



## **COMPENSATION COMMITTEE**

# **EXPLANATORY REPORT ON THE REMUNERATION POLICY OF DIRECTORS OF REPSOL, S.A.**

**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.**

## EXPLANATORY REPORT ON THE REMUNERATION POLICY

### 1. INTRODUCTION

In accordance with the provisions of art. 39 *bis* of the Bylaws and art. 36 of the Regulations of the Board of Directors of Repsol, S.A. (hereinafter "**Repsol**" or the "**Company**"), the Compensation Committee is responsible, among other duties, for proposing the directors' remuneration policy to the Board of Directors, for reviewing it periodically and for verifying its compliance.

Art. 529 *novodecies* of the Companies Act provides that the proposal of the directors' remuneration policy must be accompanied by a specific report by the Compensation Committee, and that both documents must be published on the corporate website when the General Shareholders' Meeting is called.

This document constitutes explanatory report on the remuneration policy of directors (hereinafter, the "**Report**"), which shall be submitted to the approval of the Board of Directors and subsequently to the General Shareholders' Meeting. This report contains the criteria and principles on which the Committee relies when determining the remuneration policy of the Directors of Repsol, S.A. (the "**Remuneration Policy**") that will apply for years 2018, 2019 and 2020.

### 2. PRINCIPLES OF THE DIRECTORS' REMUNERATION POLICY

The proposed Remuneration Policy to be submitted to the approval of the Board of Directors, and subsequently to the General Shareholders' Meeting, follows the guidelines laid down in the policy approved by the General Shareholders' Meeting in 2015, while introducing certain amendments. These adjustments respond to the Company's desire to remain aligned with best market practices, the recommendations set forth in the Code of Corporate Governance of Listed Companies in Spain and the interests of its shareholders.

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

According to art. 217 of the Companies Act, stating that the remuneration of directors must be reasonably proportionate to the company's size, relevance and financial standing from time to time and market standards followed by peer companies, the Compensation Committee and the Board of Directors periodically review the Directors' Remuneration Policy.

Furthermore, when designing the remuneration system in force at all times, the Board of Directors will ensure that the remuneration is based on the principles of balance, relationship with their effective dedication and alignment with the strategy and long-term interests of the Company and its shareholders.

As stated in the Remuneration Policy, the remuneration of Directors in their capacity as such is based on the following principles:

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

Meanwhile, the remuneration of the Executive Directors for the performance of their executive functions will take the following general principles into consideration:

- To ensure that the remuneration, in terms of its structure and overall amount, complies with best practice and is competitive with that paid by other comparable organisations in order to attract, retain and motivate the best professionals.
- To establish remuneration based on objective criteria related to the individual performance of the Executive Directors and the achievement of the business objectives of the Company and the Group.
- To maintain an annual variable component linked to the achievement of specific and quantifiable targets, aligned with the company's interests, with control and measurement systems that determine the payment of the variable remuneration based on individual performance assessments and the personal contribution to the achievement of the established goals.
- To incorporate multiannual variable remuneration systems that promote the achievement of medium/long term targets over time and the retention of key people.
- To maintain an appropriate balance between the different compensation items, in line with best market practice.
- To ensure alignment of interests with those of the shareholders, encouraging the demand for shares.
- To ensure sustained alignment between the remuneration policy for the Executive Directors and that for the Senior Management.

Accordingly, Directors' compensation for their work as such consists entirely of fixed pay items, whereas the remuneration of the Executive Directors, for their executive duties functions is a suitably balanced and efficient mix of fixed and variable pay items in which the fixed component accounts for a sufficiently high percentage of the total remuneration while the variable pay items is flexible enough.

All of this is expressed in the terms and with the detail included in the text of the Remuneration Policy, presented to the Board of Directors for its submission to the General Shareholders' Meeting.

In accordance with the above, the Compensation Committee considers that the proposed Remuneration Policy of the Board of Directors reinforces its alignment with Company's long-term interests and of its shareholders and that it is aligned with the rules and recommendations in force, as well as best market practices.

### **3. VALIDITY**

As established by art. 529 *novodecies* of the Companies Act, the Company will implement this Directors' Remuneration Policy during the years 2018, 2019 and 2020. Any amendment or replacement of the policy during that period will require the prior approval of the General Shareholders Meeting in accordance with prevailing legislation.

**29 March 2017**  
**The Compensation Committee**