



COMPENSATION COMMITTEE

Report on the Remuneration of the Directors 2016

29 March 2017

The English version is a translation of the original in Spanish for information purposes only. In case of any discrepancy, the Spanish original will prevail.

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1. PRESENTATION OF THE REPORT

This voluntary report (the "**Report**") is prepared by the Compensation Committee of Repsol S.A. ("**Repsol**", or the "**Company**") to provide detailed information about the implementation of the remuneration policy of the Directors approved in a binding manner by the General Shareholders Meeting on 30 April 2015 (the "**Remuneration Policy**"), both in the performance of their executive functions and the supervision and decision-making functions inherent to the office.

This Report therefore reflects Repsol's ongoing desire to render its remuneration systems more transparent and to help shareholders fully understand the detailed information contained in the Annual Report on Director Remuneration drawn up in accordance with the provisions of art. 541 of the Spanish Corporate Enterprises Act by completing the template set out in Circular 7/2015 of the Spanish Securities Market Commission (Comisión Nacional del Mercado de Valores – CNMV¹) (the "**Annual Report on Remuneration**"), which was recorded on 23 February as Significant Corporate Event No. 248445. Said report, which is attached as an Appendix, will be subject to a consultative vote by shareholders at the next General Shareholders Meeting as a separate item on the agenda.

In business terms Repsol has earned, in FY 2016, the highest net profit of the past four years thanks to the strength and flexibility shown by its businesses, especially after the acquisition of Talisman, and the effectiveness of the action program implemented to counteract the fall in prices of reference raw materials, which were down by 56% (Brent) and 53% (Henry Hub) in the past two years.

In view of the results obtained and after a comprehensive evaluation process carried out by the Compensation Committee, the Board of Directors approved in its meeting of 22 February 2017, an annual variable remuneration amount for FY 2016 for the CEO, equivalent to 90% of his fixed remuneration and a degree of achievement of his long-term variable compensation targets (MTI 2013-2016) of 67.27% of the maximum attainable. Accordingly, the CEO's accrued annual variable compensation amounts to 1,080 thousand euros and the multiannual variable remuneration amounts to 328 thousand euros (equivalent to 27.33% of his fixed remuneration).

In line with previous years, Repsol continues with its multiannual variable remuneration policy, in order to promote the retention and motivation of key individuals and enhance the commitment of the Executive Directors. Thus, in 2016 the MTI 2016-2019 Multiannual Variable Remuneration Program was launched, along with the Sixth Cycle of the Share Purchase Plan for Beneficiaries of the Multiannual Variable Remuneration Programs.

Finally, it should be noted that, during the FY 2016, Repsol has continued its engagement campaign with shareholders and proxy advisors, focused specifically on ESG issues (Environmental, Social and Governance), thus consolidating a pioneering initiative in Spain of two-way dialogue with these stakeholders on these matters.

¹ Circular 7/2015, of 22 December 2015, which amends Circular 4/2013, of the CNMV, which establishes the annual report models regarding remunerations for directors of listed limited companies, board members and savings banks audit commissions that issue stocks accepted for negotiation on official stock markets.

After listening to their suggestions and recommendations on remuneration, the Committee carried out an analysis of best practices for the remuneration of Executive Directors, in order to align the remuneration policy with the shareholders' interests and resolved to propose to the Board of Directors, for submission to the next General Shareholders Meeting, the delivery of shares as payment of part of the pluriannual variable remuneration of the Executive Directors together with the implementation of a shareholding policy thus complying with Recommendations 61 and 62 of the Code of Corporate Governance of listed companies.

As established in art. 541 of the Spanish Corporate Enterprises Act, the Annual Remuneration Report will be subject to a consultative vote by shareholders at the 2017 General Shareholders Meeting as a separate item on the agenda.

Madrid, 29 March 2017

2. COMPENSATION COMMITTEE

Membership at of 31 December 2016

Mr. Artur Carulla Font
(Chairman, Independent)

Mr. Gonzalo Gortázar Rotaeché
(Institutional)

Mr. Mario Fernández Pelaz
(Independent)

Mr. José Manuel Loureda Mantiñán
(Institutional)

Ms. María Isabel Gabarró Miguel
(Independent)

In accordance with the Bylaws and Regulations of the Board of Directors, the Compensation Committee is comprised entirely by External Directors, the majority of whom (three) are Independent, while the remaining two are Institutional. All the Committee members have extensive experience and expertise in the duties to be performed.

Additionally, Mr. Carulla has been fulfilling the duty of Lead Independent Director since 2011.

The functions of the Board of Directors of Repsol and its Compensation Committee in matters of remuneration are regulated in the Bylaws (art. 45 et seq.) and the Regulations of the Board of Directors (arts. 5 and 36).

2.1. Most relevant activities carried out by the Committee in 2016 and 2017

The Compensation Committee met on three occasions in 2016, with an attendance rate of 100%. In 2017, up to the date of publication of this report, it has met on two occasions.

At these meetings, the Committee analysed, among others, the following issues and resolved, where appropriate, to submit them to the Board of Directors for approval:

- Director's remuneration for their duties as such for 2016 and 2017;
- Fixed remuneration for the CEO and General Counsel for 2016 and 2017 in line with the current Remuneration Policy;
- Determination of targets linked to annual and multiannual variable remuneration of the CEO and General Counsel for 2016 and 2017;
- Appraisal of fulfilment of the targets established in the annual variable remuneration of the CEO and General Counsel for fiscal years 2015 and 2016 and determination of the corresponding amounts;

- Appraisal of fulfilment of the targets established in the multiannual variable remuneration programs MTI 2012-2015 and MTI 2013-2016 and determination of the corresponding amounts of multiannual variable compensation;
- New multiannual variable remuneration programs MTI 2016-2019 and MTI 2017-2020;
- Annual Remuneration Report for FY 2015 and 2016;
- Impact of the Transformation Program on Repsol's remuneration model;
- Implementation of the delivery of shares as payment of part of the multiannual variable remuneration of the Executive Directors, together with the establishment of a shareholding policy;
- Director's Remuneration Policy for 2018, 2019 and 2020 and the Committee's Explanatory Report on that Remuneration Policy.

2.2. External consultants

In accordance with the provisions of the Regulations of the Board of Directors, for the better performance of its functions the Compensation Committee may apply to the Board to engage the services of specialised external consultants society at the Company's expense.

Thus, Willis Towers Watson, an independent consultant specialized in the field of remuneration of directors and senior management, has advised the Compensation Committee in the preparation of the Annual Remuneration Report, of this Report, and on the preparation of benchmarking for the CEO's remuneration.

3. PAY FOR PERFORMANCE

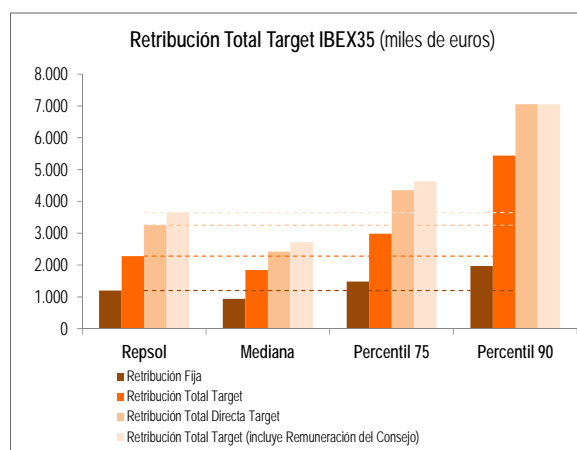
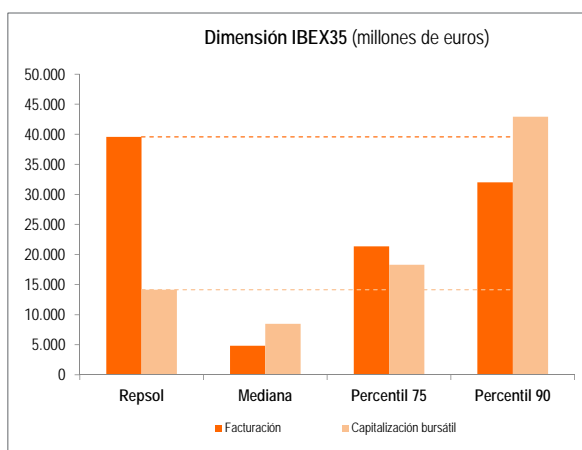
The economic results achieved by the Company in 2016 are aligned with the compliance with the predetermined and measurable targets established at the beginning of the financial year, by the Board of Directors, at the proposal of the Compensation Committee, to calculate the annual variable remuneration of the Executive Directors. The main business milestones achieved in the year have been:

- Net income has risen to 1.736 billion euros and has been the best achieved by the Company in the past four years, reflecting the strength and flexibility of the business units and the success of the action program implemented in response to the fall in prices of crude oil and gas.
- Adjusted net income was 1.922 billion euros, also exceeding the 2015 figures, which is especially significant considering that 2015 also included 500 million euros in exceptional financial gains related to the sale of the Company's stake in YPF;

- EBITDA stood at 5.226 billion euros, exceeding the 4.416 billion euros reported the previous year by 18%.
- The Upstream area (Exploration and Production) showed a great capacity to adapt to lower oil prices and achieved an income of 52 million euros, 977 million more than the previous year's result.
- The Downstream area (Refining, Chemicals, Marketing, Lubricants, Trading, LPG and Gas & Power) has confirmed its strength net adjusted income of 1.883 billion euros, reflecting the competitive advantages of the integrated business model, the quality of the refining assets and the good performance of the Chemical and commercial businesses.
- The strong cash-generating capacity of the businesses, the success of the efficiency program and the asset portfolio management were also been reflected in a reduction of 32% of net debt, to 8.144 billion euros (1.6 times EBITDA).
- During 2016 Repsol stock has risen by 33% and recorded one of the largest rises in the IBEX35 and in the European oil and gas industry.

As detailed in the Remuneration Policy, the Compensation Committee periodically conducts a review of the compensation package of its Executive Directors, to determine their suitability and alignment with the market situation in comparable companies and the Company's progress. In 2016 the Committee commissioned a benchmarking analysis for the salary level and structure of the CEO, with the advice of a firm specialising in the matter, Willis Towers Watson.

This analysis was based on a comparison group listed on the IBEX35 stock index, using objective criteria and a sufficient number of companies, as defined in the Remuneration Policy. The results of the analysis are shown below, with Repsol's positioning with regards to the comparison group in terms of dimension (turnover and market capitalisation) and the positioning of the CEO compared to the group in terms of total remuneration (fixed remuneration, annual variable remuneration and long-term incentives).



An overall vision of Repsol’s dimension data indicates a market benchmark level between the 75th and the 90th percentile. In terms of total target remuneration (considering the achievement of the established objectives), the position Repsol’s CEO lies between the median and the 75th percentile.

4. REMUNERATION POLICY 2017

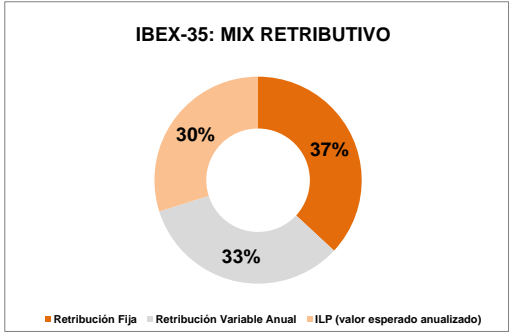
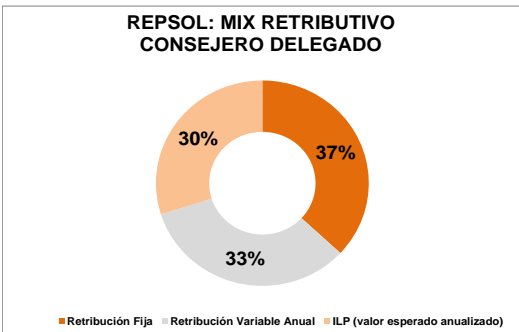
4.1. Concerning the Executive Directors

In accordance with the Remuneration Policy, the remuneration package of the CEO and General Counsel, for the performance of their executive duties, essentially consists of a fixed item, a short-term variable item and a long-term variable item, aligned with Company’s management objectives under the Strategic Plan with the sustained maximisation of the Company’s value. Furthermore, the Remuneration Package of the Executive Directors also includes pension schemes and specific in-kind payment systems.

In line with previous years, the proposed pay package for 2017 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, if the targets linked to those items have not been achieved. In this case, the Executive Directors will only receive fixed remuneration, as well as other items relating to their participation in pension schemes and in-kind benefits.

In particular, assuming a standard scenario where the targets are met in 2017, fixed remuneration for the CEO would account for 37% of the total remuneration (fixed, annual variable and longterm variable) and the variable remuneration 63% (approximately 53% short term variable pay and 47% longterm variable pay).

Meanwhile, for the General Counsel, fixed remuneration would account for 40% and variable remuneration 60% (55% shortterm variable pay and 45% longterm variable pay).



The remuneration package of the CEO is in line with market practice of the index where the company is listed (IBEX35) where the weight of fixed pay is 37% of the total compensation and variable remuneration accounts for 63% (53% short-term variable pay and 47% long-term variable pay).

This compensation structure allows the remuneration package of the Executive Directors to be variable depending on Repsol's earnings, and may vary between zero (in the case of insufficient achievement of targets) and a maximum of 260% of the fixed remuneration (120% for short-term and 140% for long-term) for the CEO and 190% of the fixed remuneration (90% for short-term and 100% for long-term) for the General Counsel. Exclusively in the case of the CEO, the Board of Directors may adjust, to a maximum of 20% upwards or downwards, the final quantitative results for the variable remuneration, depending on the quality of results, individual performance and other issues that require qualitative measurement.

When establishing the remuneration package of the Executive Directors, the Compensation Committee considers, among others, the provisions of the Remuneration Policy, guidelines from institutional investors and proxy advisors guidelines, the information received by the latter in the engagement process carried out by Repsol, as well as market data.

Listed below are the items of the remuneration package of the Executive Directors for 2017 and its main characteristics:

4.1.1. Fixed Remuneration

The fixed remuneration of the Executive Directors for the performance of their executive duties takes into account the level of responsibility of these functions, ensuring that it is competitive with that paid by other organisations comparable to Repsol. In addition, consideration is given to the Company's results, market data and the remuneration conditions within the organisation. This remuneration is reviewed on a regular basis.

The Board of Directors resolved, at its meeting of 22 February 2017, at the proposal of the Compensation Committee, to keep the fixed remuneration of the CEO and the General Counsel for 2017 in the same amounts as those established for 2016, namely 1,200 thousand euros for the CEO and 983 thousand euros for the General Counsel.

The fixed remuneration of the CEO remains unchanged since his appointment and that of the General Counsel since 2011.

4.1.2. Annual Variable Remuneration

The annual variable remuneration for 2017 appraises the contribution of the CEO and the General Counsel towards the fulfilment achievement of predetermined, specific and measurable targets. The Compensation Committee performs an annual review of the conditions of the system in response to Repsol's strategy, its needs and the business situation and establishes the corresponding objectives at the beginning of each year.

The following table details the goals, indicators and weightings proposed by the Compensation Committee for the current year, in respect of the CEO's annual variable compensation, and approved by the Board of Directors at its meeting of 22 February 2017¹:

CATEGORY	WEIGHT	INDICATOR	WEIGHTING
EFFICIENCY	40%	Budgeted efficiencies and synergies	30%
		Breakeven of Repsol free cash flow	10%
OPERATIONS	45%	Net profit	15%
		Net debt	10%
		Production	5%
		Utilisation of conversion capacity	5%
		Capex E&P	10%
SUSTAINABILITY	5%	Total accident frequency and fatality rate	5%
VALUE	10%	Share prices vs. comparable companies	10%

A scale of achievement is associated to each indicator defined according to its variability and the level of demand of the budgets. 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%. 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.

In relation to the General Counsel, the targets considered are the following: a) Corporate transactions and other tasks; b) Corporate Governance; c) Institutional Relations; d) Legal Affairs; and e) Repsol Foundation.

For the calculation of the amount of the variable remuneration the fulfilment and the weighting of each of the targets will be considered. In order to ensure that the annual variable remuneration retains an effective relationship with the professional performance of the beneficiaries, 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.

At year-end, the Compensation Committee conducts an appraisal based on the information received from the People and Organisation and the Strategy, Planning and Global Solutions areas on the

¹ The performance targets for the annual bonus are commercially sensitive and it would be detrimental to the interests of the Company to disclose them before the start of the relevant performance period. The performance targets and level of achievement will be disclosed after the end of the relevant financial year in that year's remuneration report subject to the sensitivity no longer remaining.

results obtained. Depending on the level of compliance of each objective and its weighting, a weighted average fulfilment level is calculated.

With regards to the CEO, the structure of his annual variable remuneration for 2017 is maintained in the same terms laid down in the approved Remuneration Policy, with amounts varying between 0%, if the minimum fulfilment threshold is not reached, and 100% of his fixed remuneration, if 100% of the established targets is reached. Therefore, in a scenario where 100% of the targets are achieved, the CEO would receive 1,200 thousand euros as annual variable remuneration.

Similarly, the General Counsel's annual variable remuneration is also maintained for 2017, varying between 0% and 90% of the fixed remuneration. Therefore, in a scenario where 100% of the targets are achieved, the General Counsel would receive 885 thousand euros as annual variable remuneration.

The annual variable remuneration is paid entirely in cash.

4.1.3. Multiannual Variable Remuneration

Repsol has implemented many long-term incentive plans for managers and other employees of the Group, including the CEO and the General Counsel. These programs are independent of each other, but their main characteristics are the same. They are schemes structured into overlapping cycles of 4 years, and are linked to the fulfilment of targets and commitments established in the Strategic Plan, directly aligned with shareholders' interests as well as the retention of the Executive Directors until the end of the vesting period

In line with this policy, in 2017 the MTI 2017-2020 was launched with the following objectives¹:

¹ The performance targets for the annual bonus are commercially sensitive and it would be detrimental to the interests of the Company to disclose them before the start of the relevant performance period. The performance targets and level of achievement will be disclosed after the end of the relevant financial year in that year's remuneration report subject to the sensitivity no longer remaining.

CATEGORY	WEIGHT	INDICATOR	WEIGHTING
UPSTREAM	30%	Annual free cash flow breakeven	15%
		Optimisation of investments	5%
		Implementation of specific projects within deadlines and budgets (Reggane, Kinabalu, MAR, Sagari and CRD)	5%
		Operational excellence vs competitors (operating cost/barrel)	5%
DOWNSTREAM	20%	Integrated refining and marketing margin vs sector	10%
		Cash flow generation	10%
VALUE CREATION AND RESILIENCY	40%	Opex Efficiency and Synergies Program	10%
		Net profit	10%
		Divestment plan	10%
		TSR	10%
SUSTAINABILITY	10%	Total accident frequency rate	5%
		Reduction of emissions	5%

A scale of achievement is associated to each indicator defined according to its variability and the level of demand of the budgets. These scales have a minimum fulfilment threshold, under which there is no entitlement to incentive, and a maximum of 100%.

Every year the Compensation Committee determines the weightings of the objectives and associated indicators. To determine the incentive, the Compensation Committee considers the overall degree of fulfilment of the program, as well as the individual performance of the beneficiary.

With regards to the CEO, the structure of his multiannual variable remuneration for MTI 2017-2020 is maintained in the same terms laid down in the approved Remuneration Policy, with amounts varying between 0%, if the minimum fulfilment threshold is not reached, and 120% of his fixed remuneration, if the joint fulfilment of the program's targets and his personal performance results is 100%. Therefore, with a 100% level of achievement, the CEO would receive 1,440 thousand euros as multiannual variable remuneration. 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 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 is also maintained for MTI 2017-2020, varying between 0% and 100% of the fixed remuneration. Therefore, with a 100% level of achievement, the General Counsel would receive 983 thousand euros as multiannual variable remuneration.

Once the measurement period of the MTI is over, the Compensation Committee will perform, in the first quarter of 2021, an appraisal of the fulfilment levels achieved in each of the objectives and the plan as a whole, based on the information provided by the Company, and will propose the amount of incentive to apply according to the established achievement scales.

As indicated above, at its meeting of 29 March 2017 the Board of Directors resolved, at the proposal of the Compensation Committee and pursuant to the Recommendations 61 and 62 of the Code of Corporate Governance of listed companies, to propose to the General Shareholders Meeting, the approval of the delivery of shares as payment of part of the multiannual variable remuneration of the Executive Directors, together with the implementation of a shareholding policy, so that Executive Directors assumed the commitment to keep the shares acquired while they remain linked to Repsol, up to an amount equivalent to twice their fixed annual remuneration. Likewise, the Company shares delivered to the Executive Directors under the Plans may be included for the purpose of the share investment envisaged in the Beneficiaries' Share Purchase Plan for Multi-Year Variable Remuneration Programmes referred to under section 4.1.4 below.

4.1.4. Share Purchase Plan for Beneficiaries of the Multiannual Remuneration Programs

The Executive Directors participate in the Share Purchase Plan for Beneficiaries of the Multiannual Remuneration Programs implemented by the Company, the purpose of which is to promote the alignment of their long-term interests with the interests of the shareholders and the Company.

This Plan is instrumented through a share purchased program, the first five cycles of which were approved by the General Shareholders Meeting on 15 April 2011, with five additional cycles approved at the General Meeting of 20 May 2016. The 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, solely for the purpose of determining its beneficiaries and the maximum amount that they may invest in it, the long-term MTI 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 may be invested in it is the equivalent of 50% of the gross amount of the multiannual incentive received by each beneficiary.

For the additional cycles approved at the 2016 General Shareholders Meeting, several extra performance targets were established with regards to beneficiaries with 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. In this way, these beneficiaries 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 MTI multiannual variable remuneration program closed in the financial year immediately preceding the date of delivery of the shares, is equal or greater than 75%.

The consolidation period of the 4th Cycle of the Plan (2014-2017) is expected to be completed in 2017, which the CEO and the General Counsel participate in.

4.1.5. Ex-post control of the annual and multiannual variable remuneration

In accordance with the terms of the Remuneration Policy, the Compensation Committee has the power to propose the cancellation of the payment of the short and long-term variable remuneration, upon the emergence of circumstances that show that the remuneration was paid on the basis of inaccurate or erroneous data. Thus, the Compensation Committee may claim for the reimbursement (clawback) of the variable components of the Executive Directors' remuneration 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.

In particular, the conditions of the Share Purchase 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 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.

4.1.6. 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 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 which is intended to encourage his continuity in the Repsol Group and is implemented through the investment fund called "*Fondo de Permanencia, FI*". 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.

Additionally, the CEO and the General Counsel participate in the Repsol pension scheme, the maximum contribution to which is set at 7 thousand euros per year.

Both in the case of the CEO and the General Counsel are compatible with the compensation for the termination of the relationship.

4.1.7. Other benefits

The Executive Directors are beneficiaries of certain payments in kind that include, among other matters, life and disability insurance and health insurance. As applicable, 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 an additional fixed remuneration for sitting on the boards of directors of other Repsol investee companies.

4.1.8. 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 Bylaws and the Remuneration Policy.

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.

The contractual conditions agreed with the CEO include the severance pay limit agreed for new executive directors equivalent to two years' pay which includes also the remuneration for the post-contractual non-compete clause, pursuant to the commitment assumed by the Board of Directors at its meeting of 25 February 2014, at the proposal of the Compensation Committee.

The conditions of the contract of the General Counsel, signed in 2005, were appropriate for the personal, professional and market circumstances prevailing when it was signed. It was approved at the time by the Board of Directors following a 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 (if is 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 annual remuneration plus one additional year in consideration of the post-contractual non-compete commitment

4.2. Regarding Directors in their capacity as such

The remuneration of the Directors, in their capacity as such, is established in line with the Directors' Remuneration Policy approved by the General Shareholders Meeting that 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. In addition, the policy aims to establish a remuneration consistent with the market, taking into account the remuneration in comparable organisations, (i.e. the remuneration of directors in other listed business groups (i.e similar to Repsol in terms of size, complexity of business and operations and geographic distribution of assets).

The remuneration of the Directors in their capacity as such is made up exclusively of fixed items and does not apply to variable remuneration systems or pension schemes.

The Compensation Committee regularly reviews the remuneration of the Board of Directors, in line with the best practices of corporate governance adopted by institutional shareholders and in accordance with the guidelines of the main *proxy advisors*.

Furthermore, the company has taken out a collective liability insurance policy that covers to the Directors, managers and other employees of the Group who exercise management-related functions. The policy covers the different companies of the Group under certain circumstances and conditions.

4.2.1. Maximum limit

According to the provisions of art. 45 of the Bylaws and in accordance with the resolution passed 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 positions filled.

4.2.2. Fixed remuneration

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.

For FY 2017 the Board of Directors resolved, at this meeting of 22 February 2017, upon recommendation by the Compensation Committee, to maintain the value of the point in 2017 at the amount set for 2016, i.e. 88,297.11 euros gross/year. In this way, remuneration for membership of the Board of Directors has risen 2.5% since 2009.

The approved points table for FY 2017 is as follows:

Body	Points
Board of Directors	2
Delegate Committee	2
Audit and Control Committee	1
Nomination Committee	0.25
Compensation Committee	0.25
Sustainability Committee	0.5

4.3. Regarding the Chairman of the Board of Directors

The remuneration of the Chairman of the Board of Directors is established in accordance with the Directors' Remuneration Policy approved at General Shareholders Meeting 2015 and reflects the importance of the Chairman's role, his workload and his involvement in the office he has held since 30 April 2015, as well as any other criteria contained in the said Policy.

The remuneration of the Chairman of the Board of Directors is formed exclusively by fixed items.

For 2017 the total fixed remuneration of the Chairman of the Board of Directors amounts to 2,500 thousand euros, which includes amounts for sitting on the Board of Directors and Committees of Repsol's Group, multi-group and associated companies. This is the same amount as for FY 2016.

Also, the Chairman of the Board of Directors continues to be the beneficiary in 2017 of certain payments in kind, including among others, medical insurance, life and disability insurance and payments on account/withholding tax due on payments in kind.

The remuneration, rights and economic compensation of the Chairman of the Board of Directors is contained in his new contractual conditions, in force as from 1 May 2015. These conditions contemplate a term of office for the Chairman until the 2019 AGM and a one-year post-contractual non-compete commitment.

Following Mr Brufau's decision to waive payment of the the payment of the economic compensation of 14,253,691 euros accrued at the end of his contract as CEO, and in accordance with the new contractual conditions, following his re-election as non-executive Chairman of the Board of Directors in the 2015 General Shareholders Meeting, compensation receivable for early contractual termination would be capped at the amount pending of total non-variable remuneration until the 2019 General Shareholders Meeting, which will include compensation for the post-contractual non-compete. In this way, the amount will progressively reduce to the extent that, upon the date indicated, no compensation at all will be payable.

5. IMPLEMENTATION OF THE REMUNERATION POLICY IN 2016

This section details the remuneration received by the Directors in 2016 in line with the Remuneration Policy adopted by the Company.

5.1. Concerning the Executive Directors

5.1.1. Fixed Remuneration

The total amount of the fixed remuneration of the Executive Directors in 2016 amounted to 2,183 thousand euros, as agreed by the Board of Directors at its meeting of 24 February 2016, at the proposal of the Compensation Committee. The breakdown is as follows:

	Fixed remuneration 2016 in thousands of euros
Mr Josu Jon Imaz	1,200
Mr Luis Suárez de Lezo	983

5.1.2. Annual Variable Remuneration

In the year 2016 the Executive Directors were assigned variable annual remuneration in line with the Remuneration Policy.

The following table details the categories of targets approved by the Board of Directors, on the proposal of the Compensation Committee, with regards to the annual variable remuneration of the CEO as well as the indicators, weightings and the degree of fulfilment that have determined the amount of the annual variable remuneration for 2016:

CATEGORY	WEIGHT	INDICATOR	WEIGHTING	TARGET VALUE 2016	% ACHIEVEMENT	TFR*
EFFICIENCY	40%	Budgeted efficiencies and synergies	30%	AB16 = €1,106 M	110%	33.00
		Repsol Cash Flow Breakeven	10%	AB16 = \$41/boe	110%	11.00
OPERATIONAL	45%	Net profit	15%	AB16 = €1,278 M	110%	16.50
		Financial rating	10%	Maintain Investment Grade	10%	10
		Production	5%	AB16 = 706 Kboe/d	97%	4.84
		Utilisation of conversion capacity	5%	AB16 = 94.47%	110%	5.50
		Reduction of E&P Capex	10%	AB16 = €3,358 M	110%	11.00
SUSTAINABILITY	5%	Total accident frequency rate	5%	TFR AB16 = 1.99; IF ≤ 0.63 (FR variability range: 2.38 - 1.60)	50%	2.50
VALUE CREATION	10%	Share prices vs. comparable companies	10%	Above comparable companies	50%	10
					Fulfilment Rate*	99.3

*The total Target Fulfilment Rate (TFR) applied cannot exceed 100%

Accordingly, taking into account the fulfilment rate with the established indicators, as well as the adjustments agreed by the Board of Directors, at the proposal of the Compensation Committee, the amount of the CEO's annual variable remuneration for 2016 amounts to 1,080 thousand euros.

For the General Counsel, the annual variable remuneration targets corresponding to 2016 were: a) Corporate transactions and other tasks; b) Corporate Governance; c) Institutional Relations; d) Legal Affairs; and e) Repsol Foundation. In relation to these qualitative objectives, the Compensation Committee analysed the various milestones and actions implemented in 2016. The fulfilment rate achieved by the General Counsel is 90%, which involves the payment of 796 thousand euros (81% of his fixed remuneration).

On the basis of the foregoing, at its meeting of 22 February 2017, on the proposal of the Compensation Committee, the Board of Directors resolved to pay the amounts indicated below as the annual variable remuneration of the CEO and the General Counsel corresponding to 2016.

	Annual Variable Remuneration 2016 in thousands of euros
Mr. Josu Jon Imaz	1,080
Mr. Luis Suárez de Lezo	796

5.1.3. Multiannual Variable Remuneration

The Long-Term Incentive 2013-2016 Program closed on December 31, 2016 as per its terms and condition.

The following table details the objectives, weightings, indicators and scales of attainment for each category of targets that determined the remuneration payable:

Category	Indicator	Accumulated Target Value 2013-2016	Attainment %			
UPSTREAM	Reserve Replacement Ratio (RRR)	6.25%	RRR envisaged in the Strategic Plan: 120%			
	Increase in production	6.25%	Increase envisaged in the Strategic Plan: 7% annual cumulative average			
	Exploration success rate	5%	Coefficient ≥ 1 (Contingent resources / Mean resources)			
	Project performance (time and cost):	7.5%	Delays ≤ 9 months and real cost $\leq 90\%$ of FID			
	42.5%	Efficiency of investments	2.50%	Target Capex: \$3,325 M	28.52%	
	Annual free cash flow breakeven	3.75%	Target FCF (\$/bbl): 65			
	Acquisition and integration of Talisman	6.25%	Acquisition materialisation; fulfilment of Integration Project milestones; adaptation of the organisation and identification of synergies.			
	Value of Talisman assets:	2.50%	Coefficient ≥ 1 (Value of NPV assets/ Value of PPA assets)			
Value of goodwill associated with the acquisition of Talisman	2.50%	Absence of impairments of Goodwill				
DOWNSTREAM	Integrated refining and marketing margin of Repsol vs. sector	10%	First quartile of the sector			
	25%	Increase in margin due to the Cartagena and Bilbao projects	5%	Increase in margin: 2013 ≥ 2 \$/bbl; 2014 ≥ 2.4 \$/bbl; 2015 ≥ 2.7 \$/bbl; 2016 ≥ 2.9 \$/bbl		22.5%
	Free cash flow after tax	10%	FCF envisaged in the Strategic Plan: €7,954 M accumulated 2013-2016			
VALUE CREATION, OPTIMISATION AND FINANCIAL DISCIPLINE	Increase of Net Profit / Net adjusted income	10%	Coefficient ≤ 1 (Net Profit / Net adjusted income)			
	25%	Cash generated for dividends and debt	5%	Strategic Plan = €2,365 M accumulated 2013-2014	22.5%	
	Synergies and Opex Efficiency Program	5%	Strategic Plan = €669 M accumulated 2015-2016			
	Divestment plan	5%	Strategic Plan = €2,231 M			
SUSTAINABILITY	7.5%	Accident frequency rate	3.8%	Average target FR 2013-2016 0.82		7.5%
	CO ₂ eq. emissions reduction plan	3.8%	Tonnes of CO ₂ eq reduced: 840,395			
			Total score under 2013-2016 Plan	81%		

The Compensation Committee has employed mathematical formulae to calculate the degree of fulfilment of the pre-established targets based on the information received from the People and Organisation and the Strategy, Planning and Global Solutions areas on the results obtained and on the basis of the objective values initially defined has decided to establish the overall MTI attainment level at 81%.

Likewise, to determine the amounts of multiannual variable remuneration payable to the Executive Directors, the Compensation Committee has also valued their personal performance. The incentive to be received by the CEO has been equivalent to 67.27% of the maximum attainable incentive, and the incentive to be received by the General Counsel has been 68.18%, thus giving rise to payment of the following amounts approved by the Board of Directors upon a proposal from the Compensation Committee:

	Multiannual Variable Remuneration 2016 in thousands of euros
Mr Josu Jon Imaz	328
Mr Luis Suárez de Lezo	670

In the case of the CEO, the amount is equivalent to 27.33% of his fixed annual remuneration and for the General Counsel the amount is equivalent to 68.18% of his fixed annual remuneration.

5.1.4. Share Purchase Plan for Beneficiaries of the Multiannual Variable Remuneration Programs

In June 2016 the process of voluntary adherence to the Sixth Cycle of the Plan (2016-2019) was conducted, whereby the CEO invested 50% of the multi-annual incentive received in 2016 towards purchasing shares, resulting in 10,651 shares acquired.

At the end of the Sixth Cycle of the Plan in June 2019, subject to the conditions laid down in the Rules of the Plan, the CEO may receive a maximum of 3,550 shares.

Additionally, it should be noted that on 31 May 2016 the consolidation period was completed of the Third Cycle of the Share Purchase Plan for Beneficiaries of the Multiannual Variable Remuneration Programs (2013-2016). As a result of this the CEO and the General Counsel consolidated, respectively, rights to delivery of 2,060 and 549 gross shares valued at 11.88 euros per share, which entails an amount equivalent to 24 and 7 thousand euros.

It should be noted that as of 31 December 2016 the CEO has a number of Company shares representing approximately 150% of his current fixed remuneration, which demonstrates his degree of alignment with the long-term interests of the Company and its shareholders.

Meanwhile, the number of shares held by the General Counsel on that date represents approximately 68% of his current fixed remuneration.

5.1.5. Long-Term Saving Systems

The CEO participates in the Executives Retirement Scheme to which the Company contributed 246 thousand euros in 2016, according to the formula provided for in its Regulations.

The General Counsel participates in a deferred remuneration scheme, called the “*Permanence Reward*”. In 2016, Repsol contributed 196 thousand euros to that fund.

The CEO and the General Counsel are also unit-holders of a defined contribution company pension scheme of Repsol, the contribution to which for FY 2016 was seven thousand euros for the CEO and six thousand euros for the General Counsel.

5.1.6. Other benefits

The Executive Directors are beneficiaries of certain payments in kind that include, among other matters, life and disability insurance and health insurance. The expenditure associated with in kind benefits received in 2016 amounts to 45 thousand euros for the CEO and 82 thousand euros for the General Counsel (these amounts include those corresponding to the value of the shares handed over under the Third Cycle of the Share Purchase Plan for Beneficiaries of the Multiannual Variable Remuneration Programs described above in paragraph 5.1.4).

Meanwhile, in 2016 the Company has not granted any advance payments, loans or guarantees to the Executive Directors.

In addition, the Executive Directors receive an additional fixed remuneration for sitting on the boards of directors of other Repsol investee companies. Thus, in 2016 the CEO and the General Counsel received the amounts shown below for sitting on the board of Gas Natural SDG, S.A.:

	Remuneration as Directors of investee companies in 2016, in thousands of euros
Mr Josu Jon Imaz	92
Mr Luis Suárez de Lezo	167

5.2. Regarding Directors in their capacity as such

The Board of Directors resolved, at its meeting of 24 February 2016, upon recommendation of the Compensation Committee, to maintain the value of the point in 2016 at the amount of 88,297.11 euros gross/year. In this way, remuneration for membership of the Board of Directors has risen 2.5% since 2009.

For 2016, the total amount of compensation of the Directors for their non-executive functions amounted to 7,252 thousand euros, including the remuneration of the Chairman of the Board of Directors.

In the Individual Remuneration Tables section, the detail of each Director's compensation is broken down.

Finally, it should be noted that the Company has a collective liability insurance policy that covers the Directors, managers and other employees of the Group who exercise management-related functions, and that also extends to different companies of the Group under certain circumstances and conditions. The overall amount of the premium corresponding to FY 2016 amounted to 2.2 million euros. This amount corresponds to all of the insured and therefore does not refer exclusively to the members of the Board of Directors of Repsol.

5.3. Regarding the Chairman of the Board of Directors

For 2016 the total fixed remuneration of the Chairman of the Board of Directors has amounted to 2,390 thousand euros, which includes amounts for sitting on the Board of Directors and Committees of Repsol S.A.

In 2016 the Chairman was the beneficiary of certain payments in kind that include, among other matters, life and disability insurance and health insurance. These payments also include the payments on accounts/withholdings linked to cash remuneration. The expenditure associated with payments in kind to the Chairman of the Board of Directors amounted to 530 thousand euros.

In 2016, the amount for sitting on the Board of Gas Natural SDG, S.A. amounted to a total of 110 thousand euros.

The Chairman of the Board of Directors has not received any advance payment, loan or guarantee by the Company.

6. INDIVIDUAL REMUNERATION TABLES

6.1. Remuneration of the Executive Directors for the Financial Year 2016

The following table shows a summary of the accrued gross total remuneration of the Executive Directors during FY 2016:

(In thousands of euros)

Remuneration of the Executive Directors for the Financial Year 2016					
Directors	Fixed Remuneration	Annual Variable Remuneration	Remuneration for duties as Director ¹	Long-Term Variable Remuneration ²	Total
Mr Josu Jon Imaz	1,200	1,080	354	328	2,962
Mr Luis Suárez de Lezo	983	796	354	670	2,803

1 Remuneration for duties as Director : includes the fixed allocation for the performance of positions within the Board and Committees of Repsol S.A.

2 Long-Term Variable Remuneration: refers to the remuneration corresponding to the Multiannual Variable Remuneration Progra MTI 2013-2016

With regards to the **Share Purchase Plan for Beneficiaries of the Multiannual Variable Remuneration Programs**, on 31 May 2016 the consolidation period of the Third Cycle (2013-2016) was completed, whereby the CEO and the General Counsel consolidated the right to receive gross shares for total value shown:

Directors	No. gross shares	Total value (in thousands of euros)	No. net shares delivered
Mr Josu Jon Imaz	2,060	24	1,425
Mr Luis Suárez de Lezo	549	7	379

With regards to the current cycles of the Plan, shown below are the number of shares purchased by the CEO that will generate, if he holds the shares for a period of three years and the entire plan's other conditions are met, the delivery of one additional share for every three shares initially purchased:

Number of shares acquired by the Executive Directors			
Directors	2014-2017 Cycle	2015-2018 Cycle	2016-2019 Cycle
Mr Josu Jon Imaz	5,122	6,604	10,651
Luis Suárez de Lezo	3,377	2,871	N.A.

Additionally, the Executive Directors have a series of **Welfare Benefits**. The following table shows a breakdown of the cost incurred by the Company in contributions to pension plans and welfare schemes for the Executive Directors for 2016, as well as other remuneration in kind received by the Directors in that period:

(In thousands of euros)

Directors	Contributions to Pension Plans	Contributions to Collective Savings Insurance	Long-Term Saving Systems
Mr Josu Jon Imaz	7	246	253
Mr Luis Suárez de Lezo	6	196 ¹	202

1 Contributions to the deferred remuneration scheme, Length of Service Reward, funded by the Company and exclusive to the General Counsel, which is a defined contribution equivalent to 20% of the fixed annual remuneration of the Executive Director.

(In thousands of euros)

Directors	Life Insurance Premiums	Health Insurance and Other Welfare Benefits	Total Payment In Kind
Mr Josu Jon Imaz	9	12	21
Mr Luis Suárez de Lezo	47	28	75

6.2. Directors' compensation in their condition as such, under all headings, for FY 2016

The amounts accrued individually by the Directors during the last year in their condition as such and their membership of the various Board Committees have been as follows:

(In thousands of euros)

Director	Fixed allocation	Remuneration for membership of Board Committees	TOTAL 2016
Executive			
<i>Josu Jon Imaz San Miguel</i>	177	177	354
<i>Luis Suárez de Lezo Mantilla</i>	177	177	354
Institutional			
<i>Isidre Fainé Casas⁽¹⁾</i>	118	118	236
<i>Manuel Manrique Cecilia</i>	177	177	354
<i>Rene Dahan</i>	177	177	354
<i>José Manuel Loureda Mantiñán</i>	177	88	265
<i>Gonzalo Gortázar Rotaeché</i>	177	131	308
<i>Antonio Massanell Lavilla⁽²⁾</i>	59	22	81
Outside			
<i>Ángel Durández Adeva</i>	177	88	265
<i>Artur Carulla Font</i>	177	221	398
<i>Luis Carlos Croissier Batista</i>	177	132	309
<i>Javier Echenique Landiribar</i>	177	132	309
<i>Mario Fernández Pelaz</i>	177	132	309
<i>María Isabel Gabarró Miquel</i>	177	88	265
<i>Henri Philippe Reichstul</i>	177	177	354
<i>J. Robinson West</i>	177	177	354
Other outside			
<i>Antonio Brufau Niubó</i>	2,390	-	2,390

(1) Mr Isidro Fainé Casas submitted his resignation to the office of Company Director on 21 September 2016

(2) Mr Antonio Massanell Lavilla was appointed Company Director on 28 September 2016

In addition, the following table shows a breakdown on an individual basis of the amounts earned by the Directors as remuneration for belonging to the governing bodies of other Repsol investees, representing Repsol:

Directors	Remuneration for belonging to the Board of Directors of Gas Natural SDG, S.A.
Mr Antonio Brufau ⁽¹⁾	110
Mr Josu Jon Imaz ⁽¹⁾	92
Mr Luis Suárez de Lezo	167

(1) Mr Brufau resigned from his office as Director of Gas Natural SDG, S.A. on 28 September 2016, with the appointment from that date of Mr Imaz.

The table below shows a breakdown of the total remuneration earned by the Directors:

(In thousands of euros)

Director	Salary ¹	Fixed remuneration ²	Per diems ³	Short-Term Variable Remuneration ⁴	Long-Term Variable Remuneration ⁵	Remuneration for membership of Committees ⁶	Compensation ⁷	Other Items ⁸	Total FY 2016	Total FY 2015
Executives										
Josu Jon Imaz San Miguel	1,200	177	--	1,080	328	177	--	36	2,998	2,864
Luis Suárez de Lezo Mantilla	983	177	--	796	670	177	--	35	2,838	2,652
Institutional										
Isidre Fainé Casas ⁽¹⁾	--	118	--	--	--	118	--	--	236	354
Manuel Manrique Cecilia	--	177	--	--	--	177	--	--	354	354
Rene Dahan	--	177	--	--	--	177	--	--	354	354
José Manuel Loureda Mantiñán	--	177	--	--	--	88	--	--	265	265
Gonzalo Gortázar Rotaache	--	177	--	--	--	131	--	--	308	170
Antonio Massanell Lavilla ⁽¹⁾	--	59	--	--	--	22	--	--	81	--
Outside										
Ángel Duráñez Adeva	--	177	--	--	--	88	--	--	265	265
Artur Carulla Font	--	177	--	--	--	221	--	--	398	398
Luis Carlos Croissier Batista	--	177	--	--	--	132	--	--	309	309
Javier Echenique Landiribar	--	177	--	--	--	132	--	--	309	302
Mario Fernández Pelaz	--	177	--	--	--	132	--	--	309	302
María Isabel Gabarró Miquel	--	177	--	--	--	88	--	--	265	265
Henri Philippe Reichstul	--	177	--	--	--	177	--	--	354	354
J. Robinson West	--	177	--	--	--	177	--	--	354	354
Other outside										
Antonio Brufau Niubó	-	2,390	--	--	--	--	--	366	2,756	2,940

TOTAL	2,183	5,045	--	1,876	998	2,214	--	437	12,753	12,502
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(1) Mr Isidro Fainé Casas submitted his resignation to the office of Company Director on 21 September 2016

(2) Mr Antonio Massanell Lavilla was appointed Company Director on 28 September 2016

1 Salary: Compensation in cash, with pre-established payment intervals, whether consolidated or not in time and paid by the Company for the mere fact of being engaged, regardless of the effective attendance of the Director to the meetings of the Board of Repsol, S.A.

2 Fixed Remuneration: amount of the cash compensation accrued by the director from his membership to the Board of Repsol S.A.

3 Per Diems: Total amount of per diems for attending the Board meetings and, where appropriate, the delegated committees.

4 Short-Term Variable Remuneration: Variable amount linked to the performance or the achievement of a number of targets (quantitative and qualitative), in an accrual period equal to or less than a year. The accrual period is the period of time during which the performance of the director is measured to determine the short-term variable remuneration.

5 Long-Term Variable Remuneration: Variable amount linked to the performance or the achievement of a number of targets (quantitative or qualitative), in an accrual period of more than one financial year. The accrual period is the period of time during which the performance of the director is measured to determine the long-term variable remuneration.

6 Remuneration for membership of Committees: Amount for items other than per diems, received by directors for sitting on delegated or consultative committees of the board.

7 Compensation: Any remuneration accrued by the director arising out of the termination of the relationship linking him to the company.

8 Other Items Total amount of the remaining compensation accrued in the financial year and not covered by any of the other headings, including remuneration in kind and the amount of the shares received under the Share Purchase Plan for Beneficiaries of the Multiannual Variable Remuneration Programs.

7. TABLES OF VOTING RESULTS IN GENERAL MEETINGS

The following table lists the vote percentages obtained at the Company's Ordinary General Shareholders Meeting, held in 2016 in relation to the Annual Report on Directors' Remuneration:

Annual Report on Directors' Remuneration		
	Number	% of votes cast
Votes in favour	723,988,096	95.01%
Votes against	37,136,074	4.87%
Abstaining	845,436	0.11%

8. APPENDIX; ANNUAL REPORT ON REMUNERATION OF REPSOL DIRECTORS (MODEL APPENDIX I CIRCULAR 4/2013 (amended by Circular 7/2015 CNMV))