

CONSOLIDATED MANAGEMENT REPORT

2009

REPSOL YPF

24 February 2010

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ECONOMIC-FINANCIAL INFORMATION

MACROECONOMIC ENVIRONMENT

The most severe economic and financial crisis since Second World War began more than two years ago. Based on International Monetary Fund (IMF) estimates, global Domestic Product (GDP) shrunk 0.8% worldwide in 2009. On the wake of the bankruptcy of the investment bank Lehman Brothers in September 2008 – the most serious ever in the history of the United States – the crisis spread throughout the world in the last quarter of 2008 and first quarter 2009. The lack of confidence in the financial system led to the paralysis in financial markets, tight liquidity, and a credit crunch. International trade, industrial production, and spending plummeted as a result of this financial crisis. The firm and rapid response of central banks and the governments of the leading economies prevented the systemic collapse of the economy, curtailed risks, facilitated market liquidity by injecting capital in banking entities, and mitigated the sharp contraction of credit and demand. As of the second half of the year, the turnaround in the inventory cycle and the recovery of consumer spending in the United States, contributed to supporting the upturn in the real economy.

The intensity and duration of the crisis and the economic recovery have varied throughout the different regions. Advanced economies, on a general basis, started to slow down in fourth quarter 2008, with this contraction intensifying in the first half of 2009 (nearly 4.5%.) Fiscal and monetary stimuli started to have an impact in the third quarter of 2009 which, combined with the recovery of international trade, contributed to slowing down this downturn.

The U.S. economy showed more resilience than other advanced economies, namely those in the Eurozone. GDP in the United States, according to IMF estimates, shrank 2.5% in 2009 versus 3.9% in the Eurozone.

Most emerging economies, particularly those that are more dependent on exports, entered into a recession in the first quarter of 2009. Although growth slowed in China, the Philippines, India, and Indonesia, these countries were able to avoid a recession thanks to their robust domestic demand and strong public investments. IMF estimates indicate that Asian economies, with China and India at the forefront, grew 6.5% in 2009.

One of the most significant aspects of the macroeconomic scenario in 2009 was the absence of inflationary pressure because of weak activity and the overall curtailment of bank credit, as a result of which central banks were able to keep short-term interest rates at historically low levels. Average inflation in advanced economies in 2009 was 0.1%, reaching 5.2% in emerging economies.

Contraction of global demand

Financial, rather than specific underlying factors had a greater influence on oil market performance throughout 2009. The drop in global demand, for the second consecutive year as a result of the global recession, was greater than supply cutbacks implemented by the Organization of Petroleum Exporting Countries (OPEC) in an effort to reach equilibrium in the market.

This imbalance led to an accumulation of inventories, which reached a record high over the course of the year. Against this backdrop of oversupply and a geopolitical scenario without any major conflicts in 2009, the underlying factors responsible for the rise in oil prices in 2008 were absent in 2009. Nevertheless, between January and December 2009, the price of oil increased from \$40 to 70 per barrel, averaging \$62.1 by the end of the year for the U.S. benchmark (West Texas Intermediate) and \$61.7 for the European benchmark (Brent). Consequently, it is quite evident that financial factors had a greater impact on prices. In fact, the correlation of all financial variables was much greater in 2009, particularly the correlation in the stock market, the dollar, and the price of oil.

In the short term, before the economic recovery can take root in the advanced economies banks will have to clean up their balance sheets, while in emerging economies, it will be necessary to prevent a bubble effect in the price of certain assets.

Public rescue plans and economic stimuli are playing a vital role in bolstering economic activity while the private sector, basically in advanced economies, is immersed in a deleveraging and balance sheet cleanup process.

These measures, however, can only be temporary until private demand recovers and takes the place of public demand. Government stimuli programs have led to an extraordinary increase in the public deficit which means that states will have to make major adjustments to ensure the sustainability of public accounts. The authorities of G-20 countries are committed to coordinating the withdrawal of these measures so as not to generate new imbalances.

A difficult year

GDP in the United States is expected to fall 2.5% versus the modest 0.4% growth recorded in 2008. Since the rationalisation of banks has not been completed yet, corporate and consumer lending activities remain frozen.

As in other advanced economies, 2009 was a very negative year for the Eurozone; in fact, the worst since its launch. According to IMF estimates, GDP in the Eurozone fell 3.9% in 2009 after recording a 2.1% average growth in the last decade. The first half of 2009, however, was much worse than the second half of the year, which benefited from the positive impact of the implementation of exceptional monetary and fiscal policy measures, the change in the inventory cycle and the vitality of international trade as a result of the favourable trend in emerging economies.

Spain, like the rest of its EU partners, faced the worst crisis in its recent history. According to the *Instituto Nacional de Estadística* (National Institute of Statistics),

GDP in Spain fell 3.6% in 2009 after having recorded 3.5% annual average growth in the last decade. The situation in Spain is different, however, because of the disappearance of the very labour-intensive construction sector, the main growth driver over last few years. This explains the dramatic impact of the economic crisis on employment in this country.

Latin America was able to face the financial crisis in better macroeconomic condition than during similar episodes in the past. The region has not been the epicentre of the crisis this time, enjoying positive fiscal and commercial balances created during economic boom years that have enabled it to cushion the effects of external shocks. GDP at the end of the year had however fallen 2.3% because of the economic contraction experienced in this region in the first half of 2009 although the trend of some countries, such as Bolivia, Brazil, Chile, and Peru, was much more favourable.

RESULTS

At €1.559 billion, Repsol YPF's net income in 2009 was 39% lower than the €2.555 billion recorded in 2008⁽¹⁾. Operating income was €3.244 billion, down 35.4% from the €5.020 billion posted a year earlier. EBITDA was €6.749 billion, 17% less than in 2008. Earnings per share were €1.29.

Operating income in the Upstream business (Exploration and Production) fell 65%, from €2.258 billion in 2008 to €781 million at 31 December 2009, mainly on the back of lower international oil and gas prices.

The Liquefied Natural Gas (LNG) business, which generated €125 million in operating income in 2008, recorded €61 million in operating losses in 2009. Lower prices in the Spanish wholesale electricity market, the drop in international gas

(1) To facilitate the comparison with 2009 data, the figures for 2008 mentioned in this report include the modifications which, as a result of the change in the accounting classification of the Group's interest in Alberto Pasqualini Refap, S.A., were necessary in relation to the figures included in the Consolidated Financial Statements for fiscal year 2008 (See Note 3 in the Annual Consolidated Financial Statements).

prices and lower LNG margins and sales volumes were some of the factors – also affecting the whole industry throughout the year – which contributed to this weaker performance in addition to the losses stemming from arbitration decisions such as in the Gassi Touil dispute.

Operating income in the Downstream division (Refining, Marketing, Liquefied Petroleum Gas, Chemicals and Trading) was €1.022 billion compared with €1.048 billion in the previous year (-2.5%). Discounting the accounting impact of the value of inventories, operating income was €655 million, 57.6% less than the €1.543 billion posted in 2008 mainly because of the sharp contraction in refining margins which was only partially offset by higher income in the Marketing business.

Regarding companies in which Repsol owns a stake, operating income at YPF was down 12% to €1.021 billion, reflecting that the increase in the price of liquids in the local currency was not enough to make up for the impact of lower revenues from products sold in the domestic market but linked to international prices, the effect of lower export revenues, and diminished revenues from lower gas prices. The impact of lower revenues, however, was mitigated by the contribution of the Petroleo Plus program and by cost savings.

Repsol's 30% stake in Gas Natural SDG generated €748 million in operating income, 35% more than in the previous year. This growth is mainly attributable to the incorporation of 100% of Union Fenosa into Gas Natural's earnings from 30 April 2009.

REPSOL YPF INCOME STATEMENT
(In € million)

	2009	2008
OPERATING INCOME	3,244	5,020
Upstream	781	2,258
LNG	-61	125
Downstream	1,022	1,048
YPF	1,021	1,159
Gas Natural SDG	748	555
Corporate and other	(267)	(125)
FINANCIAL RESULT	(468)	(544)
PROFIT BEFORE TAX AND INVESTEEES	2,776	4,476
Income tax	(1,130)	(1,861)
Share of results in equity-accounted companies	86	66
Income from discontinued operations	12	-
CONSOLIDATED INCOME FOR TE YEAR	1,744	2,681
Income attributable to minority interests	(185)	(126)
INCOME ATTRIBUTABLE TO THE PARENT COMPANY	1,559	2,555

Repsol YPF's financial expenses in 2009 amounted to €468 million and taxes accrued totalled €1.130 billion, with the effective tax rate at 40.7% versus 41.6% in 2008.

FINANCIAL OVERVIEW

Repsol YPF enjoyed a healthy financial position at the end of 2009 despite the adverse macroeconomic scenario throughout the year. The Group's net financial debt, ex Gas Natural SDG, stood at €4.905 billion in comparison with €2.030 billion in the previous year. A large part of this increase was due to the payment of €1.080 billion to subscribe the Gas Natural SDG rights issue (which did not affect the net debt of the consolidated Group). In addition, Repsol YPF S.A. brought forward the payment of the interim dividend for 2009 to December, an exceptional event.

The Group's consolidated net financial debt at year-end 2009 was €10.928 billion, that is, €7.447 billion more than the net debt at 31 December 2008, which totalled €3.481 billion. The increase in net debt is mainly attributable to the impact of the

acquisition of Union Fenosa by Gas Natural SDG, both because of the required investment made as well as the consolidation of Union Fenosa's net debt.

The Strategic Plan 2008-2012 continued to be implemented throughout the year. The company invested €8.964 billion in 2009⁽²⁾, €4.354 billion of which was spent in the acquisition of Union Fenosa by Gas Natural SDG. The main expenditures were earmarked for projects to increase capacity and improve conversion at the refining facilities in Spain (Cartagena and Bilbao); the start-up of the Canaport LNG regasification plant; the start of production of the Shenzi field in the Gulf of Mexico (these last two are among the ten key projects in the Strategic Plan); the Peru LNG liquefaction plant; and exploration activities. With regards to exploration, 2009 was a record year, with 15 discoveries of which many were in the core areas for the company's growth, such as deep water in the Gulf of Mexico and Brazil, and also in North Africa.

Divestments in the year totalled €1.037 billion⁽³⁾. This figure includes the €245 million relating to collection of the last amount owed on the sale of Torre Repsol to Caja Madrid. The substantial divestments made by Gas Natural SDG made it possible to partially reduce the debt generated by the acquisition of Union Fenosa.

In 2009, Repsol paid its shareholders €1.997 billion⁽⁴⁾ in dividends, including dividends paid to minority shareholders of subsidiary companies. On an exceptional basis, three dividend payments were made in 2009 as a result of the advance payment by Repsol YPF S.A. of the interim dividend at 31 December of this year (reporting €1.05/share for 2008 and €0.425/share as the interim dividend for 2009).

(2) This figure does not include financial investments of €39 million in the year.

(3) This figure does not include financial divestments in the year totalling €56 million.

(4) The Repsol YPF, S.A. dividend for 2008 (€1,282 million) and the reported interim dividend for 2009 (€ 519 million) plus the dividends paid to minority interests (€208 million) total € 2,009 million. The difference between this amount and the figure reflected as the dividend paid in 2009 (€1,997 million) is explained by the dividend for the parent company's shares held at the 2008 dividend payment date (12 M€) and the amount of withholdings on the interim dividend for 2009, paid in January 2010 (62 M€).

In relation to transactions involving company shares, the Annual General Meeting of 14 May 2009, resolved to grant authorization to the Board of Directors “for the derivative acquisition of shares of Repsol YPF, S.A. by purchase, exchange, or by any other transaction for valuable consideration, directly or through controlled companies, up to a maximum number of shares that, added to those already held by Repsol YPF S.A. and its subsidiaries, do not exceed 5% of share capital and for a price or equivalent value that may not be lower than the nominal value of shares nor exceed the quoted price on the stock market.”

This authorization is valid for 18 months reckoned from the date of the Annual General Meeting, rendering null and void the authorization granted by the previous Annual General Meeting held on 14 May 2008.

Accordingly, in 2009, Repsol sold 12,229,428 of its own shares representing 1.001% of the company’s share capital with a nominal value of €12.22 million and collecting a gross aggregate sum of €230.47 million. As of 31 December 2009, neither Repsol YPF S.A. nor any of its affiliates held any shares in the parent company.

Cost savings plan

Responding to the difficulties in the economic environment, Repsol implemented an ambitious cost savings plan in 2009 which contributed a total of €1.575 billion in savings, excluding those achieved by Gas Natural SDG. Manageable expenses in 2009 were €836 million less than in 2008 in like-for-like terms. This plan also made it possible to reduce budgeted investments for 2009 by €739 million.

Financial prudence

In keeping with its prudent financial policy, Repsol YPF holds a significant volume of financial investments included in the captions listed under Note 13 of the Annual Report as “Other financial assets at fair value with changes in profits or loss”, “Loans and accounts receivable” and “Investments held to maturity” for an amount

of €3.971 billion⁽⁵⁾ of which €3.780 billion correspond to Repsol, excluding Gas Natural SDG. As of 31 December 2009 the Group also has undrawn credit facilities amounting to €3.860 million in comparison with €3.496 million (ex Gas Natural SDG) at the end of 2008. The amount of committed and undrawn credit facilities for the consolidated Group totalled €4.680 and 3.916 million at 31 December 2009 and 2008 respectively.

Accordingly, net debt and the net debt/capital employed ratio, in which capital employed refers to net debt plus net equity, provides a true and fair view of the volume of necessary borrowings and their relative weighting in the funding of capital employed in operations.

At 31 December 2009, the Group's net debt to capital employed ratio (ex Gas Natural SDG) stood at 16.7% versus 7.7% at the end of the previous year. Taking preferred shares into account, the variation in this ratio was from 21% at 31 December 2008 to 28.8% at year-end 2009.

As of 31 December 2009, the Consolidated Group's net debt to capital employed ratio was 30.3% versus 12.4% at 31 December 2008. Including preferred shares the ratio was 40.7% in comparison with 25% at the end of 2008.

(5) This figure does not include €381 million relating to financing of the tariff deficit for settlement of regulated power activities which the Group owns through its stake in Gas Natural SDG and which are recorded under the financial investment captions.

The breakdown of net debt is detailed in the following table:

Breakdown of net debt (€ million)	Jan-Dec 09
NET DEBT AT THE START OF THE PERIOD	3,481
EBITDA	(6,749)
VARIATION IN TRADE WORKING CAPITAL	590
INVESTMENTS (1)	8,964
DIVESTMENTS(1)	(1,037)
DIVIDENDS (including affiliates)	1,935
TRANSLATION DIFFERENCES	125
TAXES PAID	1,168
INCORPORATION OF UNION FENOSA'S DEBT	1,809
INTERESTS AND OTHER MOVEMENTS	642
NET DEBT AT THE CLOSE OF THE PERIOD	10,928

(1) In 2009, financial investments totalling €39 million were made, bringing the total figure of the company's investments to €9,003 million. In addition, financial divestments were made amounting to €56 million, with the total figure of divestments reaching €1,093 million.

Financial income (expense)

The consolidated Group recorded a net financial expense of €468 million in 2009 in comparison with €544 million a year earlier. The following aspects are worth mentioning:

- Net interest expense: in 2009, interest expense increased by €182 million mainly as a result of the considerable increase in Gas Natural SDG's average debt due to the acquisition of Union Fenosa and the inclusion of Union Fenosa's debt in the scope of consolidation. Regarding the Group ex-Gas Natural SDG, €1 billion in nominal bonds maturing in 2014 were issued in March 2009. These effects were partially cushioned by lower interest rates than in the previous year.

- Hedging positions income (expense):

- Interest rate: Even though hedging positions to protect against the drop in the dollar curve contributed to €55 million losses in 2008, interest rate gains (€34

million) in 2009 were due to the rise in the USD curve (medium term) and the drop in the EUR curve (all periods) mainly in the second quarter of the year.

- Exchange rate: In 2008, income generated during the year (€86 million) was largely the result of the exposure of financial income to the dollar due to an active management to protect dollar cash flows during the year.

- In 2009, income generated (€306 million) was the result of actively managing hedging positions in the currency market and explained by the exposure vs. the dollar and the ARS. The depreciation against the euro reduced the value of liabilities denominated in these currencies. Moreover, the depreciation of the USD vs. the BRL reduced the value of dollar-denominated liabilities.

- Update of provisions: financial expenses in 2009 increased by €42 million. Higher expenses at bpTT (€25 million) were due to the restatement of late payment interests on tax contingencies.

- Capitalised interest: Interest income increased by 55 M€ mainly because of the increase in the volume of debt relating to investments in current assets.

- Other financial expenses: the €64 million increase was mainly due to the incorporation in 2009 of finance lease expenses for the transport of natural gas marketed in the United States and in Canada through the gas pipeline (€93 million) and due to the income at Gas Natural SDG realized on the sale of the Enagas stake in June 2009.

FINANCIAL INCOME/EXPENSES (€ million)	Jan-Dec 08	Jan-Dec 09	% Variation 09/08
NET INTEREST EXPENSE (incl. preferred shares)	-428	-610	42.76
HEDGING POSITIONS INCOME/EXPENSE	31	340	996.77
Interest rate	-55	34	
Exchange rate	86	306	255.81
UPDATE OF PROVISIONS	-144	-186	29.17
CAPITALISED INTEREST	67	122	82.09
OTHER FINANCIAL INCOME/EXPENSES	-70	-134	91.43
TOTAL	-544	-468	-13.97

RISK FACTORS

Repsol YPF's revenues and operations are subject to risks arising from changes in the competitive, economic, political, regulatory, social, industrial, and business conditions.

Future risk factors, unknown at present or not considered relevant, could also affect the company's business, results, and financials.

RISK FACTORS AFFECTING OPERATIONS

Possible fluctuations in international oil benchmark prices and oil demand due to factors beyond the control of Repsol YPF. Over the last 10 years, oil prices have experienced enormous variations and have also been subject to fluctuations in international supply and demand, beyond the company's control. Political events (particularly in the Middle East), the trend in oil reserves and derivatives, the circumstantial effects of climate change and other meteorological

phenomena, such as storms and hurricanes that particularly ravage the Gulf of Mexico, increasing demand in high growth countries, such as China and India, as well as major conflicts such as in Iraq, political instability, and the threat of terrorism often affecting producing areas and the risk that oil supply could be used as a political weapon could have a significant impact on the oil market and international prices in particular.

In 2009, West Texas Intermediate (WTI) traded at an average of US\$62.1 versus an average of US\$51.20/barrel in 2000-2009, with the average annual maximum price at US\$99.75/barrel in 2008 and an average annual low of US\$25.96/barrel in 2001.

Benchmark oil prices and demand can also suffer considerable fluctuations depending on economic cycles. The current situation of weak demand continues to exert a downward pressure on the price of feedstocks. Oil prices in 2008 fell 70% after reaching a peak of US\$145/barrel (WTI) in July 2008, reflecting the significant slowdown in the global economy despite the decision of the Organization of Petroleum Exporting Countries (OPEC) to cut back production. In 2009, oil (WTI) was trading at a range of approximately US\$35-80/barrel.

Lower oil prices have a negative impact on the profit of Repsol YPF activities, the valuation of its assets, and its investment plans, including capital expenditures contemplated for exploration and development. In addition, a major cutback in expenditures in this area could have an adverse impact on Repsol YPF's ability to replace its oil reserves.

Operational and market risks affecting Repsol YPF's activities in the natural gas industry. Natural gas prices may differ in the various countries where Repsol YPF operates due to significant differences in supply, demand, and regulatory conditions, and could be lower than in other parts of the world. In some regions, moreover, it may also be impossible to take advantage of surplus supplies in other regions due to the lack of infrastructures and difficulties in transporting natural gas.

Repsol YPF has entered into long-term natural gas purchase and supply contracts in different parts of the world to meet the demand of its clients in Spain and in other markets. Gas Natural SDG (in which Repsol YPF holds a 30% stake) has executed long-term contracts for purchasing natural gas from Algeria and Norway in addition to liquefied natural gas (LNG) from Nigeria, Libya, Trinidad and Tobago, and Qatar. These contracts, which contemplate various price formulas, could mean higher purchase prices than those which could be obtained in increasingly deregulated markets. Moreover, gas availability is subject to the risk of breach of contract by counterparties, which would make it necessary to find other sources of natural gas to meet possible lack of supplies from other sources. This could imply payment of prices above those stipulated in these contracts.

Repsol YPF has also entered into long-term gas sale contracts with clients, principally in Argentina, Bolivia, Brazil, Chile, Venezuela, and Spain which could be subject to other types of risks since such contracts could be linked to current proved reserves in Argentina, Bolivia, Venezuela, and Trinidad and Tobago. In the event that available reserves in these countries were not sufficient, Repsol YPF could fail to meet its contractual obligations, in which case, it could be subject to non-compliance sanctions.

Significant presence in Argentina. As of 31 December 2009 and 2008, nearly 20% and 25% respectively of Repsol YPF's assets were in Argentina, mainly relating to exploration and production activities. In addition, approximately 33% and 21% of operating income at 31 December 2009 and 2008 respectively was generated by the activities conducted in that country.

The Argentine economy has grown at a fast pace since the last crisis of 2001 and 2002, with GDP increasing in real terms by 8.7% in 2003, 9.0% in 2004, 9.2% in 2005, 8.5% in 2006, 8.7% in 2007 and 6.8% in 2008 (the figure for 2009 should be announced in March 2010). Nevertheless, it is not certain that these growth rates will continue in the future and it is not possible to guarantee that the economy will

not contract as a result of market volatility. The Argentine economy remains sensitive to various risks including the risk of lower raw material prices, the curtailment of international financing and investment in infrastructures, and higher inflation. In fact, inflation in this country could lead to an increase in Repsol YPF's operating expenses, particularly personnel expenses. If this were to occur, the company's operations and financials could be adversely affected. Argentina has restructured a substantial part of its debt, and has repaid its entire debt with the IMF. The country also aims to settle part of its non-restructured foreign debt and the lawsuits filed in international courts by foreign companies during the crisis.

The main risks affecting Repsol YPF as a result of its operations in this country are as follows:

- The limitations on its ability to pass on increases in international oil prices and currency exchange fluctuations to local prices and to increase local natural gas (specifically in the case of residential clients), gasoline, and diesel prices to reflect higher production costs and taxes levied on oil and gas exports,
- restrictions on the volume of oil and gas exports mainly because of the requirement of satisfying domestic demand first, thereby affecting the company's prior commitments with its clients,
- importing specific oil and gas derivative fuels at international prices to meet local demand that are sold subsequently below these prices,
- higher taxes on local fuel sales that are not offset by price increments,
- the need to extend concessions, some of which expire in 2017,
- interruptions and trade union strikes,

- possible conflicts between regulations or taxes imposed or managed by the different provinces and those determined by federal law,
- Greater devaluation of the Argentinean peso versus other currencies which could have an adverse impact on the financial situation and operating income of Argentine companies.

Exports have been subject to higher and to new taxes in recent years. In relation to taxes levied on exports of oil and other derivatives, Resolution Number 394/2007 of the Ministry of Economy and Production in Argentina, enacted on 16 November 2007, states that in the event that the international price of WTI exceeds the reference price, fixed at US\$60.9/barrel, the producer will be able to charge US\$42/barrel with the Government withholding the remaining sum as an export tax. If the international price for WTI was less than the reference price but more than US\$45/barrel, a 45% withholding tax would be levied. If this price is below US\$45/barrel, the Government would determine, within 90 business days, the corresponding export tax. The withholding percentage calculated according to the above-mentioned formula, is also levied currently on diesel, gasoline, and other oil derivatives. In addition, the aforementioned calculation method also applies to oil products and lubricants according to the various withholding rates, reference prices, and the prices that producers are allowed to charge.

In relation to natural gas products, Resolution Number 127/2008 of the Argentinean Ministry of Economy and Production contemplated increases in taxes levied on natural gas exports, increasing the rate from 45% to 100%, with the appraisal based on the highest price stipulated in the natural gas import contracts by any of the country's importers. For LPG products (including propane, butane, and blends thereof) this resolution stipulates that if the international price of the specific product, based on the daily report issued by the Argentinean Energy Secretariat, was less than the reference value for each product as contemplated in the aforementioned Resolution (US\$338/m³ for propane; US\$393/m³ for butane; and US\$363 m³ for blends thereof), the applicable rate would be 45%. In the event

that the international price was higher than the reference price, the producer would be able to charge the maximum amount permitted by the Resolution for the related product (US\$223/m³ for propane; US\$271/m³ for butane; and S\$250/m³ for blends thereof); with the Argentinean Government withholding the difference as an export tax.

As a result of the aforementioned increments in the export tax, YPF could be, and on certain occasions has been, forced to renegotiate its export contracts despite the Government's prior approval thereof. The imposition of these export withholdings has had an adverse impact on the operating income of YPF.

YPF has been forced to sell part of its natural gas production, originally earmarked for exports, in the local market and, consequently, has been unable in certain cases to fulfil its contractual export commitments, completely or partially. This has given rise to disagreements with the affected clients, forcing the company to declare a force majeure event pursuant to its export contracts. Repsol YPF believes that these actions represent force majeure events that release it from any contingent liability for breach of its contractual obligations.

At present, oil exports and most oil and gas product exports, require the prior approval of the Energy Secretariat (pursuant to the provisions of Resolution S.E. Number 1679/04 and its amendments and supplementary provisions). Oil companies that plan to export oil or LPG must first show that local demand for such product has been satisfied or that the local buyers have been offered and have rejected the sale of the product. Meanwhile, refineries that wish to export diesel are also required to prove first that local demand has been duly satisfied. Since local diesel production does not currently meet local demand in Argentina, Repsol YPF has not been able to sell its production in the export market since 2005.

Repsol YPF cannot predict how long these measures will be in place or if these or other measures could have an adverse and significant impact on its exports of gas, oil, diesel, or other products and, consequently, on its operating income.

The inherent operating risks in the gas and oil industry and reliance on the acquisition or discovery of reserves at a reasonable cost and subsequent development of new oil and gas reserves. Gas and oil exploration and production activities are subject to specific risks, many of which are beyond the control of Repsol YPF. These activities are exposed to risks relating to production, facilities, transport, natural disasters, and other uncertainties in connection with the physical characteristics of oil and gas fields. The operations of Repsol YPF could be interrupted, delayed, or cancelled as a result of weather conditions, technical difficulties, or delays in the delivery of equipment or in compliance with administrative requirements. If these risks were to materialise, the Group could suffer substantial losses or the interruption of its operations. Moreover, these activities are subject to specific tax and royalty payment obligations which, on a general basis, are quite high in comparison with the taxes levied in other activities.

Moreover, Repsol YPF is dependent on profitably replacing depleted oil and gas reserves with new proved reserves to ensure the economic viability of subsequent production. Repsol YPF's ability to acquire or discover new reserves, however, is subject to several risks. Drilling, for example, could deliver negative results not only in the case of dry wells but also when production wells are unable to generate sufficient revenues to obtain profit after discounting operating, drilling, and other types of expenses.

In addition to the foregoing, Government authorities in countries where production wells are situated generally auction these and Repsol YPF faces strong competition when submitting bids for these blocks, particularly when these contain the most attractive potential reserves. This competition could mean that Repsol YPF may not acquire the most desirable production blocks or that it must pay a higher price and, therefore, the subsequent production of these blocks could be economically unfeasible.

Operating income and the company's finances could be significantly and adversely affected if Repsol YPF is unable to acquire or discover and subsequently develop new oil and gas reserves in a profitable fashion.

Regulations governing Repsol YPF activities. The oil and gas industry is subject to widespread government regulation and intervention such as those related to exploration and production permits, specific contractual obligations for drilling and exploration activities, production restrictions, price controls, asset divestments, currency controls, and nationalization, expropriation, or the cancellation of contractual rights. These regulations and laws apply virtually to all Repsol YPF operations in Spain and abroad.

In addition, the contractual terms and conditions of Repsol YPF's oil and gas interests are generally the result of negotiations with Government authorities and could differ substantially from one country to another; in fact, these could differ from one region to another within the same country. Generally, these are instrumented through licensing or shared production agreements. Under the terms and conditions of licensing agreements, the license holder finances and assumes the risks of exploration and production activities in exchange for a share in resulting production, if any. In addition, it may be necessary to sell part of production to the State or to the State-owned oil company. On a general basis, license holders must pay royalties and corporate tax. Nevertheless, shared production agreements usually require that the contractor finances exploration and production activity in exchange for recovering the costs involved by obtaining part of production (cost oil) with surplus production (profit oil) is shared with the State oil company.

Repsol YPF conducts activities in many parts of the world, including Iran. Laws enacted by the United States Government, such as the Iran Sanctions Act of 1996, amended and extended by the ILSA Extension Act of 2001 and by the Iran Freedom Support Act of 2006 (known as the Sanctions Act) could affect Repsol YPF's operations in Iran. These laws, which contemplate the possibility of

sanctions, also affect non-U.S. companies which make certain types of investments in Iran. Nevertheless, pursuant to Council Regulation (EC) No. 2271/96, companies from EU member States are not obliged to comply with the Sanctions Act.

Repsol YPF cannot anticipate changes in these laws or the construction thereof, or the implementation of certain policies by the United States Government in relation to this law, including the Sanctions Act.

Furthermore, Ecuador and Bolivia are enacting new oil and gas regulations after enacting their new constitutions. Repsol YPF management cannot predict the consequences that could arise from changes in the oil and gas regulations in respect of its operations in these countries nor can it predict if these countries will be implementing new measures.

Repsol YPF is subject to stringent environmental regulations and risks.

Repsol YPF is subject to a huge number environmental standards and regulations in practically all the countries where it conducts its activities. These affect the Group's operations in relation to issues such as the environmental quality of its products, emissions to air, climate change, discharges into water, soil remediation, and contamination of surface and underground water, as well as in relation to the generation, storage, transport, treatment, and final destination of waste. The aforementioned requisites have and will continue to have a substantial impact on Repsol YPF's business, its financials, and income from operations.

Location of reserves. Part of Repsol YPF's oil and gas reserves are located countries other than European Union member States and the United States, some of which are affected by political or economic instability. As of 31 December 2009, 89.5% of Repsol YPF's net proved oil and gas reserves were in Latin America; 6.9% in North Africa; and 3.3% in the Gulf of Mexico.

Reserves and related production operations could imply risks, including higher taxes and royalties, restrictions on productions and export volumes, mandatory renegotiations, termination of contracts, nationalisation or the denationalization of assets, changes in local government regimes or in the policies of these governments, changes in commercial customs or practices, payment delays, currency exchange restrictions, and operating impairment or losses due to the intervention of insurgent groups. Political changes could also lead to changes in the business environment. Economic slowdowns, political instability, and civil unrest could also disrupt the supply chain or limit the sales in markets affected by these events.

Estimations of proved oil and gas reserves. Repsol YPF's proved oil and gas reserves are calculated in accordance with the guidelines established by the Securities and Exchange Commission (SEC). Proved reserves are estimated on the basis of geological and engineering data that make it possible to determine with reasonable certainty if the oil and gas found in known fields could be recovered under current economic and operating conditions.

The accuracy of such estimates depends on several factors, assumptions, and variables, including the following:

- the results obtained from drilled wells, tests and production after the calculation date could be subject to substantial upward or downward revisions,
- the quality of geological, technical, and economic data and the interpretation and assessment thereof,
- field production performance,
- events such as acquisitions and sales, new findings, and the enlargement of existing fields, as well as the application of improved recovery techniques,

- variations in economic and market conditions,
- whether or not tax regulations, other administrative regulations, and contractual conditions remain the same as those in place when the estimates had been made. Changes affecting tax regulations and other administrative regulations could render economically unviable the exploitation of reserves.

Many of the factors, assumptions, and variables involved in the calculation of proved reserves are beyond the control of Repsol YPF and could become obsolete over time.

Cyclical nature of the petrochemical activity. The petrochemical industry is subject to many fluctuations affecting supply and demand, reflecting the cyclical nature of the regional and international petrochemical market. These fluctuations affect prices and the profitability of companies operating in this sector, including Repsol YPF. Furthermore, Repsol YPF's petrochemical business is subject to exhaustive Governmental regulation and intervention in aspects such as safety and environmental control.

FINANCIAL RISKS

Liquidity risk. The liquidity risk is associated with the Group's ability to finance its commitments at reasonable market prices and to execute its business plans with stable funding sources.

Repsol YPF applies a prudent policy with respect to liquidity risk, keeping sufficient resources available in cash and other liquid financial instruments and undrawn credit facilities to meet the maturities of debt falling due within a twelve-month horizon. The Group had undrawn credit facilities totalling €4.680 billion and €3.916 billion at 31 December 2009 and 2008 respectively.

Credit risk. The Group's credit risk exposure mainly relates to trade accounts payable. These amounts, €6.001 billion and €5.744 billion at 31 December 2009 and 2008, respectively, are recorded in the balance sheet net of provisions for insolvencies and are measured and controlled per client or per individual third party. To this purpose, the Group has its own systems, aligned to best practices, for constantly monitoring the creditworthiness of all its debtors and for determining the risk limits per third parties. None of the clients account for more than 4% of the total of these accounts payable and as such, exposure is spread over a large number of clients and other counterparties.

On a general basis, the Group considers bank guarantees issued by financial entities as the most suitable instrument for credit risk protection. In certain cases, the Group has taken out credit insurance policies through which it transfers to third parties the risks associated with the trade activities conducted by some of its business units.

As of 31 December 2009, the Group's guarantees in force granted by third parties totalled €2.533 billion. This figure, however would be €359 million higher if the maximum sums guaranteed in marketing agreements with banks and savings banks for the Solred credit card are included. In 2009, €24 million of such guarantees were executed. As of 31 December 2008, this figure stood at €2.462 billion, with €10 million worth of guarantees having been enforced.

Additional details on the risks associated with the Group's financial instruments are provided in Note 18 of the Consolidated Financial Statements and Note 19 describes the financial hedging instruments.

Market risk

- **Currency exchange fluctuation risk.** Repsol YPF is exposed to currency exchange fluctuations, mainly the dollar against the euro, since revenues and cash

flows generated by oil, natural gas, and refined product sales are generally denominated in dollars or affected by this currency's exchange rate. Operating income is also exposed to currency exchange fluctuations in countries where Repsol YPF conducts its activities. In order to mitigate the currency risk affecting its operating income, Repsol YPF subscribes derivative instruments for currencies with a liquid market and at reasonable transaction costs.

The company is also exposed to currency risk affecting the value of its assets or financial investments in dollars. Repsol YPF obtains financing in dollars and in other currencies, either directly or synthetically through currency derivatives.

In addition, Repsol YPF's financial statements are expressed in Euros and, consequently, the assets and liabilities of investees which have a functional currency other than the euro are translated into euros at the exchange rate prevailing at the balance sheet date whereas the revenues and expenses of these companies are translated into euros by applying the average exchange rate for the period in which such revenues and expenses were generated. The fluctuations in the exchange rates applied in the process for converting the currencies into euros generates variations (gains or losses) which are recognised in the Repsol YPF Group consolidated financial statements and expressed in euros.

- **Commodity price risk.** In the normal course of operations and trading activities, Repsol YPF Group earnings are exposed to volatility in the price of oil, natural gas, and related derivative products (See the previous sections: "Possible fluctuations in international oil benchmark prices and oil demand due to factors beyond the control of Repsol YPF" and "Operational and market risks affecting Repsol YPF's activities in the natural gas industry".)

- **Interest rate risk.** The market value of the Group's net financing and net interest expenses could be affected by interest rate fluctuations.

Note 18 “Management of financial and capital risks” and Note 19 “Derivative transactions” in the Consolidated Financial Statements for fiscal year 2009 include additional details on the financial risks described in this section.

BUSINESS AREAS

The Group's activities and organizational structure is divided into five business areas which include:

- Three core integrated activities:
 - Upstream, corresponding to the exploration and development operations of oil and natural gas reserves, except YPF,
 - LNG, relating to the Liquefied Natural Gas business, except YPF,
 - Downstream, corresponding to refining and marketing activities involving oil products, chemicals, and LPG, except YPF.

- Two holdings in strategic companies:
 - YPF, which includes YPF S.A. and its Group operations in all of the aforementioned activities,
 - Gas Natural SDG, which mainly engages in natural gas marketing and power generation, distribution, and marketing.

UPSTREAM

The Repsol Upstream division includes oil and natural gas exploration and production activities outside Argentina. Since 1 January 2008, information provided in this section refers solely to Repsol Group's Upstream Division. For information on the exploration and production activities conducted by YPF, see the chapter on this company and its affiliates in this Consolidated Management Report. The Repsol Upstream Division manages its project portfolio with the objective of achieving profitable, diversified and sustainable growth, with a commitment to safety and the environment. Its strategy is underpinned by the following objectives: increasing production and reserves, diversifying its business geographically by increasing its presence in OECD countries, achieving operating excellence and maximising the profitability of its assets.

Geographically, the Upstream division's strategy is based on diversifying in key traditional regions, including North Africa (Algeria and Libya) and Latin America (mainly Trinidad and Tobago, Peru, Venezuela, Bolivia, Colombia, and Ecuador) as well as in new strategic areas for short and medium-term growth, such as the US Gulf of Mexico (with the important Shenzi field, which already started operations and is one of the company's key strategic projects) and in deep water offshore Brazil. Strategic growth in the medium-term will also be bolstered by major gas projects currently being developed in Peru, Bolivia, Brazil, and Venezuela, and, in the longer-term, by the increasingly important asset portfolio in Norway, Canada, and western Africa.

The replacement rate of proved reserves in the Upstream division in 2009 was 94%, which would have been 111% if the price effect is excluded.

The successful exploration results achieved in 2009 give a major boost to the policy aimed at profitable future growth in Upstream. Repsol made major exploration discoveries in the year in countries such as Brazil (with the Iguazu, Abare West, Piracuca-Pialamba and Panoramix wells), Venezuela (Perla 1X well), and the United States (in the Gulf of Mexico with the Buckskin well.) This

exploration success was achieved thanks to a firm policy, defined in the 2008-2012 Strategic Plan, to promote exploration activity through human and financial resources, methodologies, and processes. This policy bore fruit in 2008 when Repsol made three of the largest five discoveries in the world.

The final steps were taken in 2009 to launch major development projects in Algeria (Reggane), Brazil (BM-S-9 and Piracuca), Bolivia (Margarita-Huacaya), and Peru (Kinteroni).

As of 31 December 2009, the Repsol Upstream area was participating in oil and gas exploration and production blocks in 24 countries, directly or through its subsidiaries. The company was the operator of 18 of these blocks. Repsol also holds a stake in the Russian exploration and production company West Siberian Resources (WSR) which merged with Alliance Oil in 2008, and continues to assess the viability of undertaking, jointly with Shell, the Persian LNG project in Iran. Consequently, its Upstream division currently operates in 26 countries.

Completed exploration wells

	2009							
	Positive		Negative		Under evaluation		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Spain	2	2					2	2
South America	5	2	4	1			9	3
Trinidad and Tobago								
Other countries in South America	5	2	4	1			9	3
North America	1	*	1	*			2	*
Africa	3	1	8	4	3	1	14	6
Asia								
Total	11	5	13	5	3	1	27	11

	2008							
	Positive		Negative		Under evaluation		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Spain								
South America	5	2	9	3	1	1	15	6
Trinidad and Tobago								
Other countries in South America	5	2	9	3	1	1	15	6
North America			1	*			1	*
Africa	5	2	13	5	2	1	20	8
Asia			4	1			4	1
Total	10	4	27	9	3	2	40	15

Producing wells by geographical areas

	At 31 December 2009			
	Oil		Gas	
	Gross	Net	Gross	Net
Spain	8	6	5	4
South America	1089	379	161	65
Trinidad and Tobago	102	71	54	18
Other countries in South America	987	308	107	47
North America	12	3		
Africa	181	51	78	23
Total	1290	439	244	92

	At 31 December 2008			
	Oil		Gas	
	Gross	Net	Gross	Net
Spain	11	8	5	4
South America	1065	339	144	57
Trinidad and Tobago	102	71	62	20
Other countries in South America	963	268	82	37
North America				
Africa	144	41	78	23
Total	1220	388	227	84

Repsol's current activity by geographical area

At 31 December 2009						
	Num. of blocks		Net mining acreage (km ²)		Num. of exploration wells being drilled	
	Development	Exploration	Development	Exploration	Gross	Net
Europe	12	22	384	10,000		
Spain	12	21	384	9,882		
Norway		1		117		
South America	50	41	7,448	47,687	3	1
Trinidad and Tobago	7		2,363			
Other countries in South America	43	41	5,085	47,687	3	1
Central America		1		4,512		
North America	7	262	3,577	4,898		
Africa	3	20	1,456	47,454		
Asia		2		16,514		
Total	72	348	12,865	131,063	3	1

Results

Operating income in the Upstream division in 2009 was €781 million, 65% less than the €2.258 billion posted a year earlier. EBITDA totalled €1.699 billion versus €2.864 billion in 2008. Lower operating income was mainly the result of decreased revenues because of the drop in average realisation prices. This effect was partially offset by increased oil sales and lower exploration expenses because of the higher rate of success of drilled wells.

The average retail price of the Repsol oil product mix was US\$ 56.7/barrel (€40.7 /barrel) versus US\$ 87.3/barrel (€59.3/barrel) in 2008. The average price of gas was US\$ 2.3 per thousand cubic feet, 45% less than in the previous year. This reduction was caused by lower benchmark prices in international markets.

The lifting cost was US\$ 2.9/barrel, 5% higher than US\$ 2.8 in 2008, with this trend attributable to the start of production at Shenzi, which lifting cost is slightly higher than the previous average. This was compensated by cost saving efforts in other fields, such as in Trinidad and Tobago. Finding costs of proved reserves averaged US\$ 21/barrel in the 2008-2010 period.

MAIN ACTIVITIES BY COUNTRIES

2009 was a record year for the company in the Exploration and Production area (Upstream) thanks to the exceptionally successful results in exploration activities. In 2009, Repsol announced 15 discoveries, the most important of which, because of their relevance and size, were in Brazil (with the Iguazu, Abare West, Piracuca-Pialamba, and Panoramix wells); in Venezuela (the Perla 1X well) and in the Gulf of Mexico (the Buckskin well). Major steps were taken to launch major development projects in Algeria (Reggane), Brazil (BM-S-9 and Piracuca), Bolivia (Margarita-Huacaya) and Peru (Kinteroni). In addition, one of the company's key projects (Shenzi) started production at its own platform in the Gulf of Mexico in 2009. These milestones in key areas for the company bolster its objective of ensuring organic growth, maximising the profitability of its assets, and increasing its production and reserves.

North America

Over the past four years, Repsol has significantly strengthened its presence in deep waters in the U.S. Gulf of Mexico, participating in the major Shenzi oil development project and securing a large number of exploration blocks which proved their potential in 2009 with the discovery made at the Buckskin well. This region is considered one of the most profitable and offers the greatest deepwater exploration potential in the world.

Oil and gas production at the Shenzi field, one of the largest discoveries made to date in deepwater in the Gulf of Mexico (where Repsol holds a 28% stake) came onstream in March 2009, a few months earlier than expected. At year-end 2009, ten wells were producing through this platform. In the next few months, drilling of the other development wells should be completed, in addition to the start of a water injection project. In 2009, production at the Shenzi platform was more than 120,000 bopd, exceeding initial expectations. Production at the Marco Polo platform came onstream in May. Development of the Shenzi North Flanck is at an earlier stage,

although the successful results of drilling work carried out in 2009 has increased the potential of this area.

Repsol, as the operator of the project currently in the exploration phase, made a major discovery in 2009 with the Buckskin well. At a depth of more than 10,000 metres, this is the deepest well operated by Repsol to date and one of the deepest wells in this region. Preliminary tests reflected a 100-metre column of high-quality crude oil. An appraisal well, which will contribute to defining the future development plan of this field, is currently in the planning stage.

In Exploration Round 208 conducted in the Gulf of Mexico in 2009, Repsol was awarded 16 new blocks. Four of these were awarded in a partnership with Marathon (60% and operator, Repsol 40%). Another seven blocks were awarded in partnership with ECOPETROL (40%) and the remaining five blocks were awarded solely to Repsol (100%). These, jointly with the other blocks awarded in recent years, comprise a large and solid exploration project portfolio. The company's participation in these rounds is in keeping with its diversification and growth strategy in OECD countries.

In Alaska, Repsol holds a 20% interest in 71 adjacent blocks offshore the Beaufort Sea, jointly with Shell Offshore Inc. and Eni Petroleum U.S. LLC. Studies to determine exploration potential were conducted at these blocks in 2009. The company also has a 100% stakes in 93 blocks offshore the Chukchi Sea.

In Canada, Repsol continued to work actively to detect new growth opportunities in this OECD country. At the end of 2008, Repsol successfully bid for exploration rights in three blocks in the Newfoundland (Terranova) and Labrador offshore areas. Two of these blocks are in the Central Ridge/Flemish Pass area and the other one in Jeanne d'Arc Basin.

Latin America

In 2009, Brazil reinforced its position as one of the principal areas for Repsol's future growth following four exploration successes (Iguazu and Abare West in Block BM-S-9); Piracuca-Pialamba in block BM-S-7; and Panoramix in block BM-S-48) which, together with the discoveries made in previous years (Carioca and Guara in the prolific BM-S-9 block) confirm the enormous potential of this deepwater area. With 21 exploration blocks (operator in 11), Repsol is the leading private company in offshore mining rights in the Santos, Campos, and Espiritu Santo basins.

The exploration results in block BM-S-9 are spectacular, with four discoveries made (two of these in 2009) and a 100% success rate. A production test was performed in 2009 at Guara which delivered more than satisfactory results. Accordingly, a more extensive test will be conducted in 2010 in addition to other activities for the early development of the area south of Guara. As part of the appraisal plan for this area, a new exploration well, currently ongoing, was begun in the area north of Guara. In 2010, a long duration production test will be conducted at Carioca and an exploration well will be drilled. Repsol holds a 25% stake in this major deepwater project offshore Brazil.

The first steps were taken in 2009 in the development of the Piracuca field (block BM-S-7) where Repsol has a 37% interest. Production at this field is expected to begin in 2015.

Repsol holds a 10% interest in the Albacora Leste field (Santos basin), which has been producing since April 2006. Output in this major deepwater field in Brazil, containing approximately 394 million barrels of proved and probable oil reserves, reached approximately 118,000 bopd in 2009.

The important exploration discoveries made in recent years bolster the company's strategy in offshore Brazil and represent one of the key growth projects in the Upstream division.

The final steps were taken in 2009 in Bolivia to launch the Margarita-Huacaya development project, with work expected to begin in 2010. A consortium comprising Repsol (operator with a 37.5% stake), BG (37.5%) and PAE (25%) is carrying out this important development project, at the Caipipendi block, north of the state of Tarija. The objective of the joint Development Project for the Margarita and Huacaya fields (the latter, found in 2008, was one of the five largest discoveries made that year in the world) is to increase the field's current output (2.3 Mm³/d) to an intermediate plateau of 8.3 Mm³/d (Phase I) in 2012 and, finally, to 14 Mm³/d (Phase II) in 2013.

In Peru, work for the complete development of the Camisea field (blocks 56 and 88), in which Repsol holds a 10% interest, was ongoing. These blocks will supply natural gas to the Peru LNG project, expected to come onstream in 2010 and in which Repsol holds a 20% stake. Two fields are being developed in block 88, San Martin (producing since 2004) and Cashiriari, where the first two wells started production in July 2009. Production in block 56 at the Pagoreni field came onstream in September 2008. Development of these two blocks is expected to be practically completed in 2010 when the Peru LNG liquefaction plant is set to start operations.

The decision was taken in 2009 for the early development of the southern part of the major discovery made in 2008 with the Kinteroni well in block 57 (one of the largest discoveries made in the world that year) located in the Ucayali-Madre de Dios basin in the country's central forest, 50 km from the Camisea gas and condensate field. Repsol, with a 53.84% stake, is the operator of this block. Production is expected to begin in mid-2012.

In 2009, Repsol made the largest gas discovery in the company's history and one of the most important ones in Venezuela with the Perla 1X prospect. Preliminary estimates yielded 8 TCF of gas and approximately 100 Mbbl of condensate. The field could spread over a 33 Km² area and a depth of 240 metres. Drilling of a new well to confirm information obtained to date on field and its subsequent development plan commenced in February 2010. Repsol is the operator of the Perla 1X well in a 50-50% consortium with ENI. PDVSA will participate in the development phase with a 35% stake with Repsol and ENI each holding a 32.5% interest.

The Barua-Motatan geographical area was effectively incorporated on 1 February 2010 as an asset to be operated by the Petroquiriquire S.A. joint venture in which Repsol holds a 40% stake. As a result, Repsol will use the credit received during the process carried out involving the migration of operating contracts into joint ventures.

In February 2010, the Ministry of Energy and Petroleum of Venezuela officially announced the award of the Carabobo 1 Block in the Orinoco Oil Basin to the consortium in which Repsol participates. The shareholders of the joint venture created to develop oil reserves include CVP (60%) with the remaining 40% distributed among the companies in the award-winning consortium: Repsol (11%), Petronas (11%), ONGC (11%), Oil India Ltd (3.5%), and Indian Oil Co. (3.5%).

In Trinidad and Tobago, Repsol is one of the leading private companies in oil and gas production and reserves, jointly with BP, with which it shares ownership of bpTT. This company, in which Repsol holds a 30% stake, operates a large oil and gas production area in the country's offshore areas and averaged a daily output of 464,828 barrels of oil equivalent in 2009.

The Teak Blow Down gas compression project in the TSP offshore block, which Repsol operates with a 70% stake, started gas production in January 2009.

In Colombia, ECOPETROL approved the commercial phase for the Capachos Sur-1 discovery in May 2009.

On 12 March 2009, Repsol acquired Murphy Ecuador Oil Company Ltd. (currently named Amodaimi-Oil Company Ltd.). Since this company holds a 20% stake in block 16 in Ecuador, Repsol's current consolidated stake in this block is 55%. The other partners in this block are OPIC (55%) and Sinochem (14%). On 12 March 2019, Repsol YPF Ecuador S.A., as the operator of block 16, executed an amended participation agreement which extends the exploitation period of this block from 31 January 2012 to 31 December 2018, although this agreement will be terminated ahead of time if the Service Provision Agreement, replacing the Participation Agreement, is not negotiated and executed within one year (the parties thereto could mutually extend the deadline). During this transition period, the Government of Ecuador will reduce the tax on extraordinary profit from 99% to 70%. At the end of 2009, the above-mentioned transitory period was extended for an additional year until 12 March 2011 (this transitory period may be extended again by mutual agreement of the parties thereto).

Africa

Repsol's significant presence in North Africa is mainly concentrated in Libya and Algeria, countries where it participates in ongoing major projects that ensure sustained and profitable growth over the coming years.

Work continued throughout 2009 in Libya to complete development of the "I/R" field which started production in June 2008 and is expected to reach its maximum output potential between 2012 and 2013 when the permanent facilities have been completed. Repsol participates in this field, situated in the NC 186 and NC 115 blocks in the prolific Murzuq basin. Discovered in 2006, "I/R", one of the most important exploration discoveries in the company's history and the most important one in Libya in the last decade, is one of the 10 key projects defined in Repsol's Strategic Plan 2008-2012.

Production at the “J” field in block NC186 came onstream at the end of 2009. This development plan had been approved by the Libyan National Oil Company, NOC, in December 2008.

In April 2009, Repsol announced that the A1 NC202 well offshore Libya had yielded positive results. This well is the first discovery made in Block NC202 in the Sirte basin, 15 km offshore. Repsol, with a 60% stake, is the operator of this block, with Austria’s OMV holding the remaining 40%.

In Algeria, progress was made in 2009 in the development of the Reggane gas project. The Development Plan includes drilling and completion of 74 wells, further drilling work on 10 additional wells, and workovers at another 12 existing wells. Gas production is expected to come onstream in early 2014. Repsol, with a 29.25% stake is the operator of this project in partnership with RWE (19.5%), Edison (11.25%), and the national Algerian company Sonatrach (40%).

In November 2009, an arbitration decision was reached which resolved the dispute between Repsol-Gas Natural SDG and Sonatrach on the termination of the agreement for the Gassi Touil project. The Arbitration Court declared the Agreement cancelled and ruled that none of the parties to the agreement had any obligation to compensate the other.

Europe

In 2009, Repsol inaugurated a permanent office in Oslo, Norway’s capital, in keeping with its diversification and growth strategy in OECD countries and with the objective of increasing the company’s presence in this Scandinavian country. Repsol currently participates, jointly with Det Norske Oljeselskap ASA, Bayerngas Norge AS, and Svenska Petroleum Exploration, in exploration blocks 6407/7, 8, 10 and 11 in the Norwegian Sea, awarded in Round APA (Award of Predefined Areas) in 2008. Along these lines, in January 2010 the Norwegian Government announced in Round APA 2009 the award of two new exploration licenses (Repsol will be the operator in one of these located in Norway’s North Sea).

In Spain, Repsol achieved positive results in 2009 with two offshore wells: Montanzazo-D-5 and Lubina-1 in the Mediterranean Sea. These wells, which will produce through the Casablanca platform, will make it possible to extend production of Repsol's existing fields in this area (Casablanca, Boqueron, Rodaballo, and Chipiron) as well as the utilization period of this platform. Also in Spain, the Poseidon gas field resumed production in June 2009.

DISCOVERIES

The year 2009 was a record year for Repsol in terms of exploration discoveries, not just because of the number of announced discoveries (15 in total) but, most importantly, because of their importance. The discoveries in 2009 were made in deep water off the coast of Brazil and in the U.S. Gulf of Mexico, in Venezuela, Algeria, Morocco, Spain, Algeria, Sierra Leone, and Libya. This exploratory success was achieved thanks to the firm commitment, outlined in the Strategic Plan 2008-2012, to bolster exploration activity, in terms of human, technical, and financial resources, as well as in methodologies and processes. Already in 2008, Repsol had taken part in 3 of the 5 largest discoveries made worldwide.

In Brazil's BM-S-9 deepwater offshore block in the Santos Basin, where two major discoveries were made with the Carioca and Guara prospects in 2007 and 2008, Repsol made two new discoveries with the Iguazu and Abare West wells, confirming the enormous resource potential of this block located in one of the most attractive deepwater areas in the world. The partners in the consortium involved in this project, in which Repsol holds a 25% stake, are Petrobras (45% and operator) and British Gas (BG Group, with a 30% interest).

In April 2009, Repsol announced the discovery made with the exploration well Iguazu in the same appraisal area as the Carioca well, 340 km off the coast of Sao Paulo and in 2,140 metres of water. The first production tests at this well confirmed the presence of very high quality light oil. In September 2009, Repsol announced another

discovery made with the Abare West well, 290 km offshore Sao Paulo and in 2,163 metres of water.

The consortium that made the discovery will continue carrying out the activities and making the necessary investments for the complete appraisal of Block BM-S-9, drilling two new exploration wells in 2010 and performing long-duration production tests at Carioca and Guara.

Also in Brazil, Repsol made two other major deepwater discoveries in the Santos basin with the Piracuca-Pialamba and Panoramix prospects. In the latter, an oil and gas discovery in Block BM-S-48, Repsol holds a 40% stake and is the operator in partnership with Petrobras (35%), Vale do Rio Doce (12.5%), and Woodside (12.5%). The discovery consists of three production layers: two bottom layers containing gas and condensate, and one top layer of oil. Drilling of two additional appraisal wells is planned for 2010.

The Pialamba well, in block BM-S-7, is a light oil and gas discovery made at the beginning of 2009. Repsol holds a 37% interest and its partner and well operator Petrobras, holds the remaining 63%. In September 2009, drilling work on the Piracuca appraisal well was completed, increasing the estimated recoverable resources in this area, and the final report on the discovery made in this field was submitted to the Brazilian authorities. The completion of two new wells is planned for 2010: a pre-development and an exploration well.

These exploration discoveries strengthen Repsol's commitment to this region as one of the company's growth vectors.

In September 2009, Repsol announced a major gas and condensate discovery with the Perla 1X well in Venezuela. The field could contain, according to estimates, 8 TCF of gas plus an approximate volume of 100 Mbbbl of condensate, currently under appraisal. The field is situated off the Gulf of Venezuela, in the western part of the country, at a depth of 60 metres. All these figures are pending

confirmation and more work is being carried out, including drilling of an appraisal well and an additional exploration well. This is Repsol's largest gas discovery in its history and one of the most important ones ever made in Venezuela.

In the U.S. Gulf of Mexico, Repsol discovered a major oil field with the Buckskin well at the beginning of the year. At a depth of 10,000 meters and 2,000 meters under water, the well is adjacent to the Chevron-operated Jack field, and has a similar structure. The Buckskin well marks the successful start of the deepwater well-drilling campaign in the Gulf of Mexico. The partners in the consortium are Repsol (12.5%), Chevron (55%), Maersk (20%), and Samson (12.5%).

In Spain, Repsol made two discoveries in 2009 in the Mediterranean Sea with the Montanazo D-5 well (75% stake and operator) and Lubina-1 (wholly-owned by the Company) 45 km of the coast of Tarragona. The results of the production tests carried out are 3,800 bopd of 32^a API oil in Montanazo-D-5 and 3,700 bopd of 31.5% API oil at the Lubina-1 well.

The development and start of production of the Montanazo D-5 and Lubina-1 wells will extend production at the existing fields (Casablanca, Rodaballo, and Chipiron and extend the utilisation period of the Casablanca platform.

In March 2009, Repsol announced the gas discovery made with the Anchois well in Morocco at the Tanger-Larache exploration area 40 km off the coast, the first exploration success ever offshore Morocco. Repsol is the operator of these blocks (Tanger-Larache 1-2-3).

Repsol announced the first oil and gas discovery offshore Sierra Leone in September 2009 at the Venus. B-1 well in block SL 6/07 at a depth of 5,638 metres in 1,798 metres of water. The Venus B-1 well is the first one drilled in the Sierra Leone-Liberia basin where Repsol participates in 5 adjacent blocks. Preliminary results are currently being appraised and new exploration wells will be drilled to define this area's commercial potential. Repsol holds a 25% stake in the

consortium which made the discovery. The well confirms the presence of an active oil system with at least three reservoir units.

In Algeria, Repsol announced in April 2009 four exploration discoveries, two of which are in the Reggane block.

In April 2009, Repsol announced a discovery offshore Libya with well A1 NC202, which reached a depth of 4,820 metres, under 50 metres of water.

PRODUCTION

Repsol's oil and gas production in 2009 was 333,611 barrels of oil equivalent per day (boepd), 0.27% more than in 2008. Production, not taking into account contractual and regulatory variations, was 5% higher in comparison with 2008 after deducting variations in Libya (15.4 Kboepd) as a result of the new contracts in force since August 2008 and OPEC restrictions; in Bolivia (-6.7 Kboepd) because of the deconsolidation of Andina; in Ecuador, due to the acquisition of Murphy's 20% stake in block 16 (+5.9 Kboepd) and the sale of block 14 in 2008 (-0.9 Kboepd); and in Algeria (+1.4 Kboepd) based on the impact of benchmark oil prices on the Production Sharing Contract (PSC).

Shenzi, in the United States started production through a Tension Leg Platform (TLP) connected to 10 wells and routed through the "manifold K" tieback. In July 2009, gas production in the Cashiriari field in block 88 in Peru came onstream. The Savonette field in Trinidad and Tobago, operated by bpTT, came onstream in October and gas deliveries from Teak Delta in Teak, Samaan, and Poui (TSP) began in January 2009.

Net production of liquids and natural gas by geographical areas in 2009 and 2008

	2009			2008		
	Liquids (mmbbl)	Natural gas (bcf)	Total (mmboe)	Liquids (mmbbl)	Natural gas (bcf)	Total (mmboe)
Spain	1	2	1	1	1	1
South America	25	380	93	26	399	97
Trinidad and Tobago	6	277	55	7	275	56
Other countries in S. America	19	103	38	19	124	41
North America	8	3	9	*	*	*
Africa	15	24	19	20	21	24
Asia						
Total net production	49	409	122	47	421	122

RESERVES

As of 31 December 2009, Repsol's proved reserves (excluding YPF), calculated in accordance with U.S. Securities and Exchange Commission (SEC) guidelines, totalled 1,060 million boe, of which, 344 boe (32%) relate to crude oil, condensate and liquefied gases and the remaining 716 million boe (68%) to natural gas.

The trend of the company's reserves in 2009 was positive, adding 115 million boe, particularly in Peru (38 million boe), the United States (29 million boe), and Libya (12 million boe).

The reserves of Repsol's Upstream division are mainly located in Trinidad and Tobago (41%). Of the remaining reserves, 38% are in South America (Venezuela, Peru, Brazil, Ecuador); 14% in North Africa (Algeria and Libya); 6% in the Gulf of Mexico (United States); and approximately 1% in Spain.

INVESTMENTS

Upstream investments in 2009 amounted to €1.122 billion, 5% less than the €1.184 billion invested in 2008 and were mainly earmarked for the development of the Shenzi field, in the United States, and for exploration activities in Brazil, the Gulf of Mexico, and North Africa.

LIQUEFIED NATURAL GAS (LNG)

LNG activities include liquefaction, transport, marketing, and regasification of liquefied natural gas (LNG), in addition to power generation activities in Spain not conducted by Gas Natural SDG and natural gas marketing in North America. Since 1 January 2008, the information in this section refers solely to the Repsol Group LNG commercial segment. For information on YPF's LNG activities, please refer to the chapter on this company and its affiliates in this Consolidated Management Report.

RESULTS

The Liquefied Natural Gas (LNG) activity in 2009 posted €61 million in operating losses in comparison with €125 million operating income a year earlier. EBITDA was €150 million in comparison with €173 million recorded in 2008.

2009 was marked by the global economic crisis, reflected in international natural gas prices. After the lowest point at the end of 2008, and in contrast with oil prices, natural gas prices did not recover and the wide difference in the benchmark prices of both of these raw materials remained throughout the year. The Henry Hub benchmark, the reference for natural gas, was \$4/Mbtu, 55.6% lower than in 2008. The trend of this indicator continued to decline well into 2009 when it reached its lowest point in 7 years, trading at \$2.5/Mbtu and reaching \$5.8/Mbtu at the end of the year.

The drop in gas demand coincided with the start-up of new liquefaction capacity (despite the slowdown in these projects) and the increase in non-conventional gas production in some countries, such as the United States, putting more pressure on the price of this raw material.

With regards to the power generation market, the average Spanish electricity pool price in 2009 was €37/MWh, 42.6% lower than in 2008. This drop is mainly

attributable to weaker demand, declining international commodity prices, and the lower cost of CO₂ emission rights. The trading volume in the Spanish electricity system daily market also declined (238 TWh in 2009 vs. 266 TWh in 2008).

The earnings of the businesses comprising the LNG area are generally generated in U.S. dollars. The 5.3% year-on-year depreciation of this currency against the euro had a negative impact on 2009 earnings.

ASSETS AND PROJECTS

One of the milestones of 2009 was the start of production of the Canaport LNG regasification plant, a Repsol (75%) and Irving Oil (25%) partnership. This is the first LNG regasification plant on Canada's eastern shore. Located in Saint John (New Brunswick) and with an initial send-out capacity of 10 bcm/year (1,000 million cubic feet per day, which could be expanded to 2,000 million cubic feet per day), the Canaport terminal is one of the largest in North America and will supply markets on the eastern coast of Canada and north-eastern United States. Repsol, the operator of this plant, supplies the LNG that feeds the terminal and is entitled to the entire regasification capacity. This plant started operations in June 2009.

Construction work at Canaport LNG, as well at the offshore terminal and New Brunswick (Canada) and Maine (U.S.) gas pipeline was completed successfully. Work on the third tank, which will make it possible to receive supplies from the largest methane tankers built to date, is the outstanding project, scheduled to be completed by April 2010.

In 2008, Repsol began marketing activities in New England and in other parts of north-eastern United States. These markets showed significant growth in 2009 following the start-up of the Canaport plant. Gas from Repsol's exploration and production activities in the Gulf of Mexico is also being marketed. Repsol has been implementing a policy in the LNG division to strengthen its competitive positioning in this business, essential for its medium and long-term growth.

Repsol is present in the Trinidad and Tobago integrated LNG project, in which it participates jointly with BP, BG and others, in the Atlantic LNG liquefaction plant. The strategic geographical location of this plant enables it to supply markets in the Atlantic Basin (Europe, United States, and the Caribbean) at very advantageous economic conditions.

This plant has four liquefaction trains with a combined capacity of 15 million tons per year. Repsol holds a 20% stake in train 1, a 25% stake in trains 2 and 3, and 22.22% in train 4 (the latter is one of the largest in the world, with output capacity of 5.4 million tons/year). In addition to its interests in the liquefaction trains, Repsol plays a leading role in gas supplies and is one of the main purchasers of LNG (approximately 3.2 million tons/year).

In Peru, the integrated liquefied natural gas project, Peru LNG, is currently being developed. Together with the Canaport project, Peru LNG is one of the major initiatives envisioned in the Strategic Plan 2008-2012. Since 2005, Repsol has been involved in this project, in which it holds a 20% stake, in partnership with Hunt Oil (50%), SK (20%) and Marubeni (10%).

The Peru LNG project contemplates the construction and operation of a liquefaction plant in Pampa Melchorita, in which Repsol holds a 20% interest, and a gas pipeline linking up with the existing one in Ayacucho. The Camisea consortium, in which Repsol also has a stake, will deliver natural gas supplies to this plant.

Additionally, the project contemplates Repsol's exclusive marketing of the liquefaction plant's entire production, estimated at more than 4.5 million tons per year. The term of the gas purchase agreement entered into with Peru LNG is 18 years as of the start of commercial operations. This is the largest LNG acquisition ever made by Repsol in terms of volume.

In September 2007, Repsol was awarded a contract in an international tender sponsored by Comision Federal de Electricidad (CFE) for the supply of LNG to the natural gas terminal in the port of Manzanillo on Mexico's Pacific coast. The contract contemplates the supply of more than 67 bcm of LNG to the Mexican plant over a 15-year period. The Manzanillo plant, which will deliver gas to CFE's power plants in the central-western part of Mexico, will be fed with gas from the LNG Peru project.

At year-end 2009, 94% of construction work on the onshore part of the liquefaction plant had been completed after advancing 26% over the course of the year. The offshore installations were 99% complete, and the gas pipeline 98% complete. This plant is expected to start operations in mid-2010. The finance agreements for this project were established in December 2007 and concluded on 26 June 2008. The first financing instalment was made in November 2008.

In Spain, Repsol holds a 25% stake in Bahia Bizkaia Gas S.L. (BBG). This company owns a regasification plant with unloading facilities for methane tankers of up to 140,000 m³, two 150,000 m³ LNG storage tanks, and a vaporisation capacity of 800,000 Nm³/hour. BBG is the operator of this plant which has a regasification capacity of 7 bcma, is part of the Spanish gas system, and is remunerated by Comision Nacional de la Energia (CNE) by means of tolls, and fees. The terminal is located in the Bilbao harbour. The enlargement of this facility is currently being appraised. This would involve the construction of a third tank, also with 150.000 m³ capacity, and the addition of another 400,000 Nm³/hour regasification capacity. In 2009, the regasification plant had an availability rate of 95% and a load factor of more than 60%, both parameters lower than in 2008, but higher than the average in Spain, where the average load factor is 52%.

Repsol also holds a 25% stake in Bahia de Bizkaia Electricidad S.L. (BBE), a company which owns a combined cycle power plant with 800 MWe installed capacity. The plant uses natural gas delivered by BBG as its main feedstock. Power generated at this plant is fed to the grid for residential, commercial, and

industrial consumption. The availability rate of the plant, situated in Bilbao Harbour, was 95% and the load factor was less than 62%, both parameters lower than in 2008.

In December 2007 Repsol and Gas Natural executed a shareholders' agreement with Sonangol Gas Natural (Sonagas) with the aim of starting work on developing an integrated gas project in Angola. This initiative involves the appraisal of gas reserves to determine the investments that would be required for their development and export in the form of liquefied natural gas. In accordance with the timetable, Repsol and Gas Natural SDG, through Gas Natural West Africa (GNWA) were involved in the exploration activities currently being developed by Sonagas, the operator of the consortium in which GNWA holds a 20% interest, followed by Sonagas (40%), Eni (20%), Galp (10%), and Exem (10%).

Good progress was made in estimating the available resources through the seismic campaign conducted in 2009, processing more than 2,000 km². Work is being carried out at present in relation to contractual and technical procedures and preparation to analyse 2,300 km² of seismic acquisition in addition to the current area subject to the study.

Preparatory work for the Garoupa-2 well to determine the consortium's potential gas resources in this field began at the start of 2010.

As part of the significant structural and legal progress achieved to date, an office was set up in Luanda and gas and mining rights were awarded by the Government of Angola. Major progress was also achieved in securing the Risk Service Contract and the legal support to ensure investments in other areas to increase the potential resources of this project.

In Brazil, Repsol executed the contract in December 2009 to join the consortium comprising Petrobras (51.1%), BG (16.3%), Galp (16.3%) and Repsol (16.3%) which will be responsible for the technical engineering studies—Front End

Engineering Design (FEED)—prior to the installation of a floating LNG plant (Floating LNG) at the BSM-9 and BSM-11 fields. These studies will make it possible to assess the technical and economic viability of the floating liquefaction plant. Three parallel studies will be conducted with three different consortiums to reduce technical uncertainties in a trailblazing development for the LNG industry and to create the necessary competencies among the various contractors in order to optimise development and construction costs.

The results of these studies will also be compared with other logistic solutions for extracting gas in the Brazilian presalt area to select the best option for capitalising these resources. In the event that the project is finally declared feasible, Repsol will be guaranteed the option of participating in the construction of the plant if the project is finally considered feasible.

LNG TRANSPORT AND MARKETING

The Repsol-Gas Natural LNG (Stream) 50-50% joint venture is one of the leading LNG marketing and transport companies in the world and one of the most important operators in the Atlantic Basin. One of the goals of this company is the optimization of both partners' fleets, which comprise a total of 12 methane tankers. In 2009, Repsol, with management support from Stream, marketed 4.5 bcm of LNG and managed 60 cargoes, most of which were from Trinidad and Tobago with Spain as the main destination.

At year-end 2009, Repsol had three methane tankers under time charter agreements, with a total capacity of 416,700 m³. The company also had another fourth tanker, the *Sestao-Knutsen*, which can carry up to 138,000 m³ of gas and belongs 50-50% to Repsol and Gas Natural. In the beginning of the second half of 2009, the fleet was increased with the addition of the new *Iberica Knutsen* methane tanker, which Repsol and Gas Natural will share on a 50-50% basis.

Additionally, in early 2007, Repsol executed time charter agreements for four new LNG transport vessels, one from Naviera Elcano and three from Knutsen OAS. The four vessels, featuring the latest technology, scheduled to start operations in 2010, will have a nominal capacity of 175,000 m³ of LNG. The vessels will be used mainly for transporting supplies associated with the Repsol and Peru LNG agreement.

INVESTMENTS

Investments in the LNG business in 2009 totalled €125 million, 48% less than the €242 million invested in 2008. These expenditures were mainly earmarked for the construction of the Canaport regasification plant and the Peru LNG liquefaction project. This last project was financed with capital contributions from the partners until November 2008, when the first external financing disbursement was made.

OPERATING HIGHLIGHTS	2008	2009	2009 / 2008 % variation
Net LNG production (*) (Bcma)			
Trinidad and Tobago	3.6	3.8	5.5
(*) Equity gas: does not include the LNG production of companies carried by the equity method in the consolidated Group accounts.			
LNG Marketing			
Cargoes (number)	65	60	(7.7)
Volume sold (Bcma)	4.7	4.5	(4.2)

Conversion factor: 1 Bcma = 39.68 TBtu.

DOWNSTREAM

The Repsol Group Downstream business comprises supply and trading, refining, marketing, and transport of oil and oil products, LPG and chemicals. Since 1 January 2008, data provided in this section refers solely to the Repsol Group Downstream Division. For information in relation to YPF's Downstream activities, please refer to the chapter on this company and its affiliates in this Consolidated Management Report.

RESULTS

Operating income in the Downstream business was €1.022 billion, down 2.48% in comparison with €1.048 billion posted in 2008. The key aspects of these results were.

- Operating income in refining was down 49% versus 2008 mainly because of the sharp drop in international margins, which also implied a reduction in the utilisation rate of the refineries.
- Improvement in Chemical activities, although results remained negative.
- Enhanced performance in the Marketing and LPG activities which, however, was not able to offset weaker performance in Refining.
- An accounting impact of €367 million in inventory gains in comparison with €495 million in inventory losses recorded in 2008.

Excluding the impact on earnings of inventory valuations in the last two fiscal years, the drop would have been 57.5%, from €1.543 billion in 2008 to €655 million in 2009.

REFINING

The Repsol Group owns and operates five refineries in Spain (Cartagena, A Coruña, Petronor, Puertollano, and Tarragona), with a combined distillation capacity of 770,000 bopd. Installed capacity at La Pampilla refinery (Peru) in which Repsol holds a 51.03% stake and is the operator, is 102,000 barrels per day. In addition, Repsol has a 30% interest in the Refap refinery (Brazil) with a total capacity of 180,000 bopd (54,000 in Repsol Group consolidation).

Installed refining capacity

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The Refining division's activity and earnings were strongly affected by the international economic crisis in 2009. Despite raising its forecasts various times over the course of the year, the International Energy Agency predicts that oil demand worldwide will fall 1.5% in 2009 in comparison with 2008, the second consecutive year of declining demand.

Weaker demand led to a reduction in heavy oil supply in the market since producing countries cut back their production, maximising the production of light oil in order to compensate for lower revenues. The reduced availability of heavy oil in the market resulted in narrower spreads between heavy and light oil, putting pressure on refining margins, particularly affecting facilities with a large conversion capacity, such as Repsol's.

The drop in oil demand was caused by lower demand for oil products against the backdrop of the economic and financial crisis, which was particularly drastic in relation to medium distillates, resulting in narrower spreads in relation to oil and, consequently, having a very adverse impact on refining margins which could not be offset by the relative strength of the differentials between gasoline and fuel oil.

Refineries with a high conversion capacity focused on maximising the production of medium distillates involving heavy oil processing – such as Repsol’s – were particularly affected by this margin erosion throughout 2009. Lower demand, coupled with sharply narrower refining margins, led many refining companies, especially in the United States and Europe, to reduce their load and implement work stoppages, with some of these even shutting down some facilities. In this context, Repsol’s refineries managed by the Downstream division processed 35.1 million tons of oil, 12% less than in 2008. The average utilisation rate in Spain was 73.84% versus 91.9% in the previous year. In Peru, however, the utilisation rate was slightly higher than in 2008, increasing from 75.17% to 76.72% in 2009.

The refining margin in Spain in 2009 was \$1.3/bbl (\$1.53/bbl, weighted average including distillates), considerably lower than in 2008 (\$7.4/bbl) because of weaker medium distillates and the above-mentioned narrower spreads between heavy and light oil. Margins were significantly lower in the second half of the year. As to Peru, the refining margin in the year was \$4.1/bl vs. \$5.7/bbl in 2008.

Repsol continues to implement its ambitious investment plan to increase refining capacity and conversion, while also enhancing safety, the environment, and the efficiency of its facilities. In the medium and long-term, the reactivation of the global economy, which already showed some positive signs in 2009 and should continue to consolidate in 2010 (according to the forecasts of various international organizations) ensure the profitability of the projects that the company has undertaken.

The Cartagena refinery enlargement and the Petronor refinery conversion (URF) projects are key aspects of this plan. Progress was made in 2009 towards developing these projects as planned and, accordingly, the new facilities are expected to start operations by mid-2011.

In 2009, the European Investment Bank (EIB) granted Petronor a €400 million loan for the construction and exploitation of the URF project (Fuel Oil Reductor Unit). The first tranche of loan totalling €300 million, was signed on 23 July.

WEALTH AND EMPLOYMENT FOR THE REGION OF MURCIA

The enlargement of the Cartagena refinery is a key initiative of the Strategic Plan 2008-2012. The €3.262 billion investment will make this one of the most modern facilities of its kind in the world and will double its capacity to 220,000 barrels/day. A hydrocracker, a coker, atmospheric and vacuum distillation units, and desulphurisation and hydrogen plants are among the main units contemplated in this project. In 2009, great progress was achieved in this project according to the timetable. The local community and regional governments support this initiative which will boost growth in the region of Murcia. As part of its commitment to this autonomous community, Repsol has promoted contracts with local companies and 46% of workers are from this region. About 3,000 people are already working on the project expected to be completed in 2011. This project makes it possible to maximise the production of clean fuels for the transport segment and will employ more than 6,000 workers during the construction phase. Nearly 700 jobs will be created once the project comes onstream. More than 50% of the products to be manufactured at this facility will be medium distillates, significantly contributing to addressing the shortage of these products in Spain.

Origin of processed crude oil

	<u>2008</u>	<u>2009</u>
Middle East	22%	22%
North Africa	16%	16%
Western Africa	12%	10%
Latin America	24%	27%
Europe	<u>26%</u>	25%

Total 100% 100%
Oil product sales

	<u>2009</u>	<u>2008</u>
	(thousand tons) ⁽¹⁾⁽²⁾⁽³⁾	
Sales in Europe	32,970	36,361
Own network	21,169	23,199
Light products	17,781	19,336
Other products	3,388	3,863
Other sales in the domestic market	6,222	6,926
Light products	4,320	4,985
Other products	1,902	1,941
Exports	5,579	6,236
Light products	1,849	1,761
Other products	3,730	4,475
Sales Rest of the World	6,459	7,502
Own network	1,854	2,981
Light products	1,509	2,412
Other products	345	569
Other sales in the domestic market	3,406	3,196
Light products	2,443	2,323
Other products	963	873
Exports	1,199	1,325
Light products	659	421
Other products	540	904
Total sales	39,429	43,863
Own network	23,023	26,180
Light products	19,290	21,748
Other products	3,733	4,432
Other sales in the domestic market	9,628	10,122
Light products	6,763	7,308
Other products	2,865	2,814
Exports	6,778	7,561
Light products	2,508	2,182
Other products	4,270	5,379

(1) 2007 data include Ecuador, Chile, and Brazil. The marketing business in Chile was sold in December 2007 and the Marketing business in Ecuador was sold in June 2008. Accordingly, the figures for 2008 do not include Chile and include Ecuador up to June. The marketing business in Brazil was sold in December 2008 and, consequently 2009 figures do not include marketing in Brazil.

(2) Other sales in the domestic market include sales to operators and bunker.

(3) Exports: expressed from country of origin.

MARKETING

Repsol markets its oil products through a large network of service stations under a multi-brand strategy; Repsol, Campsa, and Petronor in Spain, and Repsol in other countries where the Downstream business operates. In addition, marketing activity includes other sales channels and the marketing of a wide range of products such as lubricants, asphalt, coke, and derivatives.

Total oil product sales (excluding LPG) amounted to 39.43 million tons, 10.1% less than in the previous year. This drop was due to weaker demand, particularly in Spain.

Sales in Europe were down 9.3% and 13.9% in the rest of the world. With regards to sales to the company's network, light product sales in Spain fell 8% and in other countries, sales were 22.3% lower because of the divestment of marketing activities in Brazil and Ecuador.

Despite lower sales volumes, Repsol's Marketing area was able to manage the sales margin efficiently at the service station channel and in relation to direct sales to end clients, contributing considerable income growth to the Downstream business, partially offsetting weaker performance in Refining. The benefits of the strict credit risk control policy implemented throughout 2009 were reflected in the enhanced earnings performance of this division.

At year-end 2009, Repsol had a network of 4,428 service stations in countries where the Downstream business operates. The network in Spain is made up of 3,603 sales outlets, of which, 74% had a strong concessionary link to the network, and 26% were company-owned and operated (927). Service stations in other countries were located in Portugal (426), Italy (157), and Peru (242).

The sales outlets (service stations and supply units) of the Downstream business as of 31 December 2009 were as follows:

Sales outlets	Owned or controlled by Repsol ⁽¹⁾	Branded ⁽²⁾	Total
Spain.....	2,656	947	3,603
Peru	118	124	242
Portugal	267	159	426
Italy	49	108	157
Total.....	3,090	1,338	4,428

- (1) Owned by Repsol or controlled by Repsol pursuant to long-term commercial agreements or other types of contractual relations that ensure its direct long-term control over these sales outlets.
- (2) "Branded" refers to service stations owned by third parties with whom Repsol has entered into a new branding agreement that entitles Repsol to (i) be the sole supplier of these service stations and (ii) allows the service station to use its brand. The maximum term of these agreements in Spain is five years.

Repsol continued to implement in 2009 the commitments offered to the EU in 2006 which include the possibility of terminating long-term supply contracts with suppliers leasing service stations.

Respect for the environment is part of company's policy and strategy, focusing all efforts in developing environmentally-friendly and technologically advanced products. Repsol has coordinated the Research Project for Promoting Biodiesel in Spain. Fifteen companies from various Spanish industrial sectors and 23 R+D centres have joined this 4-year initiative with a budget of €23 million that will put Spain at the forefront of biodiesel research, development, and innovation.

As part of Repsol's commitment to the environment and technology, the company has entered into an agreement with *Ente Vasco de la Energía* (the Basque Energy Agency) to create a network for recharging the batteries of electric vehicles and also a framework agreement with the City Council of Madrid for promoting the use Autogas (liquefied petroleum gas for automobiles).

In keeping with its commitment to the community, Repsol continued to promote projects for the integration of disabled workers, 237 of whom were employed by the Marketing division at the end of 2009, representing 3.5% of its workforce. Significant efforts were made in 2009 to extend this commitment to the network of branded service stations managed by third parties, in addition to organising various training courses in collaboration with several city and town councils to promote the integration of this group. In 2009, Repsol was awarded the “Fundacion Empresa” prize (8th edition, Disability category) for actively working since 2005 towards the integration of people with different types of disabilities.

In July 2009, the Spanish Competition Authorities (CNC) fined Repsol, Cepsa and BP for indirect price-fixing in their tied-in networks. The amount of the fine imposed on Repsol was €5 million. The company has filed two appeals against the resolution passed by the CNC, one of them based on breach of fundamental rights when the sanctioning proceedings were being conducted. Repsol considers that it has fully complied with both Spanish and EU competition regulations and is persuaded that the appeals filed shall be upheld by the Court.

LIQUEFIED PETROLEUM GAS (LPG)

Repsol is one of the leading retail distributors of LPG in the world and ranks first in Spain and Latin America. The company operates in nine countries in Europe and Latin America.

LPG sales in 2009 totalled 2,993 million tons, 7.1% less than in 2008. Sales in Spain fell 5.8% compared to the previous year. Repsol distributes bottled, bulk, and piped LPG in Spain through collective distribution networks and has more than 10 million bottled LPG customers supplied through a network of 243 distribution agencies. Bulk LPG sales accounted for 19% of total retail LPG sales in 2009.

LPG sales volumes	2009	2008
	(thousand tons)	
Spain	1,489	1,623
Latin America	1,316	1,360
Argentina	303	326
Bolivia	10	22
Chile	200	193
Peru	411	408
Ecuador	372	390
Other ⁽¹⁾	20	21
Rest of the World	187	240
Total	2,993	3,223
LPG sales		
Bottled	1,770	1,897
Bulk, piped, and others (2)	1,222	1,326
Total	2,993	3,223

(1) Brazil

(2) Includes sales to the autogas market, LPG operators, and others.

LPG commercial margins in 2009 were lower than those in 2008 which were higher as a result of the sharp drop in oil prices in the second half of that year. In addition, the Ministry of Industry, Trade, and Tourism enacted a legislative order changing the method for calculating bottled LPG prices. According to the new formula, 25% of the price to be applied in the forthcoming quarter would be linked to international prices at the end of the previous quarter and the remaining 75% would depend on the maximum price prevailing at the end of the quarter just ended. The variation in this formula had an adverse impact on fourth quarter 2009 results. In the event that this trend remains in place and international prices continue to climb, subsequent years would also be adversely affected.

In Portugal, Repsol distributes bottled and bulk LPG to end customers and supplies other operators. Sales in 2009 reached 172,000 tons, making the company the third operator with a 21% market share.

In Latin America, Repsol is the leading LPG distributor in Argentina, Ecuador, Peru, and Chile. It markets bottled and bulk LPG in Argentina to the residential, commercial, and industrial segments, with sales totalling 303,000 tons.

In February 2009, the 100% stake held until then by Repsol Butano, S.A. in National Gaz was sold, abandoning the LPG marketing activities in Morocco as of that month.

OPERATING HIGHLIGHTS	2008	2009	2009/2008 % variation
Feedstock processed			
<i>(Million tons)</i>			
Crude	40.1	35.1	(12.4)
Other loads and raw materials	5.2	6.4	22.7
TOTAL	45.3	41.5	(8.4)
Production			
<i>(Thousand tons)</i>			
Medium distillates	20,512	18,922	(7.8)
Gasoline	7,424	7,090	(4.5)
Fuel Oil	7,361	6,230	(15.4)
LPG	1,060	956	(9.8)
Asphalts	1,576	1,768	12.2
Lubricants	212	103	(51.3)
Other (exc. petrochemicals)	1,837	1,552	(15.5)
TOTAL	39,982	36,621	(8.4)
Oil product sales			
<i>(Thousand tons)</i>			
Diesel/ Kerosene	24,242	21,987	(9.3)
Gasoline	6,996	6,574	(6)
Fuel Oil	7,280	6,127	(15.8)
LPG	3,223	2,993	(7.2)
Other	5,345	4,741	(11.3)
TOTAL	47,086	42,422	(9.9)
Sales by regions			
<i>(Thousand tons)</i>			
Europe	38,183	34,646	(9.3)
Rest of the world	8,903	7,775	(12.7)
TOTAL	47,086	42,422	(9.9)

CHEMICALS

Continued operations in the Chemical business, part of the Downstream division, recorded a loss of €223 million in comparison with a loss of €352 million in 2008. This performance was the result of widespread declining demand because of the crisis affecting the industry since 2008, particularly the segments where a large part of this business is concentrated. This led to lower utilisation rates at industrial plants, narrower margins, and declining sales volumes, all of which had a negative impact on the results of chemical companies and of Repsol's chemical business.

Sales to third parties in 2009 were 2.3 million tons, 11.4% less than the 2.6 million tons sold in 2008. Repsol implemented several shock measures, which included an aggressive cost savings plan, production optimisation and adjustments at plants, and the decision taken in February 2009 to delay the project for the enlargement of the Sines (Portugal) complex, approved in June 2008, until the situation improves.

In addition, work was carried out in 2009 on the enlargement project for the cracker at the Tarragona plant which is expected to produce 702,000 tons of ethylene in early 2010.

OPERATING HIGHLIGHTS (Chemicals)	2008	2009	2009/2008 % variation
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Capacity

(Thousand tons)

Base petrochemicals	2,679	2,679	0.0
Derivative petrochemicals	2,927	2,933	0.2
TOTAL	5,606	5,612	0.1

Sales by product

(Thousand tons)

Base petrochemicals	629	567	(9.8)
Derivative petrochemicals	1,973	1,739	(11.9)
TOTAL	2,602	2,306	(11.4)

Sales by market

(Thousand tons)

Europe	2,348	2,000	(14.8)
Rest of the world	254	306	20.5
TOTAL	2,602	2,306	(11.4)

Production capacity for the main petrochemical products in the Downstream business, principally in Europe as of 31 December 2009 is detailed in the following table:

PRODUCTION CAPACITY	Total (thousand tons)
Basic petrochemical products	
Ethylene	1,320
Propylene	867
Butadiene	202
Benzene	290
Petrochemical derivatives	
Polyolefin	
Polyethylene ⁽¹⁾	875
Polypropylene	520
Intermediate products	
Propylene oxide, polyols, glycols, and monomer styrene	1,189
Acrylonitrile/Methylmetracylate	166
Rubber ⁽²⁾	115
Other ⁽³⁾	69

(1) Includes EVA (ethylene vinyl acetate) copolymers and EBA (Ethylene butyl acrylate).

(2) Includes 55,000 tons of production capacity in Mexico.

(3) Includes styrene derivatives and specialties.

Investments

Investments in Downstream increased 6.7%, totalling €1.649 billion versus €1.545 billion the year before. Most of this amount was spent on ongoing refining projects, particularly in Spain, upgrading operations, installations and fuel quality, and on safety and the environment.

YPF

Since 1 January 2008, the date on which the new organizational structure of the Repsol Group was presented, the value chain integrated activities (exploration, production, refining, logistics, marketing, and chemicals) conducted by YPF and its affiliates, are reported separately. In essence, most YPF operations, assets, and clients are situated in Argentina.

RESULTS

YPF posted €1.021 billion in operating income in 2009, 12% less than the €1.159 billion recorded in 2008. This drop was mainly the result of the international crisis which reduced demand in the Argentinean market and the volume of exports, also causing a drop in revenues from products the price of which is linked to international oil benchmarks, including exports and certain products sold in Argentina.

In 2009, YPF investments were €956 million compared to €1.508 billion a year earlier. Nearly 71% of these expenditures were earmarked for oil and gas development and exploration projects.

Average annual production fell 8% to 572,300 barrels of oil equivalent per day (boepd) versus 619,000 boepd in 2008. As in the previous year, output was affected by several labour strikes that made it impossible to reach maximum production levels. Lower gas demand and the natural decline of mature fields also had an adverse impact. Excluding output interruptions, average annual production would have been 585,000 boepd.

The implementation of cost saving measures throughout the year made it possible to slow down the rising trend in expenses of the last few years (nearly 25%),

reducing costs by almost 12% in comparison with 2008 and achieving approximately €287 million in savings.

International prices, which fell sharply in the last quarter of 2008, remained low in the first half of 2009, affecting the prices of certain products in the Argentinean market as well as abroad. The situation, however, showed gradual improvement in the second part of the year.

Demand for products, except for gasoline in the domestic market, fell in 2009, mainly because of the worldwide crisis which affected the local economy, and by the drought, which had a strong impact on the farming and livestock sectors.

At the end of the year, in the presence of the president of Argentina, Cristina Fernandez de Kirchner, governors, ministers, governors, and trade representatives, Sebastian Eskenazi, the CEO of YPF, unveiled the 2010-2014 Exploration Development Program. The key objective of this plan is to obtain information on all exploration blocks that could contain oil and gas reserves which the Government of Argentina or the local authorities have not awarded yet to any company. This program also contemplates the improvement of the oil recovery factor by applying new technologies and the development of non-conventional gas, such as tight gas and shale gas.

The move to the Torre Puerto Madero building (Buenos Aires) was completed in the first half of the year, an impeccable process that has significantly improved interpersonal communication among more than 2,000 employees as well as efficiency.

EXPLORATION AND PRODUCTION

Operating income in YPF's Exploration and Production business was €795 million, 81% more than in the previous year. This increase was achieved thanks to lower

expenses and the incentives achieved through the Petroleo Plus Program, implemented by the Argentine Government. The efforts contemplated in this program made it possible to press ahead with associated commitment of meeting demand requirements, contributing approximately €165 million to operating income.

Within the framework of another incentive program known as Gas Plus which promotes the production of non-conventional gas, YPF secured the authorization for the “Formacion Lajas Tight Gas” and the “Piedras Negras” projects. In areas where YPF operates in association with other companies, the Gas Plus projects in Aguada Pichana and Lindero Atravesado were also approved.

In 2009, YPF’s oil and gas production was 209 million barrels of oil equivalent, 8% less than in 2007, of which 111 million were liquids, with gas accounting for the remainder. Strikes and weaker demand for gas in last third of the year diminished output by 7.5 million boe.

At year-end 2009 YPF’s proved reserves, estimated in accordance with the guidelines of the Securities and Exchange Commission (SEC) totalled 1,024 million boe, of which, 539 boe (53%) was oil, condensate, and liquefied gases, and the remaining 485 million boe (47%) was natural gas.

The trend in the company’s reserves was positive in 2009 with the addition of 90 million boe. YPF’s reserves account for 49% of the Repsol Group’s total reserves.

YPF’s exploration activity in Argentina in 2009 focused on two areas:

► **Offshore**

The offshore exploration campaign in shallow water was completed at the San Jorge Gulf basin after drilling three wells (Block M-1) plus other wells in the Austral basin (block E2) , all of which were abandoned after yielding negative results or

considered unprofitable. Progress was made in planning two deepwater projects in the company's portfolio: the Malvinas Project in blocks CAA 40 and CAA46; and the Colorado Marina Project in block E1.

► Onshore

Traditional areas

Non-conventional gas: the first well was drilled in Argentina at the Loma La Lata concession, Piloto Shale Gas x-2 in search for shale gas.

Quintuco: a new exploration concept was developed in traditional areas to find oil in the Quintuco formation where two wells were drilled in 2009: the first one, La Caverna x-1 in the Banduria block where Repsol holds a 54.54% interest, yielded positive results; the second one, La Dolina x-1 in the Loma La Lata concession area (wholly owned by YPF), also yielded positive results and is currently being appraised. The Piloto Shale Gas x-2 well, in operations in January 2010, resulted in a discovery at the Quintuco formation.

Frontier areas

YPF completed the seismic campaign at the Tamberias (San Juan) and Rio Barrancas (Neuquen) exploration blocks, and the processing of seismic data in the Gan Gan and CGSJ-VA (Chubut) blocks.

Out of the 8 wells operated by YPF in 2009, 3 discoveries were made at the Neuquen basin (La Caverna x-1, La Dolina x-1 and Piloto Shale Gas x-2). Exploration expenditures totalled approximately €101 million.

Internationally, YPF was awarded two exploration blocks at the Punta del Este basin (blocks 3 and 5) in a partnership with the Uruguayan subsidiary of Petrobras the Portuguese oil company GALP. The partners in this consortium are YPF (40%),

Petrobras (40%), and Galp (20%). The 3D seismic acquisition covering 1,850 km² was completed at the Georgetown Offshore Guyana block where YPF Guayana holds a 30% stake.

In terms of new business activities YPF in 2009 entered into an agreement with Pampa Energia, by which that company company will make the necessary investments, on its own account and risk, in exchange for a percentage of production at the Rincon del Mangrullo field.

Regarding field development activities, 537 development wells were drilled, which, jointly with secondary repair and infrastructure activities amounted to an investment of €519 million. A 30% reduction was achieved in the cost of each well thanks to progress made in the four construction stages. Well drilling and completion time was 20% less than in 2008, achieving a 30% improvement since 2007. This efficiency, combined with cost savings in each of the stages of the process, increased activity by 5%.

YPF continued working on the comprehensive development studies in relation to the most important fields in order to increase the recovery factor. In addition, as a result of the work carried out in recent years to revitalize mature fields and to identify new opportunities, YPF's added 90 million barrels of oil equivalent to its proved reserves in 2009 in Argentina and abroad. .

The results obtained in the San Jorge basin at the Barranca Baya, Manantiales Behr, and Lomas del Cuy fields were particularly noteworthy, with these fields revitalized thanks to drilling and secondary recovery projects.

Activity in the Maurek block, particularly at the Cañadon Vasco and Cerro Piedra Guadal Norte fields also contributed to increasing proved reserves. The replacement ratio of proved reserves in this area will be more than 100%, a major achievement considering that the basin was discovered more than 100 years ago..

The tight gas pilot project continued at the Neuquen basin where a large part of discovered reserves have been classified as proved reserves. Most of the gas contained in these sands has been classified as contingent resources pending favourable economic conditions. A total of 512.4 million barrels of oil equivalent have been classified in Argentina as contingent resources.

Changes in the exploitation scheme at the Chihuido La Salina fields and increased secondary recovery in Aguada Toledo Sierra Barrosa are also noteworthy. The results of the water injection pilot test at the El Medanito field encouraging and could imply the revitalisation of a field that has been inactive for several years.

The company continued to press ahead with the plan aimed at extending the concessions at the Neuquen province for another ten years (2017-2027) in associated areas. This made it possible to extend the permits for the Aguada Pichana, San Roque, and Lindero Atravesado fields.

YPF's natural gas sales in 2009 totalled 14.9 million m³, approximately 10% less than in 2008. This drop was particularly marked in the distribution and industrial segments. YPF enjoys a 37% market share in Argentina. The average price of natural gas sold by the company was 7.5% less than in 2008, although prices for the manufacturing industry were 17% higher than in 2008 as a result of an agreement with the Energy Secretariat.

As part of a program launched by the Argentinean government, an LNG regasification ship was put into operation to incorporate to the country's gas network an average 5.6 million m³ of gas, 40% more than in the previous year, injecting a total of 800 million m³ to help satisfy increased demand throughout the winter.

Additionally, within the framework of the program for supporting the Government of Argentina, in the winter of 2008 YPF built the largest propane-air plant in Buenos Aires, the largest in the world with a supply capacity of 1.5 million m³/day. The

objective of this facility, which started operations in October 2009, is to contribute to meeting peak winter demand in Argentina's capital.

REFINING, LOGISTICS AND MARKETING

YPF's refineries processed 17.6 million cubic metres of crude oil, 6% less than in 2008. This drop was mainly due to the lower demand for diesel oil and the numerous trade union disputes that affected crude oil production as well as pipeline and shipping activity, and consequently refinery supplies. In spite of those conditioning factors, the installed operating capacity was practically kept at full level at refineries throughout 2009, thanks to the operational reliability plans being implemented allowing the lengthening of unit maintenance cycles. Moreover, scheduled maintenance stoppages were made at the two biggest refineries. In order to reduce the stoppage times, for the first time at La Plata refinery the stoppage of the atmospheric distillation unit, the vacuum distillation and delayed coker units were carried out at the same time. This action, in conjunction with proper planning in the management of crude oil and products, allowed the impact of the stoppages on production to be kept to a minimum.

Gasoline production for the domestic market rose to 3.3 million cubic metres, accounting for a rise of 10% compared to the previous year, and a new record in recent years. Furthermore, gasoline of a higher quality was produced and the growing demand from the Argentinean market was met thanks to exploitation of synergies with the Ensenada chemical complex plants.

The three YPF refineries, La Plata, Plaza Huincul and Lujan de Cuyo, jointly increased gasoline and diesel oil performance by 2.5% compared to the previous year through commissioning of the remodelled catalytic cracking unit (FCCB) at the La Plata and through other operational improvements. Diesel oil imports dropped significantly with the application of these measures, in addition to the lower demand for this product in Argentina.

In 2009 for the first time production of 3000 m³ of diesel oil containing less than 50 parts per million (ppm) of sulphur was achieved, reducing the need for some of the imports of this product. From October, marketing of heavier products with higher added value increased, such as IFO (marine bunker).

Logistics activity increased in 2009 compared with the previous year. High occupation levels were achieved for road transport, as well as in the use of pipelines, terminals and ports. Within the commitment to the development of the country, YPF and *Argentina Consorcio de Cooperacion Naviero (Naviera Sur Petrolera S.A. and National Shipping S.A.)* presented the barge *Argentina VI*, a river vessel fully built in Argentina and intended for the transport of hydrocarbons, and the tugboat *Barranqueras I*, all within the scope of an agreement - lasting through to 2013 - to recover the national construction capability of river vessels for hydrocarbons transport.

Refinery and logistics investments amounted to €170 million in 2009, in line with the amounts invested the previous year. This amount was mainly allocated to adaptation of plants to add FAME (fatty acid methyl ester) and ethanol to fuel mixtures, in accordance with regulations in force on 2010. Progress was also made in the installation of a new furnace at Topping III at the Lujan de Cuyo refinery to increase energy efficiency, in addition to the implementation of other projects such as hydro-treatment of diesel oil at La Plata and Lujan de Cuyo and gasoline at the latter refinery, to meet quality specifications. The capacity of the Puesto Hernandez – Lujan de Cuyo pipeline was increased to improve the supply to the refinery.

Furthermore, participation by YPF in the Refino Plus program must be emphasized, as it encourages fuel production increases through the acknowledgement of benefits to be applied in the form of tax relief. Participation in this program materialized through investment projects aimed at increasing the offer of diesel oil and high grade gasoline.

At the end of 2009, YPF had 1,632 service stations, of which 168 are directly managed. During the year, implementation of a new image began at sales outlets with the aim of uniting and enhancing the comprehensive image of the network based on the concepts of modernity and rationalism.

Domestic market prices were gradually adapted to international prices and those of neighbouring countries.

YPF started to market a new fuel in 2009, namely YPF D. Eurodiesel, becoming the first company to launch a low sulphur content fuel on the market (less than 50 parts per million), as recommended for all high performance EURO IV engines.

In accordance with Law 26093 pursuant to Biofuel, on January 1 2010 the obligation of marketing gasoline with 5% ethanol by volume and diesel oil with 5% biodiesel by volume (FAME) came into force. In order to comply with this obligation, the *Agua Cero* program was implemented in 2009 to adapt the service station network facilities and end users to be able to use these fuel mixtures.

In July 2009 the first *YPF Direct* Centre was officially opened in San Antonio de Areco (Buenos Aires Province), where all agricultural and industrial products are now available under one roof. Another remarkable milestone was the construction in 2009 of the Paso de Jama service station, at an altitude of over 4,000 metres above sea level.

Asphalt sales in Argentina reached an annual record of 235,000 tonnes in 2009, with a 59% all time high market share in the month of July.

Refinery, logistics and marketing activity led to income of €218 million in 2009, whereas investments in these fields amounted to € 178 million.

CHEMICALS

The chemical business operating income amounted to €92 million, a 42% drop compared to the record obtained in 2008. This fall was mainly due to the effects of the economic crisis which strongly affected local, regional and global demands for the main petrochemical products and fertilisers. During the first quarter, activity had to be temporarily interrupted at the methanol, maleic anhydride, linear alkyl benzene (LAB), cyclohexane and solvents units.

From a commercial perspective, the chemicals business improved significantly in terms of the aromatic and methanol sales mix, with sales increasing in Argentina by 75% compared to 2008, in contrast with the shrinking overseas market. Moreover, alternative markets were developed for refined paraffin.

The Continuous Catalytic Regenerator project was awarded, allowing production of aromatics to be increased by 50% and thus be able to meet the needs of growing internal demand for octane components, used in high quality gasoline and hydrogen production, necessary for gasoline and diesel oil hydro-treatment processes at the La Plata refinery. The estimated investment for this project is approximately €250 million, the largest petro-chemical investment in Argentina made in the last decade.

GAS NATURAL SDG

Repsol controls 30% of Gas Natural SDG. Taking this holding into account, Gas Natural SDG contributed €748 million in operating income to Repsol in 2009, 34.8% more than in the previous year. EBITDA in the year was €1.232 billion, compared to €848 million in 2008, 45.3% higher mainly as the result of the incorporation of Union Fenosa in the scope of consolidation as of 30 April 2009.

These results were achieved against a backdrop of shrinking energy demand and high volatility in relation to energy prices and currency and financial markets. In contrast, regulated activities recorded growth and the efficiency in the global portfolio management was improved. The earnings performance in this scenario reinforces the value of Gas Natural SDG's business model, based on the right balance between regulated and deregulated activities in the gas and power markets. Through its 30% stake in Gas Natural SDG, Repsol participates in the entire gas value chain, from supply to distribution and marketing, in addition to the power market, following the acquisition of Union Fenosa by Gas Natural SDG.

Union Fenosa S.A. and its subsidiaries were globally integrated in the scope of consolidation as of 30 April 2009. Accordingly, the consolidated financial statement includes Union Fenosa transactions only as of that date. The Gas Natural SDG S.A. Union Fenosa S.A. and Union Fenosa Generacion S.A. merger process was completed in September 2009, after the shares issued in exchange for the Union Fenosa S.A. shareholders became listed and the latter company ceased to trade in the Spanish CATS (Computer Assisted Trading System) stock market.

Gas distribution in Spain

Sales from regulated gas activity in Spain, which include tariff gas supply until 30 June 2008 and access services to the network by third parties, both in terms of gas distribution and secondary transport, fell 15% to 229,585 GWh. This drop reflects the adjustments made for the cessation of activities in the residential segment. At 229,559 GWh, distribution and secondary transport services for third-party access

to the network was down 10.3% as a result of weaker activity. Of this amount, 91,862 GWh (-22.5%) relate to services carried out by third parties and the remaining 137,697 GWh (+0.3%) to Gas Natural SDG marketing activities as the main operator in the deregulated market.

Gas Natural SDG continues to expand its distribution network, which as of 31 December 2009 stretched over 47,597 kilometres. Excluding the effects of the divestments in Cantabria and Murcia, the network stretched over 50,697 kilometres in 2009, providing services to 33 additional municipalities. The number of supply points at year-end 2009 was 5,698,000, after subtracting the above-mentioned divestment. The supply points increased by 101,000 in the last twelve months, 37.3% less than in the previous year mainly because less new homes were built and also because of the divestments made in Cantabria and Murcia.

The sale of low-pressure gas distribution assets in the Cantabria Autonomous Community and in the Region of Murcia had been concluded by 31 December 2009. This disposal involved 2,611 kilometres of low-pressure distribution network and 256,000 supply points, which represent 3,500 GWh of gas annually; most of the high-pressure distribution network in the Principality of Asturias, Cantabria and the Basque Country, with a total network covering 489 kilometres that transport 7,500 GWh of gas per year; and gas, power, and services marketing activities to the residential segment and to small and medium-size companies in these communities, adding up to approximately 210,000 gas customers, 4,000 power customers and 67,000 energy service contracts. On 19 December 2009, Gas Natural SDG agreed to sell 504,000 supply points and a portfolio of approximately 400,000 gas customers in the Madrid Autonomous Community. The agreement, currently pending the approval by the competent authorities, is expected to be concluded in the first half of 2010.

Gas distribution in Italy and Latin America

On 3 July 2008, Gas Natural SDG acquired the Pitta Costruzioni Group, which engages in gas distribution activities and operates in the region of Puglia in

southern Italy. The acquired group has a natural gas distribution license enabling it to operate in 11 cities and towns, a portfolio of 15,000 customers, and a 393-Km distribution network. This transaction has enabled Gas Natural SDG to increase its distribution area in Italy and now supplies 187 municipalities in 8 regions: Molise, Abruzzo, Puglia, Calabria, Sicily, Basilicata, Campania and Lazio. In the gas distribution business in Italy, Gas Natural SDG now has 414,125 gas supply points after adding 23,033 new supply points in 2009. Gas distribution activity accounted for 3,495 GWh, 19.2% more than in 2008.

In Latin America, gas distribution activities are carried out in Argentina, Brazil, Colombia and Mexico. Supply points in this region totalled 5.42 million in 2009. High year-on-year growth rates remained in place throughout the year, with supply points increasing by 169,164, particularly in Colombia, with 105,197 additional supply points, and the number of customers was more than 2 million.

Gas activity sales in Latin America, which include gas sales and third-party network access services, amounted to 169,612 GWh, 18.6% less than in the previous year. This widespread decline was basically in the power generation and industrial segments. The distribution network increased 1,119 kilometres to 62,315 kilometres, growing 1.8%.

Power distribution

Gas Natural SDG's business in Spain includes regulated power distribution activity and customer network services, mainly connection and link-up rights, and other services such as metering and access by third party to the company's distribution network. The comprehensive tariff ceased to exist on 1 July 2009 following the creation of the Last-resort Power Commercialisation Entities. Accordingly, no power sales were made as of that date. Energy demand in distribution network associated markets was similar to the trend in the national market. Consumption decline, underscoring the correlation between power consumption and economic activity.

Business in Moldavia, in the capital and the metropolitan area and in the country's central and southern regions, include regulated power distribution and its marketing at a tariff.

In Latin America, business activity involves regulated power distribution in Colombia, Guatemala, Nicaragua, and Panama. In 2009, 12,054 GWh of power was sold and the customer portfolio accounted for more than 4.1 million clients, with particularly good performance in Colombia.

Power generation

Electricity demand fell sharply in Spain as a result of the economic recession, particularly in the industrial segment. Demand in the Iberian Peninsula in 2009 (251,509 GWh) was 4.5% lower than in 2008. Gas Natural SDG's power generation in the Iberian Peninsula was 28,728 GWh, increasing 57.4% following the incorporation of Union Fenosa in the scope of consolidation. Of this amount, 26,694 GWh came from conventional power plants (Ordinary Regime), an increase of 30%. Power produced from renewable sources and cogeneration (Special Regime) reached 2,034 GWh, 124.8% higher.

Hydroelectric production was 1,849 GWh as a result of hydrological conditions in 2009. Nuclear production was 2,908 GWh. Coal-fired power production decreased as a result of lower demand and the growth recorded in the Special Regime. Power generation at combined cycle plants was 21,192 GWh, 22.2% higher following the incorporation of Union Fenosa.

Power marketing activities include sales in the deregulated market, last resort marketing, and flat-rate supply. Sales in the deregulated market accounted for 16.6% of the total. As for last resort marketing, in force since 1 July 2009, sales stood at 6,452 GWh, and at 9,857 GWh for flat rate supply.

In Mexico, Gas Natural SDG has combined cycle plants with a combined capacity of 3,803 MW, in addition to a 54-km gas pipeline. Energy generated in 2009 was

20,921 GWh, showing an increase thanks to the incorporation of Union Fenosa's power plants. Construction of the *Norte* combined cycle plant in Durango State is still underway, 97.4% of the project has now been completed in accordance with the timetable. The contract for this 450 MW power plant was awarded on 6 March 2007 and commercial operations there are expected to start in first quarter 2010.

On 24 December 2009, Gas Natural SDG reached an agreement with Mitsui & Co., Ltd and Tokyo Gas Co., Ltd for divestment of part of its power generation business in Mexico. This transaction, pending the approval of Mexican authorities and expected to be concluded in the first half of 2010, implies the sale of 2,233 MW of installed capacity.

Gas Natural SDG also has power generation assets in Puerto Rico, Costa Rica, Panama, the Dominican Republic, and Kenya. Power generation in these countries totalled 4,476 GWh. Production at the plant in Puerto Rico dropped by 8%, increasing in the Dominican Republic, Kenya, Costa Rica and Panama mainly due to completion of construction work on the enlargement of the existing 58 MW plant in Kenya, which started commercial operations in the third quarter of 2009, and the start-up of commercial operations at the hydro power plant at Algarrobos in Panama in the second half of 2009.

On 9 December 2009, the company *Energía de Pacífico S.A. ESP. (EPSA)* was sold off. All financial figures were reclassified as discontinued operations and are not included in this report.

Regasification projects

Gas transport activity carried out in Morocco through the companies EMPL and Metragaz represented a total volume of 109,230 GWh, a fall of 18.2%. Of this figure, 80,525 GWh were transported for Gas Natural SDG through the company Sagane and 28,705 GWh for Portugal and Morocco. Weaker energy demand in the Iberian Peninsula, coupled with the optimization of the company's supply-demand

mix, resulted in the reduction of transported gas volumes and, consequently, to a lower utilization rate for the Maghreb-Europe gas pipeline.

With regard to the projects for development of two regasification terminals in Italy (Trieste-Zaule and Taranto), progress is being made in the processing and approval of the different permits required.

Sales by Gas Natural SDG in the deregulated market totalled 182,299 GWh, 19.3% down in comparison with the previous year because less gas was consumed for power generation at combined cycle plants as a result of reduced energy demand, low pool prices, and weaker economic activity.

Acquisition of Union Fenosa

On 11 February 2009, the Spanish National Competition Commission (CNC) authorized the purchase of Union Fenosa, S.A., subject to the commitments submitted by Gas Natural SDG, which included divestment of 600,000 gas distribution points and approximately 600,000 customers connected to those networks, 2,000 MW of combined cycle generation in Spain, and the stake in Enagas, as well as other covenants concerning the corporate governance in *Cepsa* and in *Union Fenosa Gas Comercializadora*.

The value of these assets is quite high and divestment is being carried out with the necessary resources to ensure autonomous operation by future buyers. Moreover, these divestments are consistent with the envisioned structure of the transaction and allow the gas and electricity convergence model to be maintained, the objective that Gas Natural SDG was striving to achieve through the merger with Union Fenosa.

Under the terms and conditions of the agreement executed on 30 July 2008, Gas Natural SDG acquired the remaining stake held by ACS on 26 February 2009, thereby increasing its stake in Union Fenosa to 50%, subsequently launching a Public Takeover Bid (OPA) for all Union Fenosa shares, as required pursuant to

the provisions of Spanish Act 24/1988, enacted on 28 July *del Mercado de Valores* (the Spanish Securities Market Act) and the provisions of Royal Decree 1066/2007.

On 21 April 2009, the Spanish Securities and Exchange Commission (CNMV) disclosed the result of the bid, for which 14 April 2009 had been set as the deadline for its acceptance. The bid was accepted by shareholders representing 34.8% of Union Fenosa's share capital and 69.5% of voting rights, to which the bid was effectively targeted.

Following the award of the bid and of the financial instruments executed with banking entities in relation to the shares in Union Fenosa S.A., Gas Natural SDG was able to take control of a 95.2% stake in Union Fenosa S.A.

Shareholders at the Annual General Meetings of Gas Natural SDG S.A. and Union Fenosa S.A. convened on 26 and 29 June, respectively, approved the merger by absorption of Union Fenosa S.A. and Union Fenosa Generación S.A. by Gas Natural SDG, S.A. through the dissolution without liquidation of the absorbed companies and the block transfer of their net worth to Gas Natural SDG, S.A.

The approved merger project, with an exchange ratio of three shares of Gas Natural SDG S.A. for every five shares of Union Fenosa, had received a favourable report from the independent expert appointed by the Commercial Register of Barcelona.

The completion of the merger process in September 2009 marked the culmination of the acquisition process that began in July 2008 leading to the effective integration of the gas and electricity business in one company with wide experience in the energy sector, capable of competing efficiently in markets subject to a growing process of integration, globalisation and increased competition. Following this transaction, the energy group is present in 23 countries with more than 20 million customers and installed capacity of 17,861 MW, of which 7,322 MW are combined cycles in Spain and 4,057 MW abroad.

Financing of the operation⁽¹⁾

At the beginning of April 2009, Gas Natural SDG closed the syndication of a €18.26 billion loan to finance the operation and to refinance part of Gas Natural SDG and Union Fenosa's current debt, through 27 participating entities. At the present time, 53 entities are part of the syndicate.

Additionally, to ensure a sound and flexible financial structure, Gas Natural SDG launched a €3.502 billion rights issue in March 2009 which was fully subscribed and paid up. In April, the net proceeds for the rights issue, €3.401 billion, were allocated to the partial repayment of the loan.

Moreover, with the aim of optimizing the financial structure and the maturity timetable, Gas Natural SDG in June 2009, October 2009 and January 2010, closed several bond issues in the Euromarket totalling €6.95 billion.

On 31 December 2009 the initial loan had been reduced to €7.51 billion after applying the net proceeds from the rights issue plus the proceeds from the less than 100% acceptance of the bid (€788 million), and after cancelling amounts equivalent to the proceeds from asset disposals and the rights issues in 2009 (€4.75 billion). If we subtract the bonds issued in January 2010 (€2.2 billion) and the proceeds from the committed asset disposals, the outstanding loan amount would be €3.313 billion.

Divestments ⁽²⁾

In accordance with the commitments made to the National Competition Commission (CDC), Gas Natural SDG divested or has agreed to divest €3,6 billion in assets. In addition, the mandatory divestment of 2,000 MW in combined cycles in Spain is still pending.

(1) All figures in this section correspond to 100% of Gas Natural SDG

(2) All values in this section correspond to 100% of Gas Natural SDG

As to divestments already made, which amount to nearly €2.0 billion, these include the sale of certain financial holdings (Cepsa, Red Eléctrica Española, Isagén, Enagás and Indra), the sale of 256,000 gas supply points in Spain, and the sale of its stake in the Colombian company *Empresa de Energía del Pacífico, S.A. ESP (EPSA)*.

Committed divestment total more than €1.600 million and include the sale of 504,000 gas supply points in the Autonomous Community of Madrid and certain energy assets in Mexico.

In July 2009, the company was successful in launching a bonds issue with two tranches maturing at five and ten years totalling €2 billion and €500 million, respectively.

In October 2009, Gas Natural SDG completed three bond issues divided into three tranches in the Euromarket and maturing in 3, 7, and 12 years, for a sum of €500, million, €1 billion, and €750 million, respectively. In January 2010, the company completed three more bond issues in three tranches of 5, 8, and 10 years, for 650, 700 and 850 million euro respectively.

Investments

Taking into account Repsol's 30% stake in Gas Natural, investments in the year amounted to €5.06 billion in comparison to €894 million in 2008. This increase is the result of the incorporation of Union Fenosa's investments, mainly in power generation and distribution.

CORPORATE AREAS

HUMAN RESOURCES

As of 31 December 2009, the Repsol Group had a total of 41,014 employees, 33,633 of whom were working in companies directly controlled by Repsol. The figures presented in this section refer to these employees. The company's employees work in more than 33 countries, mainly in Spain (50%) and Argentina (36%), as well as Portugal (4%), Peru (3%), Ecuador (2%), Brazil (1%) and Trinidad and Tobago (1%). Of these employees, 50.6% work in the Downstream division, 7.6% in Upstream and LNG, 35.4% in YPF, and 6.4% in corporate departments. The breakdown of the headcount is 1% executive personnel, 7% technical managers, 43% technicians, 5% administrative staff and 44% operators. Permanent work contracts account for 91% of the total and women represent one third of the total workforce.

Change in the organizational structure

In February 2009 the Board of Directors approved a series of changes at the top executive level of the company with the aim of simplifying and concentrating the management team, improving coordination between Repsol's strategic businesses and gaining efficiency in management processes.

The main changes were as follows:

1. Elimination of three Executive Departments.
2. Integration of the LNG Executive Department with ED Upstream.
3. The Corporate Tax Department was created within ED Finance and Corporate Services, and the Corporate Finance Department now reports directly to ED Finance.

4. An Institutional Relations and Corporate Responsibility Department was created in the General Counsel and Secretary of the Board of Directors Executive Department.
5. The Communication and Chairman's Office Corporate Department was created, reporting directly to the Chairman and CEO.
6. A new People and Organization Executive Department was created to replace the former ED Human Resources, combining the former Executive Development Corporate Department and CD Information Systems.

The new ED People and Organization was created with the goal of giving a fresh boost to the company's human organization and working methods, and its objectives are:

- To ensure that teams, systems and organizational models are adequate for the realization of the company's strategy and ensure maximum efficiency.
- To foster the professional and personal development of all members of the Repsol YPF team.

Diversity, equal opportunities and balance

In 2009 Repsol's Diversity and Balance Committee continued with the development of the existing teleworking and different capabilities project, fostering the application of programs in all of the countries where the company operates in line with local needs. New projects were also launched in relation to the working day, time management and adaptation of facilities.

The improvements made since the commencement of the Diversity and Balance Program in 2007 were reflected in the latest work climate survey, in which

employees valued the efforts made by the company and its commitment to the program in a positive light.

In 2009 Repsol signed the Diversity Charter, which publicly commits the company to foster the basic principles of equality; respect for the inclusion of all people in the labour market and society regardless of the diversity of individual profiles; recognition of the benefits of cultural, demographic and social inclusiveness within the organization; implementation of specific policies to generate a workplace that is free of prejudice in the areas of employment, training and promotion; and support for initiatives to fight against the discrimination of disadvantaged groups.

The diversity measures taken by the company in 2009 focused on two main areas, namely support for the program to integrate disabled people, and actions aimed at guaranteeing equal opportunities for all employees.

Key initiatives carried out in 2009 included the publication of the *Libro Blanco de la Contratacion de Personas con Capacidades Diferentes. De las palabras a los hechos* (“White Paper on the Employment of People with Different Capabilities. From Words to Deeds”). The White Paper is the first document of its kind published by a European firm, and it falls squarely within the framework of Repsol’s values and commitment to society.

In June 2009 Repsol received the *Premio Fundacion Empresa y Sociedad* award for its active work in favour of the disabled, and the company has become a benchmark for other firms.

After the success of the project in Spain, efforts have focused on extending the policy to all of the countries where Repsol operates. As of 31 December 2009, the company had a total of 544 disabled employees, comprising 357 people contracted directly in Spain and a further 47 via alternative measures (2.21% of the legal headcount), 108 in Argentina, 10 in Peru, 14 in Ecuador and 8 in Portugal.

Initiatives have also been launched in Brazil, the United States and Venezuela to integrate disabled people into the workforce.

Repsol YPF has also continued to foster initiatives aimed at improving, promoting and fostering a balance between the personal and professional life of its employees. This approach was strengthened in 2009 through the inclusion of the work/life balance in the company's management style, and the implementation of measures to foster the role of managers as the drivers of change, serving as an example for their teams.

The company has expanded and enhanced similar measures in different countries, adapting them to the local social and legislative environment in order to provide employees with a range of options favouring reconciliation both on a daily basis and in special situations while including the desired flexibility.

Following on from the excellent results of the pilot project carried out in 2008, the Teleworking Project went ahead in various stages in 2009, and as of 31 December 2009 included 362 employees in Spain, 140 in Argentina and 14 in Portugal.

The group of teleworkers in Spain was made up by 34% men and 66% women from virtually all areas of the company and professional groups. Of these employees, 48% were aged between 35 and 44 years, and the most common options chosen were one or two days per week.

Teleworking was launched in Argentina in collaboration with the Ministry of Employment, making YPF into the first company in the country to implement a scheme of this kind and include it in collective bargaining agreements. In recognition of this advance, YPF received the Mention of Honour in the *Fundacion Proyecto Padres* award "Towards family responsibility in business".

Repsol YPF's gender equality initiatives focus on equality of remuneration and the promotion of high potential women. The increasing presence of women in the

company is a result of actions taken in a range of areas and an example of this effort. For example, 46% of new recruits in 2009 were women, and the number of female executives has risen by 25% in recent years.

Attracting the best professionals

The implementation of new selection techniques and the approach taken towards initiatives to attract talent from the standpoint of job marketing were the main features of 2009.

The company basically seeks talented young people who are interested in the career opportunities that Repsol YPF can offer. Around 80% of the new recruits to the company in 2009 were younger than 35, and a key objective was to disseminate the company's values as an attractive feature. For this purpose, the organization further strengthened its presence in universities through participation in job forums (10 fairs and two online forums).

It also continued to support the "Impulsa" Scholarship Program, which is aimed at students in their last years at university. Thirty-seven Madrid-based students took part in 2009, and were provided with online training in languages, competencies and skills.

The employment channel on the repsol.com website consolidated its positioning among job-seekers, receiving an average of 2,000 clicks and consultations of each job offer.

Repsol was recognised as the best company in which to work according to the MercoPersonas survey in 2009. The corporate culture was also recognised by the Top Employer monitor.

Personal development

Repsol YPF combines the organization's needs in terms of appropriate competencies and skills, and to plan for the acquisition of those it will require in the

future, with its commitment to provide the company's employees with attractive professional development opportunities.

The company's training, mobility, appraisal and other policies and program allow it to manage the careers of the people who make up the organization on an integrated basis, ensuring equality of opportunity for all employees, regardless of their origin, gender, age and other personal factors.

Internal mobility at Repsol is addressed as an opportunity for the professional development of employees. The gender mainstreaming approach was further strengthened in 2009 through the management of talent banks, mobility boards and proactive searches, which made a total of 5,316 career moves possible during the year.

With regard to promotion and appointments, meanwhile, 2,549 employees saw their professional classification upgraded in 2009 (1,849 promotions and 700 appointments).

Other key actions oriented to identify talent and foster employee development in 2009 were as follows:

- Development of a new tool for the People Review system (identification and development of talent), adapting it to include appraisal of employees covered by the collective bargaining agreement and allowing the identification of maximum technical benchmarks.

- Development Centre Programs with the participation of 162 professionals in 2009. These sessions served to detect and identify talent within the company.

- Continuation of the technical competencies and training itineraries, permitting standardised, effective management of technical talent based on a platform of common knowledge shared by all employees.
- Launch of a process for the design of individual development plans and a proposal for the recognition of qualifications.

► **International careers**

Professionals of more than 60 nationalities work at Repsol. Of these employees, 755 were working in countries other than the ones in which they were hired in 2009, comprising the group of expatriates.

Efforts in 2009 were concentrated on managing the group of professionals working in the exploration area, formed by 118 key profiles in the Upstream unit.

Given its experience in the management of expatriates, Repsol holds the presidency of the Spanish Expatriation Forum (FEEX), in which 25 Spanish multinationals discuss the management of international assignments affecting their employees. The forum presented its *White Paper on Measures to Support People in Business Internationalisation Processes*.

► **New performance appraisal measures**

The variable remuneration system for Repsol professionals known as Management through Commitments (MxC) has been in force for four years. The system appraises and rewards the contribution made by employees to the attainment of objectives, established annually, and behaviour that the company considers essential: responsibility and results-focus, entrepreneurial spirit and excellence, cooperation, people development and merit-based recognition.

Knowledge management

Repsol YPF is currently involved in a process of change in order to adapt to the needs of a competitive market that demands constant innovation through the creation of value and innovative capabilities in the organization via knowledge management techniques and tools.

New practice communities were created in 2009 which, together with those already in existence, include approximately 22,000 people throughout the company. Projects for retaining employees' knowledge and its transfer to others also remained in place. Applied methodology is mainly supported by compiling personal histories and experiences which are recorded and transmitted in audiovisual supports.

Quality: management excellence

Repsol perceives quality as the constant pursuit of excellence by managing the company's resources in an appropriate manner to generate value for its stakeholders over the course of time.

In order to make progress on the road to excellence, Repsol adopted the European Foundation for Quality Management (EFQM) and the Ibero-American Foundation for Quality (FUNDIBEQ) models in 2001. The company is a member of both associations. It also participates actively in the leading quality associations in the geographical regions where it operates.

In 2009 the company continued with the implementation of key measures in the Strategic Quality Plan approved annually by the Quality Committee. Within the sphere of consolidation and enhancement of the self-assessment process, the company's units define and implement plans and program based on self-assessments. Since the launch of this initiative in 2001 over 130 self-assessments have been performed, which means that 100% of the organization has performed

at least two self-assessments as of 31 December 2009, and 50% has carried out three or more.

In 2009 Repsol continued to work on the roll-out of process-oriented management in the whole of the company. The formalization of processes and identification of indicators and performance measures support decision making and help with the identification and implementation of improvements to ensure that objectives are met.

The company has 55 quality certificates based on standards such as ISO 9001:2000, TS 16949 and ISO 17025, which may be consulted at www.repsol.com.

Labour relations

The collective bargaining agreements that expired in 2008 were renegotiated in 2009. In May 2009 the Fifth Framework Agreement was signed, applicable to all of the Group companies in Spain. The contents of this collective agreement include a strong commitment to measures that foster a work/life balance.

In Argentina YPF reached a new collective agreement with the United Oil and Hydrocarbons Workers Union (SUPeH in its Spanish acronym), which groups supervisory personnel working in exploration and production and in the refining activity. This agreement was endorsed by the Ministry of Employment.

Health and safety

Work continued with the development of a set of uniform standards for the whole of the Group. The Individual Health Monitoring procedure was completed with the publication of the Guidelines for Periodic Health Monitoring in the Repsol YPF Group, which contains 17 protocols for action.

Meanwhile, the Health and Safety Committee approved guidelines for action against the Swine Flu pandemic, which was followed by an information campaign aimed at employees, and preventive and hygienic measures were implemented.

An internal audit program was also launched to assess compliance with internal workplace health and safety regulations. The results for knowledge and compliance were satisfactory.

INNOVATION AND TECHNOLOGY

Repsol YPF considers its R+D investments as one of the key factors to make possible an efficient, sustainable energy system that will be capable simultaneously of providing answers to the industry's two main challenges, security of supply and the reduction of CO₂, while maintaining the competitiveness of the energy system. Consequently, Repsol invests in R+D to help seek solutions to these important challenges, providing value both for the company and for society as a whole.

In view of the uncertainties surrounding the predominant technologies of the future, the maturity periods of R+D efforts, economic cycles and the cost-cutting tensions at the bottom of the cycle, Repsol has prepared a Strategic Technology Plan as part of its business strategy. The lines of work set out in the plan cover all the company's businesses: hydrocarbons exploration and production, the natural gas value chain, oil refining and related products and petrochemicals, without ignoring future avenues for diversification in the production and use of energy, as well as bio-fuels and the electrification of transport.

In 2009 Repsol invested €65 million in R+D activities carried out directly at its technology centres in Spain (Mostoles) and a further €10 million in projects undertaken at the company's different business units. Repsol maintains an active policy of collaboration with both public and private technology institutes and universities in Spain and internationally. The 2009 budget earmarked for these types of agreements totalled more than €8 million in 2009. In addition, the company increased its involvement in consortiums with other firms for the pre-competitive development of new technologies. Repsol participates in R+D financing projects sponsored by different tiers of government. In 2009 it took part in 18 projects promoted by the Spanish Government and in 10 European Union projects, while increasing its participation in R+D projects in cooperation with other entities.

R+D programs

Upstream. Repsol applies the most advanced technologies in the exploration of new oil and gas fields. The major finds reported in 2009 are a good example of the efficient application of these technologies, which include the geophysical technology developed in the Kaleidoscope project, placing Repsol in the vanguard in the exploration of complex areas. The objective of raising the reliability of underground imaging and reducing the uncertainty inherent in the search for oil and gas can be applied at a depth of thousands of meters in difficult areas with significant reserves, such as the U.S. waters of the Gulf of Mexico and Brazil, where thick layers of salt hide oil companies' targets.

Meanwhile, advanced new analytical and geo-chemical methodologies to describe oil-bearing systems in detail can be applied in both hydrocarbons exploration and in the development and operation of finds, and the company uses its own proprietary models and methodologies to assess and assure the flow of oil or gas under adverse conditions, especially in offshore production.

Another key R+D line at Repsol involves the use of improved recovery technologies for extracting more oil and gas from mature reservoirs. Also, the search for non-conventional hydrocarbons, world reserves of which are expected to be significantly higher than have been exploited to date, represents a major challenge for the company, requiring the development and application of special technologies.

LNG. In this business, in which Repsol is a leading international player, liquefaction technologies are being developed for use in floating systems, which will make it possible to capitalize gas reserves that cannot be exploited in an economically viable manner at present. Repsol also systematically monitors alternative technologies allowing the capitalization of gas reserves, such as the conversion of natural gas into liquid fuels.

Downstream. In the area of oil refining and derived products (gasoline, fuel oils, LPG, asphalts, lubricants, specialized oils), technological knowledge is applied to the operational optimization of refineries and the enhancement of product quality with particular attention to advances in energy efficiency and environmental issues.

Developments allowing processing of non-conventional crude oils and bio-fuels may be cited as an example of progress in this field, as well as refinery co-processing of biomass, innovation in lubricants and asphalts of better environmental quality, and support for LPG applications in automotive and integrated systems providing enhanced energy efficiency.

Technological development lines in petrochemicals are oriented on a priority basis towards new higher value added products. Successes in 2009 included the development of resins to coat solar panels, oxo-biodegradable polypropylene, new patented applications for rubber and new compounds for polyurethane foams obtained from natural raw materials.

With regard to production processes, efficiency gains and environmental improvements were implemented, especially in processes using proprietary technologies (propylene oxide, polyols, hydrogenated rubber).

New energy sources

In the field of energy supply diversification, R+D and demonstration projects were carried out in relation to second generation bio-fuels; technologies related with the energy supply used by vehicles to reduce transport CO₂ emissions (e.g. electric vehicles); and the integration of mixed fossil fuel and renewable energy heating/refrigeration systems.

Technology prospecting studies

To achieve a sustainable energy future, it will be necessary to overcome ambitious technology barriers in order to arrive at new and better solutions, both in the oil and gas sector and with regard to other energy sources. Repsol carries out systematic

prospecting studies to identify opportunities derived from the long-term evolution of key technologies for the energy sector. These include studies of bio-energy, future combustion engines, electrification of transport, the use of hydrogen as an energy vector, renewables and CO₂ capture and sequestration. These studies allow Repsol to develop new competencies and orient its future lines of work.

THE ENVIRONMENT

Attention to the environment is an essential aspect in the management of Repsol's activities. This principle is part of the company's strategic vision and its commitment to "contribute to sustainable development and the improvement of the social environment, and to respect human rights, the environment and safety".

This is the commitment underpinning Repsol's Safety, Health and Environmental Policy, which is applied in all of the company's activities through the management system. Its main support is the Safety and Environment Manual, which is supplemented by an extensive corpus of standards, procedures and technical guidelines that are constantly updated to adapt them to best industry practice.

In 2009 Repsol made significant environmental investments to optimize its consumption of water and reduce the pollution load of discharges; improve the environmental quality of petroleum products; minimize atmospheric emissions; increase energy efficiency; and improve spill prevention systems applying best practice and technological innovations. The company has also made a significant effort to identify, appraise and correct possible contamination systems arising in the past.

In 2009 Repsol once again achieved the maximum ratings for the oil and gas industry in world sustainability indices, Dow Jones Sustainability Index (DJSI) in terms of climate change, environmental policy and management system and biodiversity. For the first time it also achieved the maximum rating for the industry in environmental information.

Details of the Group's environmental assets, provisions, expenses and future actions are disclosed in Note 36 to the Consolidated Annual Accounts.

SUSTAINABILITY ENERGY AND CLIMATE CHANGE

In June 2009 the company approved a new Carbon and New Energies Strategy, which brings together all of the programs that the company has already been applying for years to meet the challenge of providing a responsible energy supply, and establishes new action plans. The strategy has five main pillars:

- Energy efficiency strategy to cut CO₂ emissions and operating costs.
- Emission rights portfolio strategy, which focuses on covering the expected deficit under the EU emissions trading scheme (ETS) and actions based on market mechanisms.
- Strategy for prospection, development and implementation of CO₂ capture and sequestration.
- Bio-fuels business and technology strategy.
- New energy sources, with special attention to transport, and the synergies between Repsol's operations and renewables.

In this regard, the Climate Change Position, dating from 2002, was updated to include this integrated vision, and in July the new Energy Efficiency Policy was approved, in which the company commits itself to efficient energy use at its plants and in its businesses with a view to the conservation of natural resources, the reduction of atmospheric emissions and mitigation of the effects of climate change.

CORPORATE RESPONSIBILITY

Repsol YPF is committed to supplying energy responsibly, which means that the values of sustainability, social development and respect for the environment form a key part of the company's growth plans. Repsol operates in very different social, cultural and geographical environments. This diversity means that the key issues for the company in matters of Corporate Responsibility are not the same in all areas of its activity. Each environment has different expectations, and because of this, responses must also vary. The progress made in these issues and ethical, social and environmental performance are detailed in the Corporate Responsibility Report for 2009 that Repsol YPF will publish around the month of May 2010. The information provided has been examined by an independent auditor.

The last of the actions envisaged in the 2007-2009 Corporate Responsibility Master Plan were carried out in 2009, and the company has therefore complied with the pledges made in 2007. The plan included nine programs grouped in six strategic strands comprising good governance and ethical conduct; attraction and retention of talent; health and safety; management of the environmental impact of operations; product impact; and dialogue and cooperation with the community. Over the course of these three years, all of the corporate departments and business units have been involved in implementation, leading to the modification and development of certain internal processes in order to meet the expectations of our stakeholders.

Energy for all

In the coming decades Repsol YPF will need to continue contributing to meet increasing demand for energy while reducing the pressure on the environment and helping mitigate climate change, at the same time as providing energy for 1.4 billion people who are still excluded from access to this essential commodity. These challenges are the keystone of the Corporate Responsibility actions envisaged in the 2010-2012 Corporate Responsibility Master Plan, the company's second, which was drawn up in collaboration with all of Repsol YPF's business units in 2009, taking into account the opinions of stakeholders. Key features of this

new, mainstream plan as compared to its predecessor are respect for and promotion of human rights, the objective of fostering openness and the fight against corruption, increasing the level of insertion in the community, and efforts along the company's value chain to foster responsible practices among partners, distributors, suppliers and contractors.

The new Corporate Responsibility Committee was set up in 2009. Under the chairmanship of the Institutional Relations and Corporate Responsibility Department, the Committee is formed by the directors of the company's key corporate and business units: Procurements and Contracting, Communication, Downstream, the Repsol Foundation, Corporate Governance, People and Organization, Investor Relations, Safety and Environment, YPF and Upstream. In 2009 the Corporate Responsibility Committee approved the strategic programs established in the new Corporate Responsibility Master Plan. Corporate Responsibility Committees were also set up in 2009 in the main countries where Repsol operates, including Spain, Argentina, Bolivia, Ecuador and Peru.

The new Regulations for Corporate Responsibility Functions in Repsol YPF were drafted in 2009, and they are expected to be approved and implemented in 2010. These regulations comprise the company's new Corporate Responsibility Management System, which is applicable at all levels, corporate, country and operations. The Corporate Responsibility management system consists of four phases linked by the dynamic of continuous improvement. These phases are: dialogue with stakeholders; analysis of opportunities and ethical and socio-environmental risks; definition and implementation of actions to boost opportunities and mitigate ethical and socio-environmental risks; and the measurement of progress.

In 2009 the company continued to extend the formalization of commitments with our stakeholders, approving the Regulations for Action in Relations with Indigenous Communities, which develops the policy approved in 2008 and is applicable in all aspects of the new project. The regulations also include a commitment with regard

to current operations. In these cases, a study will be performed with the participation of at least two social agents (NGOs) as the basis to determine the actions required where areas for improvement are detected in the company's relations with indigenous communities in each area. Work to develop the basis for this study, which will begin in 2010, was undertaken in the last quarter of 2009.

The progress made by the company in the area of Corporate Responsibility was again recognised in 2009. Repsol was once more included in the selective Dow Jones Sustainability indices, both at world and European level, which include only five oil firms. The company was placed as "Best in class" in the social dimension for the Oil & Gas sector. Likewise, Repsol continued to be included in the FTSE4Good index, endorsing the company's commitment to long-term value creation for another year.

Repsol contributes to the economic, social and cultural development of the countries where it operates through its foundations. The work carried out in 2009 reflects the company's firm commitment to the development of the societies in which it works. In 2009 the Repsol Foundation, the YPF Foundation and the Repsol YPF del Ecuador Foundation launched programs focusing on community development, research, training, education, culture and social initiatives. These entities are, therefore, one of the motors of the company's social responsibility initiatives.

REPSOL FOUNDATION

Through its programs and projects, the Repsol Foundation acts in areas where it can make the greatest contribution to the company, such as energy and the environment, social and cultural initiatives, education and research. In the field of energy and the environment, the Foundation's projects seek to improve the sustainability of energy sources and the management of resources, and to reduce impacts on the climate and the environment.

In December 2009, the Repsol Foundation presented its Energy Observatory, an initiative that arose as an example of our commitment to a new, more competitive and sustainable energy model that will ensure the maximum level of social benefit. The observatory's first action was to undertake a multidisciplinary study that combines both a technical and a sociological approach to addressing energy efficiency, and involves the development of two new indices: the Repsol Energy Efficiency Index, which explains the factors that determine the evolution of energy efficiency in Spain from a technical standpoint; and the Repsol Social Indicator of Energy Efficiency, which reflects the knowledge, attitudes and behaviour of Spanish citizens with regard to energy saving and efficiency.

In the field of social integration, the Foundation works on a range of initiatives, such as training cycles, literary workshops and sports activities to facilitate the working, social and cultural integration of people with different capacities. It also promotes forums to share experiences and examine in depth the needs of these social groups.

As an example of our commitment to innovation and research, the Foundation organised an international neuro-scientific conference on "The Brain in Motion" in San Sebastian in June 2009. This meeting brought together leading scientists and researchers in the field.

In terms of education and training, the Foundation collaborates with a wide range of educational and social institutions, establishes agreements with universities, schools and associates, and contributes to post-graduate study and research via the Repsol Professorship at the Madrid Technical School of Industrial and Mining Engineering.

As a part of its commitment to Spanish science and the dissemination of knowledge, the Repsol Foundation supports the *Fundacion Atapuerca* project, focused on conducting excavations and engaging in the scientific study of the

Atapuerca archaeological site (World Heritage), a key point of reference for the study of human evolution in Europe.

Among the initiatives carried out in 2009, the Repsol Foundation launched the *Muevete y Respeta* (“Move and Respect”) project (Citizen R), which seeks to contribute to the development of the community and more harmonious lifestyles. The project promotes the values of respect, responsibility and solidarity among citizens.

The Repsol Foundation believes culture is another integration factor, contributing to the development of the community and the progress and well-being of society. Consequently, it cooperates with museums, institutions and other cultural foundations to bring music, theatre, art and literature to the citizen.

It is also active in other countries through community development programs aligned with the needs of each region. Among other initiatives, the Foundation has sponsored a micro-finance program in Ecuador for low-income women in rural areas, who are excluded from formal financial systems.

In Peru, the Repsol Foundation cooperates with *Fundacion Ayudales a Vivir* in a project for the construction and improvement of the Pachacutec Labour University, aimed at providing young people with limited resources with appropriate professional training.

YPF FOUNDATION

Since its creation in 1996, the YPF Foundation has worked on initiatives related to education, scientific research, the heritage conservation, the dissemination of culture and the protection of the environment.

In education, the Foundation granted over 500 scholarships in 2009 with the objective of training young people in the fields of science and technology. It also implemented a program to strengthen the technical schools at 32 institutions in Neuquen, Mendoza, Santa Cruz, Chubut and Buenos Aires. The program seeks to enhance the skills of teaching staff in three areas of knowledge: mathematics, science and applied industrial technology. It also designed and carried out the “Science and Technology in Movement” campaign, which consisted of a trailer carrying a mobile exhibition divided into three modules: petroleum products, a scale model explaining how a refinery works, and an interactive game to raise visitors’ awareness of how our daily behaviour, and especially personal consumption, affect the environment.

In the field of sustainable development, the Foundation coordinated a number of research, education and environmental awareness projects in 2009 to improve the protection and conservation of the environment and biodiversity.

Other educational awareness-raising programs were also carried out, such as “Earth Hour”, a world initiative sponsored in Argentina by the *Fundacion Vida Silvestre* to show that combined action against climate change is possible.

Together with the World Bank, the Foundation organised the *Eco Compromiso 2009*, which supports projects proposing innovative solutions to improve environmental conditions.

An agreement was signed in August to work together with the Argentine National Parks to conserve biodiversity, recondition degraded areas and replant forests with native species.

With a view to improving work and social inclusion, a total of 445 people were trained in the skills of pipeline building, welding, civil engineering, industrial electricity, and safety and hygiene.

With the objective of promoting culture, the YPF Foundation sponsored the First Buenos Aires International Violin Competition 2010; launched the YPF Foundation cultural cycle, which aims to facilitate access to arts spectacles, especially in areas where the company operates; and launched the Training Program for Young Visual Artists in collaboration with Torcuato di Tella University.

FUNDACION REPSOL YPF DEL ECUADOR

In line with its firm social commitment, Repsol YPF decided voluntarily to create a foundation in Ecuador with the basic objective of working for the development of indigenous and mixed-race communities in the territories indirectly within the sphere of influence of Block 16. Fundacion Repsol YPF del Ecuador was created on 11 May 2001.

Based on a study of socio-economic and cultural conditions in the area, three priorities were identified to improve the conditions of life for the population. The first is related with education and job market insertion; the second is oriented towards health and hygiene; and the third concerns efforts to strengthen production and commercial capability at the micro and local levels.

Fundacion Repsol YPF del Ecuador took part in 25 social development projects in 2009. Of these, 11 were completed during the year, and the remaining 14 are ongoing projects basically involving monitoring and technical support work. The foundation is convinced that the sustainability of its initiatives requires not only the injection of funds, but also continuous monitoring and support for projects after the funding process is complete, to ensure full autonomy.

A total of 13,235 people benefited from the initiatives funded by Fundacion Repsol YPF del Ecuador using its own resources and contributions from counterparty entities, strategic allies of the foundation and communities themselves.

The foundation is making up a consistent effort to generate proposals and seek additional funding with the aim of enlisting the support of multilateral cooperation organizations and other companies in its social and environmental development projects and initiatives.

COMMUNICATION

Transparency and close relations with the company's different stakeholders are the mainstay of Repsol's communications strategy. Nowadays, society demands accessible information, and Repsol does not hesitate to cater for this need in the smoothest and most reliable way possible with a number of tools.

Shareholders and investors

These groups have access to all sorts of resources that enable them to find out about the day-to-day business of the company. Since its stock-market flotation in 1989, Repsol has had a Shareholder information Office (*Oficina de Informacion al Accionista, OIA*) and an Investor Relations Department, and through them it deals with the needs of its shareholders, institutional investors and stock market analysts.

Shareholders can ask for any information they need at the OIA by going to the office in person, calling the 900 100 100 freephone or by post or e-mail. In 2009 the OIA dealt with over 64,000 calls (an average of 242 a day) and nearly 300 e-mails from shareholders seeking information. Most of the enquiries in 2009 had to do with the share price, the Annual General Shareholders' Meeting, the policy for and payment dates of dividends, and the material facts of the company.

In addition, the corporate website (www.repsol.com) provides access to all the relevant information about the company, as well as specific contents in the section "Information for shareholders and investors", which in 2009 had more than 219,213 visits. The portal also has an e-mail address (infoaccionistas@repsol.com), where enquiries can be sent and publications requested. In 2009 around 500 e-mails were sent to this mailbox, mainly asking for information about Repsol.

The Investor Relations Department provides smooth communication with institutional investors and stock market analysts. During the year, 15 global roadshows were organised (meetings between company executives and

international institutional investors) and 300 one-on-one interviews were held (personal interviews with investors and financial analysts). Repsol also organized a number of sector-based conferences in Europe and the United States, which were attended by a large number institutional investors. The Investor Relations Department also organized an Analysts Day in London and Madrid. This event was very well received and was attended by practically all of the 38 analysts who follow the evolution of the company.

News media

Repsol's policy for news media relations is based on the principles of transparency, immediacy, accuracy and reliability of the information conveyed. The company at all times endeavours to ensure that requests for information from journalists are answered as quickly as possible, keeping up a free-flowing and ongoing contact with the media, which is regarded as vital for conveying developments in the business activity and management of a company that is present in more than 30 countries.

Repsol's Corporate Communication Department deals daily with general and specialist media at international, national, regional and local level, providing them with information about everything that professionals from this sector need to know. In addition, it works closely with the local media in the places where the company's industrial complexes are located.

All the news media are informed of key activities and initiatives undertaken by Repsol by means of press releases. In 2009 Repsol distributed more than 100 press releases in Spain alone, as well as others disseminated by industrial complexes at local level, and those issued in the countries where the company operates.

To strengthen the relationship with journalists, press conferences and specific informative meetings and trips are arranged. Particular mention should be made of those held in 2009 to mark the Annual General Shareholders' Meeting (14 May), to

report earnings for 2008 (26 February), and to explain recent developments and the latest results of the Exploration unit (11 February). In November 2009 journalists from a range of media organisations travelled to Brazil to learn first hand about Repsol's exploration and production activities in the South American country.

The company's website has a specific space, the press room, that provides immediate access to information about the Group. From this space, the press releases issued by Repsol, as well as publications, pictures and all kinds of relevant information about the company are made available to the news media and the general public. It also contains useful tools and a glossary of terms.

Repsol has a press mailbox (prensa@repsol.com), which aids relations with the different media. Over 4,500 enquiries and requests for information were handled through this channel in 2009.

Repsol online

The www.repsol.com website is an important communications tool. In 2009 the company refreshed the corporate website with an attractive, modern design that is more accessible to all potential users and contains a wide range of innovative content, multimedia services and high value-added tools. The new repsol.com will strengthen Repsol's leadership in digital communication and the relevance of this part of the Group's communication strategy.

This new initiative further strengthens the sound online track record of repsol.com. In 2009 the website achieved 70 million pages viewed and some 5 million monthly visits, winning further recognition such as the Cap Gemini "Best company in the energy and utilities sector 2009" award, and the Seventh AECA (*Asociación Española de Contabilidad y Administración de Empresas*) Prize for the Ibex 35 company offering the best financial information online. For the sixth consecutive year, Repsol is the top Spanish company in this field, and one of the top ten in Europe, according to the international consultancy, Hallvarsson & Hallvarsson, which tracks the effectiveness and transparency of corporate websites.

The quality and topicality of content in all areas, the move into the world of social networks and the capacity to adapt to users' needs and changing times have consolidated the position of the Repsol portal as a leader in transparency and online communication in Spain and Europe in 2009.

BRAND MANAGEMENT AND CORPORATE IDENTITY

In 2009 the Repsol brand achieved maximum recognition, receiving the First Prize in the Fourth edition of the *Premios Centro de la Marca* organized by the prestigious business school, ESADE. These awards are the first developed in Spain based on an analysis of best practice in branding strategies. The key arguments made by the jury were:

- ▶ The strong presence of the brand in over 100 countries on five continents, and its consolidation as an instrument integrating the different companies forming the group.

- ▶ The global brand strategy, which has strengthened the group's multinational positioning to create value for stakeholders.

- ▶ The role of the brand as a vehicle for the dissemination of the group's culture, achieving a common identity that is in balance with the local identities of the different markets where Repsol operates.

- ▶ The brand is the key vector for communication both inside and outside the group.

In 2009 Repsol was also placed among the top ten Spanish brands in the annual ranking published by Interbrand, a leading firm in the valuation of brands worldwide. In the 2009 edition, the Repsol brand increased its value thanks to its international presence and relevance in markets like Spain, Portugal and Latin America; the consistent application of the brand at the different points of contact with stakeholders; sponsorship of motor sports in support of the company's business strategy; and the shift towards sustainability in the communication strategy.

New social demands

Brand management in Repsol is currently based on the learning processes and successes achieved in the past, and on the company's commitment to the future. In this regard, new social demands, such as respect for the environment, sustainability and social responsibility have become the key criteria for today's buying decisions. Society's expectation of responsible action on the part of large companies are much more demanding in today's world. Consumers are better informed, they are critical and sceptical, and they demand greater honesty and transparency in communications. Furthermore, the arrival of new forms of communication and the areas of activity in which the company will move in the coming years require evolution.

The brand policy, which is based on concentrating communication efforts on one brand with a single graphic design and single voice, has achieved the objective of raising its value. Nevertheless, the first steps were made with the evolution of the brand in line with new trends in 2009. As a result, Repsol has commenced the development of a new brand strategy with the objective of developing the brand in new areas in line with social demand. This will provide greater versatility, credibility and alignment with the company's emerging activities, in harmony with the interests of our society at a time that is marked by concern for sustainable development and innovation as the main focuses of attention for the coming decade.

The general lines of this new brand strategy were developed and the actions necessary for implementation defined through an ideas competition involving leading brand design and consultancy firms.

The evolution of the Repsol brand is not an isolated event, but forms part of a global strategy establishing new communication guidelines based on the current social and economic challenges, a new positioning for the company and the strategic premises of advertising communications.

SPORTS SPONSORSHIP

In 2009 Repsol took part in competitions at the highest level, such as the World Motorcycle Championship, which represent the best test benches for its fuels and lubricants by exposing them to the most extreme conditions. Thanks specifically to the cumulative experience gained in the development of products for top-level competitions, Repsol is able to maintain its leading position in research and the development of products capable of living up to the expectations of its customers.

In line with our track record, 2009 was an outstanding season in terms of the world championship titles won by the Repsol drivers in international competitions. Victory was achieved in the women's indoor World Trial Championship, and the same title was secured in the men's indoor World Trial Championship. Repsol drivers also won the world title in the individual and team categories in the World Touring Car Championship, securing five trophies to add to the company's long list of wins.

Of note in 2009 was Repsol's participation in the World Touring Car Championship (WTCC). In its sixth year, this competition has positioned itself as the second most important automobile event worldwide, only surpassed by Formula 1. Gabriele Tarquini's victory, and the team victory secured with Seat, were a great international showcase for the Repsol brand, another of the attributes, together with the development of fuels and lubricants, with which the company shows its commitment to sports sponsorship.

In the World Motorcycle Championship, Repsol rider Marc Marquez, aged 17, confirmed his bid to form part of the elite in this discipline, demonstrating both his sporting and human qualities, features which Repsol always views positively in its sports representatives, as well as rigorous standards and professionalism. In MotoGP, the top category, Dani Pedrosa started badly due to injury, although he regained his poise towards the end of the season.

With the world's best

In trial, Toni Bou ratified his position as the undisputed leader of the speciality, holding on to his two world titles, while Laia Sanz remained at the top in the women' category, achieving her ninth world crown.

Repsol could not have had a better start in 2009. The motorcyclist Marc Coma won the first South American edition of the Dakar Rally thanks to excellent teamwork.

Repsol is also committed to Olympic sports and cooperates in the ADO plan, which helps young people fulfil their dream of taking part in the Olympic Games.

In its pursuit of excellence, Repsol will again be present in 2010 in cutting-edge technology sports scenarios such as the World Motorcycle Championship, which starts in April at the Losail circuit (Qatar). Once again, the company will support internationally renowned drivers like Dani Pedrosa, and young talents like Marc Marquez, among other sportsmen and women.

NEW REPSOL HEADQUARTERS

Construction of the new Repsol headquarters began in November 2008 and work continued apace in 2009. The prestigious Spanish architects firm of Rafael de La Hoz was commissioned for the project.

In the first phase of the work, the existing installations on the site of the former headquarters of Compañía Logística de Hidrocarburos (CLH) were demolished and the plot, located at Calle Mendez Alvaro in Madrid, was excavated. Some 300,000 m³ of earth were moved, the slurry wall was built and the foundations were completed in their entirety.

The second phase began in September 2009 when the general contractor, Sacyr SAU, joined the work. As of 31 December 2009 the construction of the underground structure comprising almost 60,000 m² of basements was close to completion, and work had begun on the above-ground structure, the prior step for the erection of 111 steel structural frames, which will be one of the characteristic features of the building.

Participation of employees

In parallel with the construction work, the competition arranged to develop the interior of the building was finalized in 2009, addressing all aspects related with the layout, fitting out and decoration of the office and service spaces. The contract was awarded to a joint venture formed by Aguirre Newman and Enrica Rosellini. At the end of the year the basic interior project had been practically completed. Both the company officers responsible for the project and a group of employees from other units were involved in this process, giving their opinions and serving as a link with the rest of the organization.

The future headquarters of the Repsol Group will consist of a ground floor and four storeys of offices and service rooms. It will also have two basement floors containing installations and a car park with capacity for 1,800 vehicles. The project

includes over 5,000 m² providing services to employees. The closed ring layout of the buildings will provide a large tree-lined garden enclosure of almost 10,000 m². Also, a new green area will be created within the perimeter of the business park. Repsol has remained fully committed to sustainability from the design stage of the project. Construction of the new Repsol headquarters is scheduled for 2011

SUPPLEMENTARY CONTENT OF THE MANAGEMENT

REPORT

*(Pursuant to section 116.b
of the Spanish Securities Market Act)*

A. a) Capital structure, including securities not traded on a European Union regulated market, indicating, where appropriate, the different classes of shares and, for each class of shares, the rights and obligations that it confers and the percentage of capital that it represents.

The Share Capital of Repsol YPF, S.A. is currently €1,220,863.463, represented by 1,220,863,463 shares, each with a par value of €1, fully subscribed and paid up, belonging to the same class and, consequently, having the same rights and obligations.

The shares of Repsol YPF, S.A. are represented by account entries and have all been admitted to listing on the automated trading system of the Spanish securities markets (Madrid, Barcelona, Bilbao and Valencia), the New York Stock Exchange and the Buenos Aires exchange (*Bolsa de Comercio de Buenos Aires*).

B. Any restrictions on the transferability of shares.

As set out in the 11th Additional Provision of Act 34/1998 on the hydrocarbons sector, as per the wording of Royal Decree Law 4/2006, 24 February, administrative authorization must be sought from the National Energy Commission for certain holding acquisitions that involve companies that carry out regulated activities or activities that are subject to administrative intervention which entails a special binding relationship.

The Ruling of the Court of Justice of the European Communities (CJEC) of 28 July 2008 set out that, by enforcing this requirement, the Kingdom of Spain has

breached the obligations incumbent upon it under articles 43 (freedom of establishment) and 56 (freedom of movement of capital) of the European Community Constitutional Treaty.

C. Significant direct or indirect holdings in the capital.

As of the last date available, the following were the most significant holdings in the share capital of Repsol YPF, S.A.:

Shareholder	Total % of the share capital
Sacyr Vallehermoso, S.A. ⁽¹⁾	20.01
Criteria Caixa Corp. ⁽²⁾	14.31
Petroleos Mexicanos ⁽³⁾	4.81

(1) The shareholding of Sacyr Vallehermoso is held through Sacyr Vallehermoso Participaciones Mobiliarias, S.L.

(2) Criteria Caixa Corp. holds 9.28% directly and 5.02% indirectly through Repinves S.A. (a company in which Criteria Caixa Corp. has a 67.60% interest).

(3) The shareholding of Petroleos Mexicanos (Pemex) is held through Pemex Internacional España, S.A. and through several equity swap instruments with certain financial institutions providing mechanisms furnishing Pemex with the financial rights and the exercise of voting rights up to 4.81% of the company's share capital.

Furthermore, in January 2008 the entities Barclays Global Investors, NA, Barclays Global Investors, Ltd., Barclays Global Fund Advisors and Barclays Global Investors (Deutschland) AG notified the Spanish Securities Market Commission (CNMV) of the existence of a concerted agreement for the exercise of voting rights in Repsol YPF regarding a 3.22% holding. On 4 February 2010, the entity Blackrock, Inc. reported to the CNMV that it had acquired an indirect holding in the share capital of Repsol YPF, S.A. of 3.539% (43,213,390) via the company

Blackrock Investment Management (UK), as a consequence of its acquisition of the business of Barclays Global Investors on 1 December 2009.

D. Any restriction on voting rights

□ Article 27 of the Corporate Articles of Association of Repsol YPF, S.A. lays down that the maximum number of votes than an individual shareholder, or companies belonging to the same Group, may cast at the General Meeting of Shareholders shall be 10% of the Share Capital with voting rights.

□ Furthermore, article 34 of Royal Decree Law 6/2000 sets out certain restrictions on the exercise of voting rights in more than one principal operator in the same market or sector. Among others, it lists the markets for the production and distribution of fuels, the production and supply of liquid petroleum gases and the production and supply of natural gas, principal operator being understood to be any of the entities that hold the five largest shares in the market in question.

Such constraints are specified as follows:

- Natural or legal persons who have a direct or indirect holding of over 3% in the Share Capital or the voting rights of two or more principal operators in the same market may not exercise the voting rights attached to the excess over and above such percentage in more than one of those companies.

- A principal operator may not exercise voting rights representing more than 3% of the Share Capital of another principal operator in the same market.

These prohibitions shall not apply to parent companies which have the status of principal operator with respect to their controlled companies that have the same status, provided that such structure is imposed by the legal system or is the consequence of a mere redistribution of securities or assets among companies in the same Group.

The National Energy Commission, as the energy market regulatory body, may authorize the exercise of the voting rights attached to the excess, provided that this does not favour the exchange of strategic information or entail risks of coordination in their strategic activities.

E. Lock-up Agreements.

Repsol YPF S.A. has not been informed of any lock-up agreements that refers to any arrangement or agreement as to the exercise of voting rights at its general meetings or that restricts or places conditions on the free transfer of Repsol YPF S.A. shares.

F. Rules applicable to the appointment and replacement of members of the Board of Directors and amendment of the corporate Articles of Association.

- *Appointment*

The General Shareholders' Meeting is entrusted with nominating the members of the Board of Directors, notwithstanding the powers of the Board to nominate persons from among the shareholders to fill vacancies that arise until the next General Meeting is held.

Persons to whom the prohibitions under section 124 of the Spanish Companies Act apply, and those who are under disqualifying circumstances according to the law in force may not be appointed as directors.

Persons and entities that are in a situation of permanent conflict of interest with the company, including rival entities, their directors, executives or employees and the persons linked with or proposed by them may not be directors of the company either.

Nominees shall be persons who, in addition to fulfilling the requirements for the post stipulated in the law and Articles of Association, have acknowledged prestige and possess the appropriate professional knowledge and expertise for the performance of their duties.

The proposals for the appointment of Directors that the Board submits to the General Meeting, and appointments made by cooption, shall be approved by the Board (i) at the proposal of the Appointments and Remuneration Committee, in the case of Independent External Directors, or (ii) subject to a prior report by that Committee in the case of other directors.

- *Re-election*

The Appointments and Remuneration Committee is responsible for assessing the quality of work and dedication to the office during the preceding term of office of directors proposed for re-election.

The proposals for the appointment of Directors that the Board submits to the General Meeting, and appointments made by cooption, shall be approved by the Board (i) at the proposal of the Appointments and Remuneration Committee, in the case of Independent External Directors, or (ii) subject to a prior report by that Committee in the case of other directors.

- *Withdrawal or resignation*

Directors shall cease to hold office when the term for which they were appointed expires (unless they are re-elected) and in the other circumstances provided for in the Law, the Corporate Articles of Association and the by-laws of the Board of Directors.

Furthermore, directors must submit their resignation to the Board of Directors in any of the following circumstances:

a) When they are under any disqualifying circumstance or prohibition provided for by law, the company's Articles of Association or the regulations that apply to them.

b) When they have been seriously cautioned by the Appointments and Remuneration Committee or the Audit and Control Committee for having breached their obligations as Directors.

c) When, in the opinion of the Board, subject to a prior report by the Appointments and Remuneration Committee:

1. Their continued presence on the Board may jeopardize the interests of the company or impair the functioning of the board itself or the standing and reputation of the company; or

2. When the reasons for which they were appointed no longer concur. This includes, in particular:

- External Incumbent Directors when the shareholder that they represent or that had proposed their appointment transfers the whole of its shareholding. They must also surrender their post to the Board and, if the Board deems it fit, tender the respective formal resignation, in the corresponding proportion, when such shareholder reduces its shareholding to a level that requires the reduction in the number of its External Incumbent Directors.

- The Executive Directors, when they cease to hold the executive posts outside the Board to which their appointment as Director was linked.

The Board of Directors shall not propose the withdrawal from office of any External Independent Director before the statutory period for which he/she had been appointed comes to an end, except where there are proper grounds for doing so, in the opinion of the Board subject to a prior report by the Appointments and

Remuneration Committee. In particular, proper grounds shall be deemed to exist when the Director (i) had breached the duties inherent in his/her office; (ii) were in any of the situations described in the previous paragraphs; or (iii) were in any of the circumstances described in the Rules and Regulations of the Board as a result of which he/she cannot be classified as an Independent External Director.

Proposals for the withdrawal from office of Independent External Directors may also be made as a result of takeover bids, mergers or other similar corporate operations that entail a change in the company's capital structure, to the extent necessary to establish a reasonable balance between External Incumbent Directors and Independent External Directors according to the relationship between the capital represented by the former and the remainder of the capital.

- *Amendment of the Articles of Association*

The Articles of Association of Repsol YPF, S.A., which are available on its website (www.repsol.com), do not lay down different conditions from those contained in the Spanish Companies Act for their amendment, with the exception of the amendment of the last paragraph of section 27, regarding the maximum number of votes that a shareholder or companies belonging to the same Group may cast at the General Meeting. Said resolution, as well as the resolution to amend this special rule contained in the last paragraph of section 22 of the Articles of Association, requires, both in the first and in the second convening, the favourable vote of 75% of the share capital with voting rights attending the General Meeting.

G. Faculties of the members of the Board of Directors and, in particular, those concerning the possibility of issuing or repurchasing shares.

The Annual General Meeting of Shareholders of the company, held on 31 May 2005 agreed to authorise the Board of Directors to increase the Share Capital, once or several times, during a period of 5 years, by the maximum amount of

€610,431,731 (approximately half the current Share Capital), by issuing new shares the counter value of which shall consist of cash contributions.

Likewise, the Annual General Meeting of Shareholders of the company, held on 14 May 2009, authorised the Board of Directors to engage in the derivative acquisition of own shares, under the terms indicated above in the “Financial situation” section of this Management Report.

Finally, in addition to the powers recognised in the company’s Articles of Association and the Board Regulations as being conferred upon the Chairman and Deputy Chairmen of the Board, the Executive Directors have each been granted general powers of attorney to represent the company, conferred by the Board of Directors, and which are duly recorded in the Commercial Register of Madrid.

H. Significant agreements to which the company is party and that take effect, alter or terminate upon a change of control at the company as a result of a takeover bid, and their effects, except when disclosure thereof would be seriously detrimental to the company. This exception shall not apply when the company is under the legal obligation to make this information public.

The company participates in exploring for and exploiting hydrocarbons through consortiums or joint ventures with other oil companies, both public and private. In the contracts that govern relations between the members of the consortium the other partners are usually granted a right of first refusal over the holding of the partner on which a change of control takes place when the value of said holding is significant in relation to the overall assets of the transaction or when other conditions set out in the contracts occur.

Likewise, according to the rules regulating the oil and gas industry in the different countries in which the company operates, the transfer, total or partial, of research permits and exploitation concessions as well as, on occasions, the change of control in the concessionaire entity or entities and in particular in the entity that has

the status of mining area operator, are subject to prior authorisation by the competent administrative authority.

In addition, the agreements entered into by and between Repsol YPF and Caja de Ahorros y Pensiones de Barcelona (“la Caixa”) relating to Gas Natural SDG S.A., reported as relevant events through the Securities Market Commission, as well as the Industrial Agreement Activity between Repsol YPF and Gas Natural SDG S.A. foreseen in the abovementioned agreements and disclosed as a relevant event on 29 April 2005 and the Partnership Agreement between Repsol YPF and Gas Natural SDG relating to Repsol–Gas Natural LNG S.L. consider the change in the control structure of either of the parties to be grounds for termination.

I. Agreements between the company and its directors and executives or employees providing for compensation when they resign or are unfairly dismissed or if the employment relationship comes to an end because of a takeover bid.

● *Executive Directors*

The Chairman and the General Secretary and Member of the Board are entitled to a Deferred Financial Compensation in the event of the termination of their relationship with the company, provided that said termination does not take place as a result of a breach of their obligations or of their own free will, without there being grounds for it, among those provided for in the contract itself. The amount of the indemnity for termination of the relationship shall be three years of their aggregate cash remuneration.

- *Executives*

The Repsol YPF Group has established a sole legal rule for executive staff, which is specified in the Executive Contract, in which the compensation system applicable in circumstances involving termination of the employment relationship is regulated and in which the grounds for compensation are the ones foreseen in the current Spanish legislation.

In the case of senior executives, they include the resignation of the executive in the event of transfer of undertakings or a major change in its ownership, resulting in a replacement of its governing bodies or of the content and guidelines of its core business activity.

The amount of the compensation payments is calculated according to the age, length of service and salary of the executive, except in one case, in which it is established as three years' total monetary remuneration.

Further information about this matter can be found in Note 33 of the Repsol YPF Group's Consolidated Annual Report.