may be computed for the purposes of investment in shares referred to in the Share Acquisition Plan by the Beneficiaries of the Multiannual Variable Remuneration Programs mentioned in section 2.2.3 below.

The Long-Term Multiannual Variable Remuneration Plans for 2014-2017, 2015-2018, 2016-2019 and 2017-2020 the ("**Plans**"), are currently in force, pursuant to which the maximum amount of the multiannual variable remuneration of the Executive Directors (of which 30% will be paid in shares) is as follows:

- Chief Executive Officer: 1,377,000 euros under the Long-Term Multiannual Variable Remuneration Plan for 2014-2017 and 1,728,000 euros under the remaining plans.
- General Counsel: 982,975 euros

The final number of shares delivered to the Executive Directors when each of the Plans is settled will be calculated taking into account: (i) the amount of the multiannual variable remuneration effectively payable to each Director after applying the corresponding taxes (or withholdings); and (ii) the average weighted daily price by volume of the average weighted price of Repsol shares corresponding to the fifteen trading sessions prior to the Friday, exclusive, of the week prior to the date on which the Board of Directors resolves the payment of the multiannual variable remuneration for the Executive Directors under each of the Plans (the "**Reference Price**"). In particular, the number of shares to be received and charged to each Plan shall be determined, after applying the corresponding taxes (or withholdings), in accordance with the following formula:

$$\text{Shares to hand over} = \frac{\text{Pluriannual variable withholding amount in shares}}{\text{Reference Price}}$$

During the term of this Remuneration Policy, the Board of Directors may approve, in response to a proposal from the Compensation Committee, new long-term variable remuneration plans that are analogous or similar to the aforementioned Plans. In such cases, the maximum "amount of multiannual variable remuneration in shares" per plan will be 30% of the maximum amount of the multiannual variable remuneration the Executive Directors are entitled to receive under each plan in accordance with the limits established in this Policy¹. The formula and criteria for determining the number of shares to be delivered will also be applicable to any future plans agreed, in so far as the Executive Directors must collect a percentage of the compensation due to them in Company shares.

2.2.3. Share Acquisition Plan for Beneficiaries of the Multiannual Remuneration Programs (Long-Term)

The Company has implemented a Share Acquisition Plan for certain groups of employees and for the Executive Directors, the purpose of which is to promote the alignment of their long-term interests with the interests of the shareholders and the company.

The Share Acquisition Plan for Beneficiaries of the Multiannual Variable Remuneration Programs is structured through several cycles, approved by the General Shareholders Meetings

¹ In the case of the CEO the maximum threshold of his multiannual variable remuneration for each plan is 120% of his annual fixed remuneration, although the Board of Directors retains its ability to adjust, to a maximum of 20% upwards or downwards, the final quantitative results for the multiannual variable remuneration. For the General Counsel, the maximum threshold of his multiannual variable remuneration for each plan is 100% of his annual fixed remuneration.

held on 15 April 2011 and 20 May 2016. This Plan allows its beneficiaries to invest a maximum amount in Repsol shares, so that if they hold the shares for a period of three years and comply with the Plan's other conditions, the Company will give them one additional share for every three shares initially bought by them at the end of the specified period.

To simplify the implementation of the Plan and for the sole purpose of determining its beneficiaries and the maximum amount that they may invest in it, the long-term multiannual variable remuneration programs have been taken as a reference. Consequently, only the beneficiaries of the multiannual remuneration programs may be beneficiaries of this Plan and the maximum amount that they may invest in it, is the equivalent of 50% of the gross amount of the multiannual incentive received by each beneficiary.

For those beneficiaries who have Senior Management status (meaning the Executive Directors and those directors who are part of the Corporate Executive Committee or any other equivalent committee that may replace it in the future), the Company establishes an additional performance requirement for the delivery of the extra share for every three shares acquired in the Initial Investment. This objective consists in achieving an overall a level of compliance of the targets established for the long-term multiannual variable remuneration program closed in the financial year immediately preceding the date of final delivery of the shares, equal or greater than 75%. In this way, the Senior Management will only be entitled to receive the extra share if, in addition to complying with the general conditions of the Plan applicable to all the beneficiaries, the overall a level of compliance of the targets established for the long-term multiannual variable remuneration program closed in the financial year immediately preceding the date of final delivery of the shares, is equal or greater than 75%.

At end of the 2016 financial year the fourth (2014-2017), fifth (2015-2018) and sixth (2016-2019) cycles of the Share Acquisition Plan for Beneficiaries of the Multiannual Variable Remuneration Programs were in force.

2.2.4. Ex-post adjustments of the Variable Remuneration

The Compensation Committee may propose to the Board of Directors that there be a claim for the reimbursement of the variable components of the remuneration. Both short-term and long-term, when the payment has not been adjusted to the performance conditions or when it has been awarded on the basis of data that is subsequently shown to be inaccurate.

The Compensation Committee has the power to propose the cancellation of the payment of the variable remuneration of the Executive Directors, annual and multiannual, upon the emergence of circumstances that show that the remuneration was paid on the basis of inaccurate or erroneous data.

In particular, the conditions of the Share Acquisition Plan for Beneficiaries of the Multiannual Variable Remuneration Programs establish, in addition to the beneficiary remaining in the Repsol Group, that the accrual of the delivery of extra shares is conditional upon not having occurred, in the period prior to each allocation of shares, in the opinion of the Board of Director, based on a report by the Compensation Committee, the material restatement of the

Company's financial statements if this affects the degree of fulfilment of the objectives set for the relevant multiannual remuneration program, except when this is due to a change to the accounting principles.

2.3. Long-Term Saving Systems

The Company has implemented the Group's Directors Pension Scheme, whose conditions are set out in its Regulations.

The CEO participates in that Directors Pension Scheme by the reason of his previous employment relationship, and according to the formula outlined in its Regulations, the annual contributions for retirement are roughly equivalent to 20.5% of his fixed remuneration, subject to his continuity in the Group.

In turn, the General Counsel participates in a deferred remuneration scheme called the "*Length of Service Reward*", which was approved by the Board of Directors prior to the current policy and that is intended to encourage his continuity in the Repsol Group. It is implemented through the investment fund called "*Fondo de Permanencia, FI*" into which Repsol makes annual contributions for an amount equivalent to 20% of the General Counsel's annual fixed remuneration, and in exchange receives shares in the Fund. These shares are owned by Repsol until the General Counsel retires, at which point the right will vest and be transferred to him, together with the ownership. He will also be entitled to the cumulative amount of the Length of Service Reward upon the termination of his contract in those cases in which he is entitled to compensation.

Both Executive Directors also participate in the Repsol pension scheme, the maximum contribution to which is set at 7 thousand euros per year.

Pension scheme remunerations are compatible with the compensation for the termination of the relationship.

2.4. Other benefits

The Executive Directors are beneficiaries of certain benefits in kind, including, among others, medical insurances, life and disability insurance and the gross share amount delivered by virtue of the Share Acquisition Plan by the Beneficiaries of the Multiannual Variable Remuneration Programs. These payments also include the payments on accounts linked to cash remuneration.

Repsol's policy does not provide for the Company granting any advances, loans or guarantees to the Executive Directors

Furthermore, the Executive Directors may receive, where appropriate, an additional fixed remuneration for sitting on the boards of directors of other Group, multi-group or associated companies.

2.5. Main conditions of the contracts of the Executive Directors

The remuneration, rights and financial rewards of the Executive Directors are determined in their respective contracts, always respecting the provisions of the Company's By-laws.

The contracts signed with the Executive Directors are indefinite, do not provide a notice period for Repsol and establish a post-contractual non-compete obligation. This obligation means that, once the term of the contract has expired, they may not provide services in companies similar to Repsol.

Furthermore, all the contracts establish the non-compete obligation, for the duration of their relationship with the Company, with business and activities of a similar nature.

With regards to severance pay, the Company's policy is to limit severance pay for new executive directors to a maximum of the equivalent of two years' pay that includes the remuneration for the post-contractual non-compete clause, pursuant to the commitment assumed by the Board of Directors at its meeting of February 25, 2014, at the proposal of the Compensation Committee.

The conditions of the contract of the General Counsel, signed in 2005, respond to the personal, professional and market circumstances prevailing at the time it was signed. It was approved by the Board of Directors, prior favourable report by the Compensation Committee, following an analysis of the market practices prevailing at that time and advice from independent experts. In the event of the contract being terminated on grounds attributable to Repsol, by mutual agreement or in the best interests of the Company, or upon the occurrence of objective circumstances, such as a significant change in the ownership of the Company's capital stock, there is a provision for a differed severance for the equivalent of three full years of total annual remuneration plus one additional year in consideration of the post-contractual non-compete commitment.

2.6. Shareholding Policy

While they remain in his position, the Executive Directors must retain the ownership of the Company shares in their portfolio, and any other shares received in kind under the Long-Term Variable Remuneration Programs or linked to the Share Acquisition Plan for Beneficiaries of the Multiannual Variable Remuneration Programs until they reach, at least, an amount equivalent to twice their annual fixed remuneration.

The valuation of the portfolio shares at the date of approval of the Remuneration Policy will be based on share prices on the corresponding acquisition date.

2.7. Remuneration policy for new appointments

When determining the pay package for a new Executive Director, the Compensation Committee will consider the candidate's experience and expertise, where he came from (from inside or outside the company) and his level of pay at the time of being appointed. The

remuneration components and the corresponding ceilings as well as the basic contractual terms described in this Remuneration Policy will apply to any new Executive Director vested with executive functions.

Exceptionally, and to facilitate the recruitment of an external candidate, the Compensation Committee may establish a special incentive to offset the loss of incentives not accrued in the previous company due to the resignation and consequent acceptance of Repsol's offer.

With regards to the remuneration of the Director in his capacity as such, this will be integrated within the maximum distributable amount established by the general meeting and to be distributed by the Board of Directors in accordance with the provisions described below.

3. REMUNERATION SYSTEM APPLICABLE TO THE DIRECTORS IN THEIR CAPACITY AS SUCH

With regards to the Directors, in their capacity as such, the Remuneration Policy established by the Compensation Committee seeks to adequately and sufficiently compensate the dedication, qualification and responsibilities of the Directors, without going so far as to jeopardise their independence of judgment.

The Compensation Committee is responsible for proposing to the Board of Directors the criteria that it deems appropriate for determining the remuneration of the Directors, for performing their role as a supervisory and decision-making body. The Board of Directors is responsible for determining the exact amount to be paid and how it will be distributed between the different Directors, taking into account the positions held by each of them within the Board and on its Committees.

3.1. Maximum remuneration threshold for the whole Board

According to the provisions of article 45 of the By-laws and in accordance with the resolution adopted by the General Shareholders Meeting of 30 April 2015, the current threshold that the Company may allocate annually to the remuneration of the members of the Board of Directors for the performance of its collegiate supervision and decision-making duties, including the remuneration of the Chairman of the Board of Directors, is 8.5 million euros. The Board of Directors must establish the exact amount to be disbursed within that threshold and its distribution among the various Directors, taking into account the functions and responsibilities assigned to each of them, the positions held by each of them in the Board and its Committees and other objective circumstances that it considers relevant.

3.2. Directors in their capacity as such

Directors, in their capacity as such, receive a fixed remuneration for carrying out their collegiate supervision and decision-making duties. The calculation of this remuneration, except that of the Chairman, takes place through the allocation of points for belonging to the Board of Directors or to the various committees. Each point is equivalent to a pay amount, thus resulting in different sums for the Directors, based on each of their responsibilities. The Board

of Directors, at the proposal of the Compensation Committee, must establish the amount of the value of the point, in line with the remuneration threshold for the whole Board, which shall be communicated in the annual report on Directors' remuneration for the financial year in question.

Nevertheless, in view of the recommendations made by the supervisory bodies, and market practices and current remuneration trends, the Board of Directors, at the proposal of the Compensation Committee, may replace this remuneration model with other, equivalent systems that are also based on fixed remuneration, in no way it is intended entailing an increase in the remuneration.

Furthermore, it should be noted that External Directors are all excluded from the employee benefit systems that are funded by the Company in the event of dismissal, death or similar and from the company's short and long-term performance-linked incentive plans, such as the multiannual cash remuneration, shares or call options on shares.

According with article 16.5 of the Regulations of the Board of Directors, once leaving the Board, Directors may not render services at a competing Company for two years unless the Board of Directors releases them from this obligation or shortens the time of the constraint.

4. CHAIRMAN OF THE BOARD OF DIRECTORS

The remuneration of the Chairman of the Board of Directors reflects the important role and the high workload and commitment of the position, as well as the other criteria set forth in the Policy above.

The remuneration of the Chairman of the Board of Directors is formed exclusively by fixed items. The total amount of the fixed remuneration of the Chairman of the Board of Directors, approved at the General Shareholders Meeting of 2015, amounts to 2,500,000 euros annually, which includes amounts for sitting on the Board of Directors and Committees of Repsol's Group, multi-group and associated companies.

The annual remuneration of the Chairman of the Board of Directors will remain fixed until the ordinary General Meeting is held in 2019, when the current contract will expire. Also, until this date, he may continue receiving the in-kind benefits established in his contract, including among others, medical insurance, life and disability insurance and payments on account/withholding tax due on payments in kind.

In the event of early termination of the contract of the Chairman of the Board of Directors before the 2019 Ordinary General Meeting, Mr. Brufau is entitled to receive the amount remaining from each annuity payment until such Meeting is held, unless this takes place, among other circumstances, due to voluntary unilateral withdrawal on his part.

5. DIRECTORS LIABILITY POLICY

In accordance with the provisions of article 45 of the By-laws, the Company has subscribed a Directors and Officers liability policy covering third-party claims for damages and/or potential losses caused by the Directors' acts or omissions in their position as members of the Board of Directors. The policy collectively covers Directors, officers and other employees of the Group who exercise management-related functions, and that also covers the different companies of the Group under certain circumstances and conditions.

In 2016, the total amount of premiums for this collective liability insurance policy amounted to 2.2 million euros.

6. VALIDITY PERIOD OF THE POLICY

Pursuant to the provisions of article 529 *novodecies* of the Companies Act, the Company will implement this Directors' Remuneration Policy during the years 2018, 2019 and 2020.

Any amendment or replacement of the Policy will require the prior approval of the General Shareholders Meeting in accordance with prevailing legislation.

In any event, this Policy will be without prejudice to any payments that may have to be made to the Executive Directors during this period pertaining to deferred amounts of variable remuneration from previous years, which will be subject to the conditions that were established for such remunerations.

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