NOMINATION AND COMPENSATION COMMITTEE

Explanatory Report on the Remuneration Policy of Directors

March 25, 2015

CONTENTS

* * *

1. INTRODUCTION

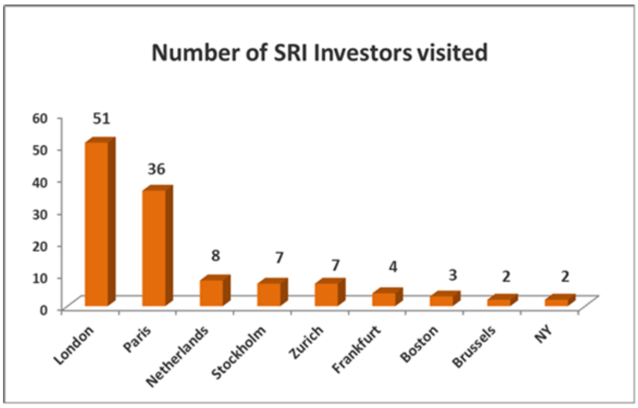
This report (the "**Report**") has been prepared by the Nomination and Compensation Committee of Repsol, S.A. ("**Repsol**" or the "**Company**") in accordance with the provisions of article 529 *novodecies* of the Spanish Corporate Enterprises Act (*Ley de Sociedades de Capital* – LSC), with the aim of discussing the criteria and foundations on which the committee relies when determining the remuneration policy for Repsol directors, which will apply for years 2015, 2016 and 2017. This policy (the "**Remuneration Policy**"), enclosed as **Appendix II**, will be put before the ordinary General Shareholders Meeting scheduled for April 30, 2015 for its binding approval and will be included as a separate item on the agenda. The Remuneration Policy has been prepared in response to the new regulatory framework and reflects best practices on the subject of good governance and also Repsol's unflinching commitment to ensuring the utmost transparency.

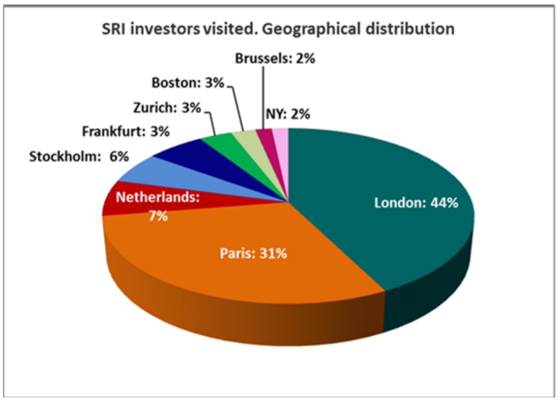
Although Act 31/2014 envisages a transitional regime –whereby if the first General Meeting to be held in 2015 approves the report on director remuneration through a consultative vote, the company's policy on remuneration contained therein will also be deemed to have been approved within the meaning of article 529 *novodecies* of the LSC– the Company has decided not to make use of this transitional regime, thus following best practices on the subject of good governance by applying regulatory changes at the first opportunity. This is because at European level the revision of the Shareholders Rights Directive, which dictates that the General Shareholders Meeting is the competent body for approving the remuneration policy of directors through a consultative vote, is currently under discussion and is expected to be approved towards the end of 2016. Moreover, in the United Kingdom, one of the most proactive countries when it comes to analyzing best corporate governance practices and implementing them into its domestic system, this competence to approve director remuneration policy was already attributed to the General Shareholders Meeting in 2014, under the terms of the Enterprise and Regulatory Reform Act 2013.

This Report is also a reflection of Repsol's ongoing desire to render its remuneration systems more transparent and to help shareholders fully understand the information contained in the annual report on director remuneration drawn up in accordance with the provisions of article 541 of the Spanish Corporate Enterprises Act by completing the template set out in Circular 4/2013 of the Spanish Securities Market Commission (Comisión Nacional del Mercado de Valores – CNMV) (the "**Annual Report on the Remuneration of Directors**"). This report was filed with the CNMV as a significant corporate event on February 26, 2015 and will be subject to a consultative vote by shareholders at the 2015 General Shareholders Meeting as a separate item on the agenda. **Appendix I** to this report contains further information on the application of the Company's remuneration policy in respect of Executive Directors for the last financial year ended.

A further highlight for 2014 was Repsol's ongoing commitment to its shareholder engagement campaign, a groundbreaking initiative in Spain involving two-way dialog between shareholders and the company and focusing heavily on ESG –Environmental, Social and Governance–, safety and environmental concerns, corporate social responsibility, and corporate governance. As discussed in the "*Informe de Interacción con Inversores socialmente responsables correspondiente a 2014*" ("*2014 report on interaction with socially responsible investors*") –which provides an overview of the actions undertaken and discloses important information to the Company's stakeholders in respect of the Board's policy on dialog with ESG investors, along with the different mechanisms rolled out, the key aspects flagged and Repsol's response to the concerns detected– contact with investors increased significantly in 2014, climbing from 38 investors contacted in 2013 to 82 in 2014, marking a 116% increase. The Company also staged its first “Sustainability Day” and held a number of different ESG-oriented roadshows with investors. The Company's Chief Executive was personally involved in these events, illustrating the huge importance the Company attaches to the subject.

The following diagrams provide an overview of the total visits made by Repsol and the geographical location of investors:





2. FOUNDATIONS OF THE REMUNERATION POLICY FOR DIRECTORS

The Remuneration Policy contains the principles and criteria governing the remuneration of directors for their work as such and for performance of any executive functions. These principles and criteria are periodically reviewed by the Nomination and Compensation Committee and the Board of Directors so as to ensure that the Company's remuneration policy remains aligned at all times with best market practices among peers.

Repsol's Remuneration Policy addresses the following aspects in line with the approach followed by international companies leading the way in corporate governance:

- Key component features of the total remuneration paid to Executive Directors, including purpose, functioning and maximum caps;
- The approach to selecting the indicators and targets to which variable pay is pegged;
- Details of the remuneration policy for new appointments of Executive Directors arising over the life of the policy;
- Breakdown of the remuneration policy for directors in their condition as such.

The Directors Remuneration Policy also factors in and respects the following:

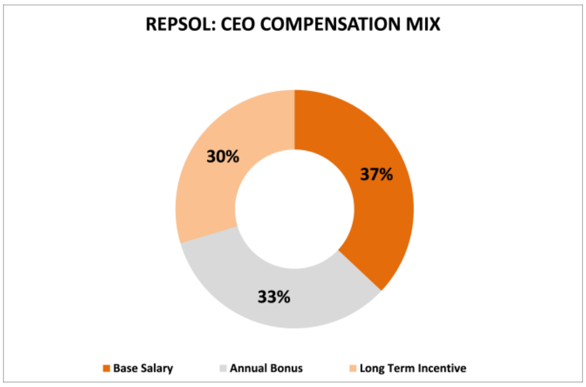
i. The provisions of the Company's Bylaws and the Internal Regulations of the Board of Directors.

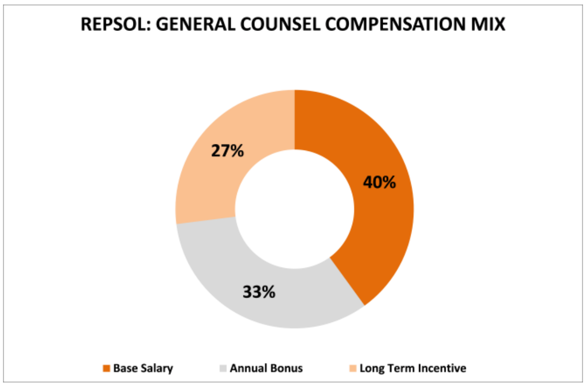
ii. The philosophy, principles and criteria underpinning the Remuneration Policy: the principle defining Repsol's remuneration policy is the pursuit of reciprocal generation of value for the Group and for employees, and long-term alignment of their interests with those of shareholders, ensuring total transparency.

Directors' compensation for their work as such consists entirely of fixed pay items.

The pay package of Executive Directors as consideration for their executive functions is a suitably balanced and efficient mix of fixed and variable pay items in which the fixed component accounts for a sufficiently high percentage of the total remuneration. The variable pay items must be flexible to the point that they can be completely removed from the pay package, in a given year.

To elaborate further, assuming a standard scenario wherein the targets are met in 2015, fixed remuneration for the CEO would account for 37% of the total remuneration (fixed, annual variable and long-term variable) and the variable remuneration 63% (approximately 53% short-term variable pay and 47% long-term variable pay). For the General Counsel, fixed remuneration would account for 40% and variable remuneration 60% (55% short-term variable pay and 45% long-term variable pay).





iii. Applicable law: the Nomination and Compensation Committee has confirmed that the Remuneration Policy of Directors is largely compliant with that set forth, on a general basis, in the new section 4 of article 217 of the Spanish Corporate Enterprises Act, stating that the remuneration of directors must be reasonably proportionate to the company's size, relevance and financial standing from time to time and market standards followed by peer companies, and that the remuneration system must champion long-term profitability and sustainability, feature the necessary safeguards to avoid any excessive risk exposure, and not reward negative results.

iv. Market data and guidelines of institutional investors and proxy advisors, together with the information received from these during the engagement process undertaken by Repsol.

Here, the Nomination and Compensation Committee periodically reviews the pay packages of its Executive Directors to gauge whether they are suitable, in line with the prevailing market approach followed by its peers and compatible with the running of the Company.

In determining the parameters and corresponding amounts, the Company relies on remuneration studies prepared by specialist firms of recognized standing. Thus, in fixing the CEO's remuneration for 2014 the Nomination and Compensation Committee relied on a comparison group based on the following benchmarking criteria:

- Objectivity: two pre-determined stock market indices were chosen as a benchmark for Repsol remuneration purposes (Spain and Europe):

  - The IBEX35 features the 35 companies with the highest liquidity listed on the Sistema de Interconexión Bursátil Electrónico (SIBE) –Automated Stock Market Trading System– for the four Spanish stock exchanges (Madrid, Barcelona, Bilbao and Valencia). Repsol is excluded from this group since it forms the subject of comparison, as is Arcelor Mittal, whose Board of Directors is based outside Spain.

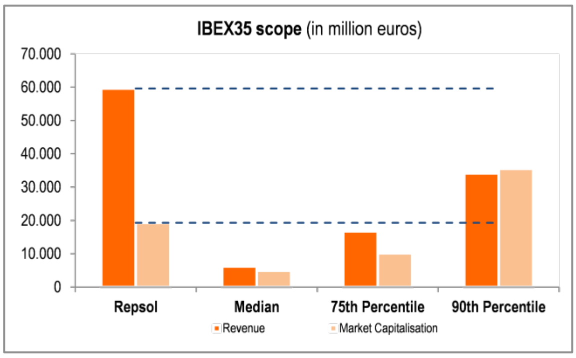
  - EuroTop100 is made up of the 100 blue chip companies with the largest market capitalization in Europe. The following companies are excluded from this index: Repsol, because it forms the subject of comparison, and H&M, as its CEO receives almost his entire remuneration through dividends or capital gains.

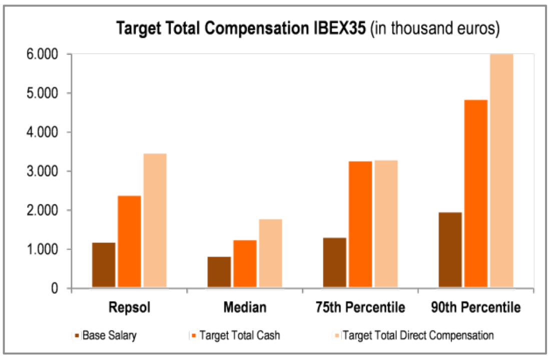
- There must be a sufficient number of companies to ensure that the resulting statistics are solid and representative.

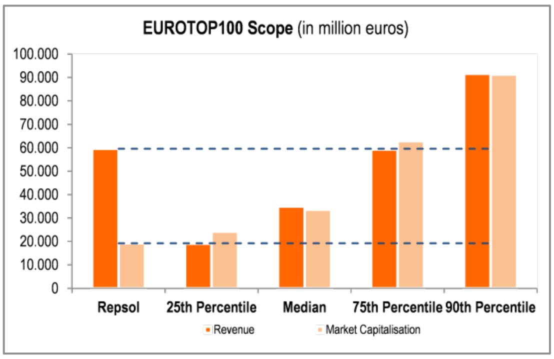
The Nomination and Compensation Committee assesses the resulting comparison group on a yearly basis with the aforementioned criteria in mind for the purpose of comparing Repsol's approach with that of its peers.

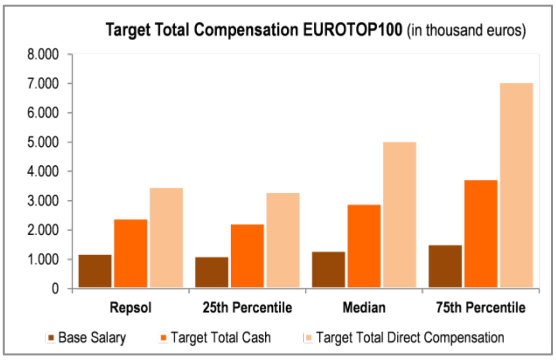
As stated in the Annual Remuneration Report for 2014, the Nomination and Compensation Committee engaged the advisory services of the independent specialist firm Towers Watson, which, in respect of the shareholding package of the CEO in comparison to the IBEX35, concluded that Repsol falls within the 90th percentile in turnover and market capitalization, while the total remuneration of the CEO is in the 75th percentile. In comparison with EuroTop100, Repsol lies in the 75th percentile in turnover and around the 25th in market capitalization. The total compensation of the CEO is at the 25th percentile.

The following diagrams reveal Repsol's CEO position versus the two benchmarking groups in terms of size (turnover and market capitalization) and total remuneration (fixed pay, variable pay and long-term incentive):









3. NOMINATION AND COMPENSATION COMMITTEE: DESCRIPTION AND FUNCTIONS CARRIED OUT IN RELATION TO DIRECTOR REMUNERATION

3.1. Membership

In accordance with the Bylaws and Regulations of the Board of Directors, the Nomination and Compensation Committee is comprised entirely of five (5) external or non-executive members, the majority of whom three (3) are independent, while the remaining two are proprietary. All the Committee members have extensive experience and expertise in the duties to be performed.

As of the date of this report, membership of the Nomination and Compensation Committee is as follows:

NAME	POSITION	CATEGORY
Artur Carulla Font	Chairman	Independent
Mario Fernández Pelaz	Member	Independent
María Isabel Gabarró Miquel	Member	Independent
José Manuel Loureda Mantiñán	Member	Proprietary
Juan María Nin Génova	Member	Proprietary

Additionally, its Chairman of the Board of Directors, Mr. Artur Carulla Font has been acting as Lead Independent Director since 2011, allowing thus Repsol to act in line with international best practices on the subject of good governance. The main responsibilities of the Lead Independent Director are as follows:

- Requesting the Chairman of the Board of Directors to convene a board meeting when the Lead Independent Director deems one necessary or advisable, and insisting that further items be included on the agenda of board meetings.

- Coordinating and voicing the opinions of the External Directors.

- Convening and chairing any meetings of the Independent Directors deemed necessary or advisable.

- Heading the process of appraising the performance of the Chairman by the Board of Directors.

3.2. Main duties

The duties of Repsol's Board of Directors and of its Nomination and Compensation Committee (NCC) in respect of remuneration are set out in the Bylaws and in the Regulations of the Board of Directors.

The main duties of the Committee include submitting a proposed remuneration policy for Board members to the Board of Directors, in which it assesses the responsibility, dedication and compatibilities required of directors and Executive Directors in performance of their executive functions, and other terms and conditions of the contracts, plus the remuneration policy for senior executives.

The Nomination and Compensation Committee is also tasked with selecting, appointing, re-electing and removing board members, a process that involves assessing the competencies, knowledge and experience required to sit on the Board of Directors, defining the functions and aptitudes required of candidates chosen to fill openings, and evaluating the time and dedication required of them so as to ensure they can properly carry out their work as director.

The Nomination and Compensation Committee met on three (3) occasions in 2014, with an attendance rate of 100%[1]. At the meetings, the committee discussed the following matters, among others:

- Approval of Directors' remuneration for their duties as such in 2014;

- Roll-out of the orderly succession plan for executive functions;

[1] In calculating attendance, Repsol observes the rules set out in the current template of the Annual Corporate Governance Report approved by Circular 5/2013, of June 12, of the Spanish Securities Market Commission (Comisión Nacional del Mercado de Valores – CNMV).

- Selection and proposed appointment of the CEO;
- Approval of the new executive organizational chart;
- Proposal and adaptation of the contractual terms and conditions of the Chairman of the Board of Directors; settlement of his annual and multiannual variable remuneration;
- Proposal and approval of the CEO's contractual conditions and pay package;
- Approval of the fixed remuneration of Executive Directors for 2014;
- Appraisal and approval of the annual variable remuneration of Executive Directors based on the profit reported in 2013;
- Appraisal of fulfillment of the targets set in the 2010-2013 MTI multiannual variable remuneration program;
- Approval of the new 2014-2017 MTI multiannual variable pay program;
- Setting of targets for the 2014 annual variable remuneration of Executive Directors;
- Approval of the Annual Remuneration Report for 2013.

During 2015, until the date of publication of this report, the Nomination and Compensation Committee has met on three (3) occasions to discuss the following aspects, among others:

- Approval of the remuneration of directors for their supervisory and decision-making duties on committees for 2015;
- Approval of the new 2015-2018 MTI multiannual variable pay program;
- Appraisal of fulfillment of the targets set in the 2011-2014 MTI multiannual variable remuneration program;
- Approval of the fixed remuneration to be paid to Executive Directors as consideration for their executive duties in 2015;
- Assessment and approval of the CEO's and General Counsel's annual variable remuneration for the results achieved in 2014;
- Setting of targets for the 2015 annual variable remuneration of Executive Directors;
- Approval of the Annual Remuneration Report for 2014.

The Nomination and Compensation Committee may request the Board of Directors to engage the services of legal advisors, accountants or financial or other experts to aid it in its duties, with the associated costs to be met by the company.

The services of Towers Watson, an independent advisor specializing in the remuneration of directors and senior officers, were therefore arranged to advice while the preparation the Annual Remuneration Report for 2014, this report, the Remuneration Policy, and the benchmarking study into the remuneration of the CEO.

* * *

APPENDIX I

FURTHER INFORMATION ON THE APPLICATION OF THE REMUNERATION POLICY OF EXECUTIVE DIRECTORS IN 2014

As indicated in the introduction to this report and so as to help shareholders better understand the information set out in the Annual Remuneration Report for 2014, this Appendix contains further information on how the Company's remuneration policy was applied in the case of Executive Directors in 2014.

1. Annual variable remuneration

The following table details the categories of targets proposed by the Nomination and Compensation Committee and approved by the Board of Directors for 2014 in respect of the annual variable remuneration of the CEO, plus the indicators, weightings and objective values involved. The table also provides a breakdown of the degree of performance for each of the targets:

Category	Weight	Indicator	Weighting	2014 Objective Value	% Performed	TFR*
STRATEGIC ALIGNMENT	15%	Management of business portfolio	15%	To be appraised by the Nomination and Compensation Committee	100%	15%
OPERATIONS	50%	Net profit	20%	AB14 = €2,533 M	0%	0%
		Net debt (ex GNF)	10%	AB14 = €5,407 M	120%	12%
		Production and reserve replacement rate	12.5%	Production AB14 = 393 Kboe/d Replacement rate AB14 = 92%	110.5%	13.8%
		Utilization of conversion capacity	7.5%	AB14 = 96.9%	120%	9%
SUSTAINABILITY	20%	Accident frequency rate	10%	FR AB14 = 0.86; TFR ≤ 3.20 (accepted FR range: 1.02-0.70)	100%	10%
		Sustainability plan	10%	90% of actions of the 2013-2014 Sustainability Plan	120%	12%
VALUE	15%	Change in net profit vs. peers	15%	Above peers	120%	18%
				Degree of performance		**89.8%**

*Target fulfillment ratio (TFR) may not exceed 100%

In view of the foregoing, the Nomination and Compensation Committee has held that the level of overall fulfillment attained by the CEO as regards compliance with the targets set for 2014 (applicable from his appointment as CEO, that is, April 30, 2014) has been 89.8%, entitling him to receive 720 thousand euros (90% of his fixed remuneration).

In relation to the General Counsel, the targets set for 2014, where the following: (i) Corporate governance; (ii) Institutional relations; (iii) Corporate responsibility; (iv) Asset management; and (v) actions relating to the expropriation of YPF. In relation to these qualitative targets, the Nomination and Compensation Committee has analyzed the different milestones and actions reached or undertaken in 2014, valuing in particular the work of the General Counsel and of the Board of Directors in ending the dispute arising from the expropriation of 51% of the shares of YPF, S.A., and YPF Gas, S.A., and recovering the value of YPF, by signing two agreements with the Republic of Argentina and YPF, respectively,. By virtue of the agreement signed with the Argentine government, Repsol was awarded compensation of 5 billion dollars for the expropriation of its shares. The compensation was paid to Repsol in the form of Argentine sovereign bonds for a total nominal value of 5.317 billion dollars, which the Group then sold for 4.997 billion dollars. The Group has also sold its non-expropriated stake in YPF, S.A. (12.38%) for a total price of 1.316 billion dollars. Both transactions generated income upwards of 6.3 billion dollars. With this in mind, the Nomination and Compensation Committee has determined that target performance stands at 100% in view of the achievements made in relation to the pre-determined objectives, entitling the General Counsel to receive 885 thousand euros (90% of his fixed remuneration).

Based on these results, the Board of Directors has agreed, following a proposal from the Nomination and Compensation Committee, to set the level of the incentive payment for the CEO at 89.8% and at 100% for the General Counsel, and to calculate and pay each of them the following amounts of annual variable remuneration for 2014:

	Annual variable remuneration for 2014 in thousand euros
Josu Jon Imaz	720
Luis Suárez de Lezo	885

2. Multiannual variable remuneration

On the subject of multiannual variable remuneration, it should be noted that the MTI Medium-Term Incentive 2011-2014 Program closed on December 31, 2014 as per its terms and conditions. The Nomination and Compensation Committee has employed mathematical formulae to calculate the degree of fulfillment of their pre-established targets based on the information received from ED Strategy, Control and Resources and ED People and Organization on the results obtained, and has likewise calculated the degree of overall fulfillment of the program on the basis of the objective values initially defined (for the MTI 2011-2014 program the weightings of each objective have been adjusted accordingly to reflect the change in the scope resulting from the expropriation of YPF).

The following table details the objectives, weightings, indicators and scales of attainment for each category of objectives:

Category	Weight	Indicator	Weighting	Accumulated Objective Value 2011-2014	TFR	Score for 2014
GROWTH IN E&P	43%	Reserve replacement ratio (RRR)	8.6%	RRR envisaged in the 10-14 Strategic Plan: 110%	100%	8.6%
		Increase in E&P production	8.6%	Increase envisaged in the 10-14 Strategic Plan: 3.5%	0%	0%
		Exploration success rate	8.6%	Coefficient ≥ 1	100%	8.6%
		Project performance	8.6%	Delays ‹ 9 months and real cost ‹ 90% cost of FID	107.2%	9.24%
		Volume of LNG marketed	4.3%	Average target volume envisaged in the 10-14 Strategic Plan: 429 TBtu/year	100%	4.3%
		Marketing margin of own LNG	4.3%	Average annual net margin envisaged in the 10-14 Strategic Plan: US$0.7/MBtu	100%	4.3%
				Overall score	**81.4%**	**35%**
DOWNSTREAM	32%	Start-up (PEM) and Cartagena Project cost	2011: 8.6% 2012-2014: N/A	Envisaged PEM: Oct 11 Envisaged cost: €3,300 M	100%	2.16%
		Start-up (PEM) and Bilbao Project cost	2011: 5.7% 2012-2014: N/A	Envisaged PEM: Sep 11 Envisaged cost: €840 M	100%	1.44%
		Increase in margin due to the Cartagena and Bilbao projects	2011: N/A 2012-2014: 5.7%	Increase in margin 2012 and 2013 ≥ $2/bbl Increase in margin 2014 ≥ $2.4/bbl	91.7%	3.95%
		Integrated refining and marketing margin of Repsol vs. sector	2011: 8.6% 2012-2014: 17.2%	First quartile of the sector	75%	11.31%
		Recurring operating profit for CCS chemical products	8.6%	Strategic Plan 10-14: €269 M	0%	0%
				Overall score	**59.7%**	**18.9%**
OPTIMIZATION AND FINANCIAL DISCIPLINE	8%	Ratio between operating and financial cash flow versus investments under the Strategic Plan 10-14	4.6%	Coefficient ≥ 1	100%	4.6%
		Improvement in credit rating	3.4%	Rating improvement	0%	0%
				Overall score	**57.1%**	**4.6%**
VALUE CREATION	11%	Net profit	11%	Value under Strategic Plan 10-14: €6,738 M	75%	8.6%
				Overall score	**75%**	**8.6%**
SAFETY AND THE ENVIRONMENT	6%	Frequency rate	3%	Average target FR 11-14: 1.09	100%	2.9%
		Reduction in greenhouse gases	3%	Tonnes of CO_2 eq. reduced: ≥ 1,300,000	100%	2.9%
				Overall score	**100%**	**5.8%**
				Total score under 2011-2014 Plan		**72.92%**

In relation to the CEO and the General Counsel, the Nomination and Compensation Committee evaluates the degree of attainment of their multiannual variable remuneration based on the overall fulfillment of the objectives under the plan, plus their personal performance. With regards to the MTI 2011-2014 program, the Nomination and Compensation Committee has determined that the incentive to be received by the CEO (from his appointment as such, i.e. April 30, 2014) has been equivalent to 68.30% of the maximum attainable incentive, and that the incentive to be received by the General Counsel has been equivalent to 64.82% of the maximum attainable incentive, thus giving rise to payment of the following amounts approved by the Board of Directors upon a proposal from the Nomination and Compensation Committee:

	Multiannual variable remuneration for 2014 in thousand euros
Josu Jon Imaz	152
Luis Suárez de Lezo	478

* * *

APPENDIX II

REMUNERATION POLICY FOR DIRECTORS OF REPSOL, S.A.