

Annual report on engagement with socially responsible investors

2016-2017



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1. INTRODUCTION

The progress made by the Company in our objective of moving toward a world of low emissions has once again been the focus of investors' attention in 2016 and in the first months of 2017. In addition to that, the topics discussed in the meetings were highly varied, from Repsol's performance regarding our relationship with indigenous communities and the policies applied in the field of human rights, to our commitment not to carry out exploration campaigns in ice-covered water, and to our strong commitment to zero accidents from now until 2020, among others.

In the first half of 2016, after the **21st International Conference on Climate Change** in Paris (December 2015), Repsol revised its message to socially responsible investors (SRI), to update the Company's progress toward its commitment to keep the planet's average temperature below 2 °C above pre-industrial levels. This revision led to the update of the Equity Story ESG document, which contains Repsol's main messages on sustainability and the challenges the company faces after acquiring the Canadian company Talisman.

The roadshow activity organized with these investors during this period, 2016 and the first half of 2017, was very productive. Upon the writing of this report, **the total number of shares managed following SRI criteria has increased by 22%, from 50 M in December 2015 to 61 M**, according to our latest information on shares for February 2017. This represents **12% of the total shares held by institutional investors**. The number of investors contacted was 103.

Similarly, **14 new investors** acquired the first Repsol shares under sustainability criteria in the aforementioned period.

The following events were held in 2016, concentrated in the second half of the year:

- **The third edition of Sustainability Day was held in London on November 7th.** In attendance at the event was the Repsol CEO, Josu Jon Imaz. This year's presentations dealt with two of the topics identified as being of the greatest interest for investors: the process for integration of Talisman assets into the Company and the challenges this has posed from a sustainability standpoint, and the progress the Company has made in our commitment to fight climate change.

The session ended with an opportunity for Q&A.

- Following this event, **a Roadshow with the Senior Management was organized with the main SRI investors in London, Paris, Amsterdam, and nearby locations.** A total of 12 institutions were visited (120 M shares, 23% of our total institutional shares and around 56% of the total of our SRI share percentage).

It is worth noting that in Paris and Amsterdam, the financial analysts and fixed-income analysts also attended the meetings.

- The activity was complemented by attending specialized investor conferences in Paris, the **Oddo 11th Environment Forum and the Insead 33rd Sustainability Executive Roundtable—Fontainebleau**, and with the Investor Relations (IR) team's participation in several round tables. Examples of this include our attendance at the **5th International Conference on Corporate Social Responsibility, organized by the University of Bologna**, and our **collaboration with the National Distance Education University (UNED)** as speakers in Corporate Social Responsibility training courses. These latter two events were attended by members of the Direction of Sustainability.
- **The IR team has strengthened its interaction with ESG analysts throughout 2016.** In this regard, meetings were held in Stockholm with consultants specializing in ESG in July 2016 in order to discuss our human rights policies and how Repsol operates in strict observance of these concepts in all of our operations.

The level of activity carried out in 2017 was very high. We have participated in a number of conferences and Roadshows, and the Company met with sell-side analysts in London and Paris for the first time.

- In Paris, we attended the **JP Morgan SRI Conference** in March and the **12th Oddo Investor Forum** in June. The trending topics at the meetings were issues regarding climate change and the Company's rationale in terms of issuing its first green bond, aimed at financing energy efficiency projects.
- The Corporate Director of Investor Relations traveled with members of the ESG team to **visit SRI investors in Boston** in May. This is the second Roadshow the Company has organized in the USA to see this group of investors. The intention is to travel to the USA at least once every two years.
- We participated for the first time in the **Responsible Investment Forum** held in London in June. The event was very useful as it combined the opportunity to listen to trending topics in ESG with an avenue to meet with important investors. The Direction of Sustainability also attended this event.
- At the end of June, the IR team, with support from members of the Division of Sustainability, traveled to Stockholm and Copenhagen. During the meetings, the investors reviewed and updated the Company's best practices over the past two years. In this trip, the most discussed topics addressed our policy on human rights and indigenous communities.

- For the first time, the team organized a **meeting with sell-side analysts** specializing in ESG in London and Paris. The intention is to begin proactive engagement and to be aware of their needs for information. Repsol plans to periodically hold these meetings and involve Senior Management in them.

The Company continues to be strongly committed to transparency and disclosure of information. An example of this is the **publication of the voluntary report on the remuneration of directors**, which provides detailed information on the objectives, metrics, and achievement scales for Executive Directors and their alignment with the Company strategy.

During this financial year, we hope to continue offering events of interest to our socially responsible investors and other potential investors and to maintain a high standard and level of dedication in the service we provide them.

2. MAIN ACTIVITIES HELD FROM JANUARY 2016 TO JULY 2017

I. Monitoring the progression of socially responsible investors within Repsol shareholder base

During 2016 and the first half 2017, we have continued to monitor the progression in participation of socially responsible investors within Repsol shareholder base. **Socially responsible investors now hold 12% of our total institutional shares.** Upon observing the changes in the percentage of socially responsible investors in our institutional free float, a **95% increase since 2010** can be noted.

Similarly, it is worth noting that during this period, according to our records, **14 new investors** acquired Repsol shares for the first time under sustainability criteria.

II. Sustainability Day

Repsol held the third edition of **Repsol Sustainability Day** in London. This year's session was led by the Company's CEO, Josu Jon Imaz. Participation was **60% higher when compared with last year.**

The attendees, mostly comprising analysts and socially responsible investors (several financial analysts also attended), had the chance to spend a conference with the CEO and our speakers where the Company presented concrete examples regarding the benefits and challenges Repsol has encountered in the process of integrating Talisman assets in the North Sea and North America. They also discussed how the Company has addressed these issues from a sustainability standpoint and the progress made on climate change activities aimed at achieving the 2 °C scenario.

The session ended with an opportunity for Q&A.

The event's agenda was as follows:

1. **REPSOL in the North Sea. Sustainability after Talisman Acquisition:** Mr. Tomás García Blanco, Executive Director, Europe, Africa, and Brazil.
2. **Integration of Talisman Legacy Operations in North America. ESG Challenges and Early Benefits of Integration:** Mr. Kyle Hegel, North America, Safety & Environment Manager.
3. **Repsol: making progress towards a low emissions future:** Mr. Jaime Martín Juez, Sustainability and Technology Director.

Presentations and videos from the event can be seen at the following links:

<https://www.repsol.energy/en/shareholders-and-investors/socially-responsible-investors/repsol-sustainability-day/index.cshtml>

<https://www.youtube.com/playlist?list=PLhkZdZWnCO42-goUhlrd4eggBBA9Wk-Eh>

The fourth edition of this event is planned to be held in London in the second half of 2017.

III. Roadshow with the Senior Management in London, Paris, and The Netherlands

A Roadshow with the Senior Management was organized following Sustainability Day to visit the principal shareholders. The team was again led by our CEO, Josu Jon Imaz. A total of 12 institutions were visited (120 M shares, representing 23% of the institutional shareholder base and around 56% of our total percentage of SRI shares).

The investors visited were the following:

- **London:** Blackrock, Ges Investment Services, Hermes, Legal & General Asset Management.
- **Paris:** Allianz Global Investors, Natixis Asset Management, BNP Paribas Investment partners, Amundi Asset Management.
- **Amsterdam and nearby locations:** APG Asset Management, PGGM, Robeco Institutional Investors, NNIP Advisors B.V.

The investors took advantage of the presence of the CEO and ESG Management at the meetings to discuss a high number of topics in a variety of fields such as corporate governance, climate change, presence in renewable energy sources, safety policies, the commitments we acquired with the Oil and Gas Climate Initiative (OCGI), and improvements we have made, among others.

This resulted in high-content and high-value meetings for investors, as can be seen in the feedback provided:

- “Having the CEO present and discussing Repsol’s approach to CSR was very valuable and insightful”.
- “Extremely happy with the quality of the discussions”.
- “The participation of the CEO was very welcomed”.
- “Key take away was seeing in person how involved and embedded CSR initiatives are within executive management”.

- “Quality of participants allowed for an in-depth discussion”.
- “In conclusion a very productive meeting with quality take-aways”.
- “Appreciated the depth of individuals present at the meeting with backgrounds from several disciplines it allowed the conversations to flow throughout the meeting”.
- “The general talking points were very informative”.
- “Commended the efforts by Repsol to bring a broad group of experts to discuss ESG risks/opportunities”.
- “Indicated the content and discussion points provided valuable insights and key take-aways”.

IV. Interaction with ESG Analysts

The IR team has improved communication with ESG analysts and specialized consulting agencies throughout 2016 and 2017. In this regard, specific workshops were held with ESG analysts in Stockholm in June 2016 in order to discuss in further detail our messages on the company’s excellent performance in sustainability practices and, in this specific case, in the strict observance of international treaties and policies regarding our policies on human rights and recognition of the rights of indigenous communities.

The company’s intention is to progressively strengthen relations with these stakeholders. Proof of this is evident as, already in 2017, two meetings with ESG sell-side analysts have been held in London and Paris in order to share opinions and to be aware of their concerns.

V. Roadshow in Boston

Sustainability aspects are absolutely connected to the company’s strategic commitment. Therefore, one of Repsol’s objectives is to increase the percentage of its shares managed following sustainability criteria. As stated by our CEO, Josu Jon Imaz, “We believe that Repsol can expand the actual 12% base of ESG investors and we are certain that working in line with these principles is profitable.”

In this regard, in order to strengthen relations with current shareholders and meet new ones, Repsol intends to travel to the USA at least once every two years. In May 2017, the company made a visit to Boston to five of the accounts that are most influential in ESG issues with the commitment to closely monitor this emerging market and to consolidate our presence there.

VI. Roadshow in Stockholm and Copenhagen

The IR team visited several of the most important investors in Stockholm. The meetings helped most of all to review and update the ESG messages after the Talisman acquisition with a special focus on our policies on human rights and indigenous communities. A revision was also done from a social standpoint of Repsol's management of certain upstream assets [Block 88 in Peru].

In Copenhagen, three of the principal ESG accounts were visited for the first time. At the meetings, the investors were also interested in discussing both sustainability and financial issues.

VII. Other collaborations

In order to share the company's best practices in sustainability and also learn first-hand what others do, the IR team participated in several roundtable meetings in 2016. Specifically, it is worth noting their attendance at the **5th International Conference on Corporate Social Responsibility, organized by the University of Bologna, and collaboration with the National Distance Education University (UNED)** as speakers in training courses on Corporate Social Responsibility aimed at the university's students.

VIII. Revision of the ESG presentation for investors

We updated the content of the presentation used to communicate messages to the investors in order to show the Company's progress in key sustainability factors such as accident rates, safety culture, and human rights. At the same time, we also updated the progress made in our commitment to fight climate change, highlighting our participation in various initiatives related to climate change: **Climate and Clean Air coalition-Oil & Gas Methane Partnership** promoted by United Nations Environment which addresses methane emissions management and **Zero Routine Flaring by 2030**, supported by the World Bank.

The presentation is available via the following link:

<https://www.repsol.energy/en/shareholders-and-investors/socially-responsible-investors/reports-and-presentations/index.cshtml>

3. FIGURES AND KEY ASPECTS IN THE DIALOGUE WITH SOCIALLY RESPONSIBLE INVESTORS IN 2016–2017.

A total of **103 ESG investors** were contacted throughout 2016 and in the first half of 2017.

Below is a summary of the activities carried out during the aforementioned period as part of the dialogue with socially responsible investors:

Date	Place	Event	Attending Investors
22 April 2016	Madrid	Swedish Investors' Campus Visit	11
7 June 2016	Paris	11 th Oddo Environmental Forum	12
28 July 2016	Stockholm	ISS Ethix Visit	1
7 November 2016	London	3rd Repsol Sustainability Day	29
8-10 November 2016	London - Paris - The Netherlands	Executive Management Roadshow	12
15 March 2017	Paris	JP Morgan Cazenove SRI Conference	3
28-29 March 2017	London - Paris	Sell Side Analysts' Lunch	8
9 May 2017	Boston	Roadshow ESG Investors	4
7 June 2017	London	Responsible Investment Forum	5
8 June 2017	Paris	12 th Oddo Environmental Forum	11
27-28 June 2017	Stockholm- Copenhagen	Roadshow ESG Investors	7

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4. TOPICS DISCUSSED

IX. The company's commitment to achieve the 2 °C scenario

This was without a doubt one of the most discussed topics throughout the meetings. The investors asked us repeatedly about the company's process of adapting to the 2 °C scenario. Repsol's message is clear: we continue to work toward the commitments established in the Paris Agreement. In this regard, we are in line with the International Energy Agency's 450 ppm scenario, which is compatible with the 2 °C.

At the same time, Repsol is carrying out a process of internal analysis, progressively working to gradually evolve from an Oil & Gas company to an energy company. To this effect, we have the advantage of being very flexible; 75% of our reserves are gas and our 2016–2020 Strategic Plan was designed with a low emissions world in mind.

We are reflecting internally on all of this, with our main focus placed on the company's energy efficiency processes and diversification toward less polluting energy sources. Meanwhile, we continue to work toward adapting our portfolio to the 2 °C. In May 2017, Repsol **successfully issued the first green bond launched by a company in the Oil & Gas industry**. Repsol allocated €500 M to energy efficiency projects in the Downstream business, with the goal of achieving the reduction of 5 M tons of CO₂/year by 2020. The initiative was accepted enthusiastically by the investors; the final demand for the bond exceeded €2.5 billion. The process was certified by Vigeo Eiris.

The main messages we have shared with investors throughout the year were as follows:

- **On the diversification of our business toward renewable energy sources:**

We stressed to investors that we understand diversification as investing in fields where we can be competitive and efficient. We closely monitor the renewable energy industry and we want to be present in the businesses that we believe can create value for our clients. Our path will always be marked by the our stakeholders' pattern of consumption.

We believe that, in the medium term, electric vehicles can have an impact on the transportation habits of our consumers in cities. That is why Repsol holds a 50% stake in IBIL, the company responsible for providing charging stations for electric vehicles in cities, through our subsidiary **Repsol Nuevas Energías**. The company already has almost 900 charging stations, both public and private, some of which are already installed at our service stations. To date, we have seen a limited impact on the use of electricity in other modes of transportation, such as heavy vehicles or the aeronautical and marine industries. We believe that, establishing this business in cities strongly depends on the evolution of current batteries. Electric vehicles are still not fully accessible to the family model in Spain as they are still unable to match gasoline and diesel vehicles in terms of range, price, and comfort.

We work with the belief that being sustainable is the only way to be profitable. In this regard, we are focused on contributing to make our customers' lives as comfortable and as easy as possible. In this sense, in 2017, we established several agreements with suppliers, for example, providing a way to pick up products purchased on Amazon at our service stations.

We also promote the use of autogas (automotive LPG) as an alternative to traditional fuels; we research a variety of start-ups; and we support the research and use of second-generation biofuels.

We confirm that Repsol has no intention of investing in capital intensive projects. We are not going to be involved in offshore exploration projects in the Arctic, oil sands projects, or ultra deepwater projects.

- **On the application of carbon pricing in our investments:**

We strongly believe that the transformations that must take place in the energy industry require clear, stable regulations that can be predicted over time.

Therefore, we believe that global carbon pricing that is present worldwide in all industries is a key component in policies aimed at mitigating climate change, with the smallest cost to society by incentivizing innovative technology that is compatible with the 2 °C.

In this sense, we apply various levels of carbon pricing in our investments to test their future viability and see if they are compatible with a low emissions world. The carbon pricing trajectory that the Company is discussing varies in accordance with our investment timeline, from \$18/t CO₂ in 2018 to \$40/t CO₂ midway through the coming decade.

- **On the Company's intention to publish the results from our assets' stress tests:**

We informed investors that we are currently one of the most transparent companies in the market when reporting data on our performance regarding climate change issues. Since 2006, Repsol has participated in the prestigious Climate Disclosure Project (CDP), receiving in 2015 the highest score in transparency: 100/100.

In 2016, Repsol was among the leading companies thanks to its climate change strategy with an A- rating. Holding a position in this leadership range means that the company manages its carbon footprint exceptionally, meeting its reduction objectives and implementing programs to reduce emissions throughout the entire value chain. All of this has been done following the best practices in the field of environmental management.

Repsol has been in the leadership ranking seven times in the past ten years.

In addition to climate change, there are many other risks that our industry is facing, such as regulatory and physical risks. Given the long-term nature of the risk presented by climate change, the variability of many other factors, and the poor visibility of the total impact of these factors on our industry, we currently do not publish a complete analysis on the risk of adapting our assets to the 2 °C scenario.

We understand that several of our peer companies have begun to change their narrative regarding this concern presented by investors, although they do not provide really granular data.

At Repsol, we continue reviewing our position with regard to the public disclosure of this information.

- **On the Company's progress in the management of its methane emissions and in the reduction of gas flaring:**

We explained to our investors that natural gas plays a key and immediate role in fossil fuel emission reduction. However, it can only play this role if we are able to mitigate the methane emissions associated with our production.

In this sense, we are performing periodic campaigns to detect and repair leaks in our gas production facilities using infrared cameras (the leak detection and repair methodology).

In addition, as part of our commitment to the Oil and Gas Climate Initiative, we have joined the **Climate & Clean Air Coalition – Oil & Gas Methane Partnership of UN Environment** to implement methane emission reduction projects in collaboration with other companies, institutions, and governments. Our first report on this initiative will be published in 2018.

Aware of the importance of this issue for investors, Repsol has decided to participate in the initiative known as the **Investor dialogue on methane risk in the energy and utilities**

sector. This initiative is supported by the international association **Principles for Responsible Investors** (PRI). The invitation was extended by a group of 35 investors in order to learn more about the management of methane emissions by various companies which are all present in the natural gas value chain.

Additionally, as part of the OGCI, Repsol participates in the **Climate Investments** program in which an important line of work is aimed at improving the management of methane emissions.

In our meetings, we highlighted the actions we have taken to reduce emissions from routine gas flaring. This flaring not only increases emissions of greenhouse gases (GHG), but it also represents a point of inefficiency in our processes resulting from the loss of product or fuel that is not used. For several years, actions have been taken to minimize these emissions through the recovery of this gas and its use as a fuel to generate process heat or produce electricity.

Also in 2016, we joined the **World Bank's initiative for Zero Routine Flaring by 2030**, through which we collaborate with other companies, institutions, and governments in the search for the most advanced technologies that minimize routine gas flaring by 2030.

- **On the importance of Carbon Capture, Use, and Storage (CCUS):**

We are aware that this technology will be critical to achieving the objectives of the Paris Agreement as it is the only technology capable of substantially reducing GHG emissions from our fuels. These will continue to play an important role in the future energy mix, and CCUS will help to reduce emissions in industries such as electricity generation and energy-intensive industries.

Our conclusion is that, if we want to achieve the objective of keeping the planet's average temperature below 2 °C, the only way to do so will be using this technology.

The main challenges the industry is facing in terms of CCUS are the following:

- The high cost of the technology: 70% corresponds to the CO₂ capture technology
- The lack of a regulatory framework to develop the technology

Another one of the most important factors when discussing CCUS is precisely the utilization of that CO₂ and at Repsol, we are already working on this issue. To that end, our R+D teams are working on advanced developments to start using CO₂ as a raw material in the production of plastics in order to make other products with high added value.

In the same sense, we participate in the CCUS line of work within the OGCI. Our activity is focused on supporting the implementation of technology in projects that are technically and financially viable, as well as sustainable and socially acceptable.

- **On the impact on Repsol from new reporting methodologies, such as the Task Force on Climate-related Financial Disclosure:**

We communicated to investors that Repsol would be perfectly prepared to comply with this type of reporting. Repsol already reports most of the information requested by the working group via the CDP survey and the company's other normal sources.

X. Corporate Governance Matters

The dialogue held with investors on corporate governance matters throughout the year was focused fundamentally on the following issues:

1. The various proposals submitted to the 2017 Annual General Meeting regarding remunerations:

At the Annual General Meeting, held on May 19th, 2017, a consultive vote was held on the [Annual Report on Remuneration of the Directors corresponding to financial year 2016](#), which was **approved with 97.089%** of the shareholders present and represented voting in favor. This report, created in accordance with the model approved by Spain's National Securities Market Commission (CNMV), includes, among other issues, detailed information on fixed remuneration and on the objectives, metrics, weighting, achievement scales, and levels of compliance reached in the various components of short-term variable remuneration and long-term variable remuneration of Executive Directors, as well as the limits applicable to each.

Similarly, the Company published a [Voluntary Report on Remunerations](#) in order to help shareholders understand the information contained in the official model of the Annual Report on the Remuneration of Directors and to provide more detailed information on the application of the Board member remuneration policy which received binding approval at the Annual General Meeting on April 30th, 2015, both for the performance of the executive functions and the supervision and joint decision-making functions inherent to the position.

In line with previous years, the compensation package proposed for 2017 has a balanced, efficient relationship between the fixed and variable components. The variable remuneration components have enough flexibility to be modified to the point that it is possible to completely eliminate the variable remuneration in a certain financial year if the objectives it is associated with are not reached. In this case, the Executive Directors would only receive a fixed compensation as well as other payments related to participation in pension systems and payments in kind.

Specifically, in 2017, in a scenario in which the CEO achieves his objectives, the weight of fixed remuneration would be 37% of the total remuneration and 63% would be from variable remuneration (53% from short-term variable remuneration and 47% from long-term variable remuneration).

For his part, the Director and General Counsel's fixed remuneration would have a weight of 40% and variable remuneration would be 60% (55% from short-term variable remuneration and 45% from long-term variable remuneration).

Additionally, at the Annual General Meeting a vote was held on the inclusion of an **objective referenced to the value of Repsol shares** in the **2017 annual variable remuneration of the CEO**. This objective's level of achievement will be determined by the evolution in Repsol share price in comparison with a benchmark of five international

companies (Total, Shell, BP, ENI, and OMV). This objective will have a **weight of 10%** of Mr. Imaz's total 2017 annual variable remuneration. It was **approved with 87.62%** of the shareholders present and represented in the AGM voting in favor.

The Annual General Meeting on May 19th, 2017, also approved the **inclusion of an objective referenced to the evolution of Total Shareholder Return (TSR) in the 2017–2020 Long-term multiannual variable remuneration Plan**, with **96.017% of shareholders present and represented voting in favor**. It will have a weight of 10% that will measure the performance of Repsol's TSR in the 2017–2020 period in comparison with the TSRs of a reference group of five international oil industry companies (Total, Shell, BP, ENI, and OMV).

In addition, in order to bring the remuneration policy even more in line with shareholders' interests, a vote was held at the AGM on **the delivery of shares as a form of payment of part of the multiannual variable remuneration of Executive Directors (30%), as well as the implementation of a shareholding policy**. Under this policy, Executive Directors must continue to hold the company shares in their portfolio, as well as any other shares provided to them as a form of payment from the Multiannual Variable Remuneration Programs or any associated with the Share Acquisition Plan by Beneficiaries of Multiannual Remuneration Programmes until reaching an amount equal **to at least twice their fixed annual compensation**. This proposal was approved at the AGM with **99.87% of the shareholders present and represented voting in favor**.

Finally, on May 19th, 2017, a binding vote was held at the Annual General Meeting on a new **[Policy for Remuneration of the Directors of Repsol S.A.](#)**. This policy was approved with **95.89% of the shareholders present and represented voting in favor** and will be applicable in financial years 2018, 2019, and 2020. This policy sets out the principles and criteria the Company follows to determine the compensation package for Executive Directors for performance of executive responsibilities, for Directors in their positions, and the remuneration system applicable to the Chairman of the Board of Directors. It also contains the previous provisions for partial payment in shares of the multiannual variable remuneration, the shareholding policy, and the establishment of an upper limit of 10% of possible increases that can be agreed on in relation to fixed compensation of the Executive Directors while the policy is in force. The Remuneration Committee also created an **[Explanatory Report on this Policy](#)** in order to present the criteria and foundations the Committee used to determine it.

2. The composition of the Board of Directors and the operation of its Committees with special reference to the Nomination Committee, Sustainability Committee, and Delegate Committee.

Regarding diversity on the Board of Directors, , it must be noted that the **Regulations of the Board of Directors** explicitly assigns the **Nomination Committee** the responsibility to ensure that, when new vacancies arise or new board members are nominated, the selection processes are **not** limited by **implicit biases** that could entail **discrimination**. The Committee must also ensure that women who meet the desired professional profile **are deliberately searched out and included among the potential candidates**, providing the Board with a report of the initiatives adopted in this regard and their results.

In this respect, since December 2015 the Company has had a **Policy for Selection of Directors of Repsol, S. A.**, which contains the guidelines on the selection process for candidates for the Repsol Board of Directors. This policy sets out that must be people whose nomination favors the diversity of the Board of Directors in terms of professional career, knowledge, nationality, and gender. It also contains the specific objective that, **in 2020, at least 30% of the total Board members must be women**.

During the 2017 financial year, three vacancies have arisen on the Board of Directors corresponding to Independent Outside Directors. Therefore, in order to promote gender diversity in the Board's composition, the Nomination Committee presented the Board of Directors with a proposal nominating two women as new Independent Directors: Ms. María Teresa Ballester Fornés and Ms. Isabel Torremocha Ferrezuelo, whose nominations contribute to the promotion of gender diversity in the board's composition in light of the objective in the Repsol Directors Selection Policy. As a result of these nominations, **the presence of women on the Board of Directors has increased to 12.5%**.

Other topics addressed during the meetings with investors were related to the categories of Directors (Executive, Proprietary, Independent, and other external Directors), the number of members on the Board, and the separation of the Chairman and CEO positions, which was enacted in 2015.

In addition, there was discussion regarding the **composition and operation of various committees** of the Board of Directors, referring particularly to the Nomination Committee, Sustainability Committee, and Delegate Committee. Regarding the Nomination Committee, an explanation was given on the separation of the Compensation and Nomination Committee into two separate committees, which took place in 2015 to comply with the recommendations of the CNMV's Good Governance Code for Listed Companies, as well as the responsibilities assigned to it regarding director selection. With respect to the Sustainability Committee, we explained that it was created in 2015 to replace the Strategy, Investments, and Corporate Social Responsibility Committee and that it demonstrates the importance of these issues for the Company.

Regarding the Delegate Committee, the investors expressed their interest in learning more about its composition, the functions it performs, and its interaction with the Board of

Directors. We explained that the Delegate Committee comprises the Chairman of the Board of Directors and a maximum of eight directors from the various categories (executive, proprietary, independent, and external directors) maintaining a proportion similar to that of the Board of Directors. In terms of their responsibilities, we stated that this committee has been delegated all the powers of the Board of Directors, except for those powers that cannot be delegated due to legal or statutory requirements. Agreements shall undergo ratification by the Board of Directors in the cases in which, at the discretion of the Chairman or of three of its members, either the issue's importance or the Regulations would require it.. In the remaining cases, the agreements adopted by the Committees will be valid and binding without the need for subsequent ratification.

Finally, it was explained that the Board of Directors performs a quarterly follow-up review of the commitments in the Strategic Plan. Regarding the assessment procedure, it was stated that an internal assessment of the Board and Committees is conducted annually and that, at least once every three years, an independent firm specializing in the field is responsible for an external assessment of their performance.

XI. Social. The Company's best practices in respecting human rights and community relations

This was one of the most recurring topics in the meetings held with SRI investors in Nordic countries. We explained to the investors that, from a social standpoint, the Company's actions in both operated and non-operated assets are always in compliance with the highest international standards on human rights.

Repsol's relationships with local communities present in the areas surrounding operations is based on dialogue and mutual respect. The Company recognizes indigenous people's right to free prior and informed consultation in accordance with Article 169 of the International Labor Organization.

In addition, addressing the claims, concerns, and complaints of the communities in our surroundings helps to foresee and respond to potential disagreements that can affect our operations. The nature of these mechanisms is specific to each context.

In 2016, as part of the Talisman integration process, we revised and improved our management framework with respect to community relations and human rights. In this framework, we explained to investors that a new Human Rights and Community Relations Policy had been approved, in line with the UN principles. In order to ensure this policy was implemented among all the staff involved both directly and indirectly, Repsol held nine training workshops on this framework in 2016, focusing on risk management, impact management, opportunity management, and participative dialogue.

One of the topics that has generated the most interest in this group in recent years is the social and environmental management of Lot 88 in Peru (Repsol holds a 10% stake in the Camisea block). We would like to note that throughout 2016, Repsol has done outstanding work in terms of dialogue and transparency in addressing this topic, providing investors and specialized consultancy agencies with a very high level of detail when explaining the thorough work done by the Consortium present in this block in all issues related to environmental prevention and respect for community rights.

In this regard, it should be noted that Camisea is the most important energy project in Peru. It is regulated under stringent international standards in its operations to protect the environment and comply with the regulations in force.

We have spoken with investors regarding the principal social and environmental programs in the Block, which include, but are not limited to, the following:

- **The Biodiversity Monitoring Program (BMP):** a long-term scientific program that monitors changes in biodiversity associated with the project and provides recommendations to prevent and mitigate impacts in the area of influence

- **Community Environmental Monitoring Program (CEMP):** A program that performs monitoring through community organizations that record reliable information on operations in Camisea and provides transparency on environmental and social management
- **Offshore-Inland Operation:** the use of offshore production techniques for onshore operations. This is part of the Company's commitment to working without creating roads and concentrating its facilities in the Malvinas Plant in order to have the smallest impact [not making roads prevents the creation of new towns, illegal businesses, etc.]
- **Communication and Consultation Program:** This program is implemented in order to promote communication channels with communities and maintain the flow and transparency of information regarding the status of operations, addressing the concerns of interest groups and ensuring the indigenous population's right to consultation. The activities held are as follows: informational workshops, coordination meetings, maintenance and control of claims and complaints record, mapping of players, among others.
- **Access Control and Anthropological Contingency Program:** The Anthropological Contingency program is implemented in order to prevent sociocultural and health impacts that could occur in populations on initial contact populations and/or isolated populations as a result of our operations.

In addition, in response to the opinion of an expert outside the project, it should be noted that the UN Special Rapporteur on the Rights of Indigenous Peoples, James Anaya, visited the Camisea project in December 2013. He defined the project as very well implemented in terms of preservation of nature and biodiversity. This is because the project has used an innovative method in which the project's platforms are controlled remotely and the area is always accessed by helicopter.

Below is a link to the document:

<http://onu.org.pe/noticias/declaracion-del-relator-especial-de-las-naciones-unidas-sobre-los-derechos-de-los-pueblos-indigenas-james-anaya-al-concluir-su-visita-al-peru/>

In light of the recurring concern of certain institutions regarding the possible sightings of voluntarily isolated indigenous peoples in Block 88, we reported that in February 2017, the Peru BU informed us of the decision of the Consortium in Camisea to release all the areas in Lot 88 that are not in production or under development. This entails a reduction of about 42% of Block 88's original area and implies a significant reduction of anthropological risks.

XII. Other topics

The integration process for Talisman assets has continued to be the focus of many investors' attention. Throughout this period, we have explained the benefits and challenges that we have encountered in asset integration and how we used the best practices of both companies in the application of different management processes.

One of the most discussed topics was the water management process in unconventional assets received from Talisman. We explained that all these processes include assessment of the amount of water used and research on alternative methods of supply, such as, the use of deeper groundwater sources; reuse of waste water, recirculation of flowback water; and the use of cutting-edge water treatment technology. Also, in 2016, Repsol began to adapt its internal tool, the Repsol Water Tool, to identify and assess the principal risks associated with water management in unconventional operations. For 2017, the Company has set an objective to implement the Action Plan defined for these assets.

5. NEXT STEPS

We continue to be committed to maintaining proactive dialogue with our socially responsible investors. Moreover, our intention is to improve the engagement begun this year with the various stakeholders, such as the ESG sell-side analysts. The Company continues to be strongly committed to maintaining contact between Upper Management and investors and to holding the Repsol Sustainability Day event.

Repsol will continue collecting information on the expectations and concerns of the market regarding sustainability in order to ensure it is taken into account when analyzing decisions.

Lastly, it is expected that the coverage of SRI investors will continue to increase, expanding the group of contacts and discovering investors in other areas outside of Europe in order to ultimately increase the percentage of shares managed under socially responsible criteria in the Company's total shares.

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Annual report on engagement with socially responsible investors

2016-2017

