

Ethical conduct and the fight against corruption

The Ethics and Conduct Regulation for employees, a fundamental pillar of the ethical framework of our performance, is based on the values of integrity, transparency, and security – essential and unchanging principles of our company.



Repsol's ethical commitment

Our public commitment to ethical conduct is set out in our Ethics and Conduct Regulation. This is the fundamental element underpinning our entire body of requirements, and defines the conduct expected of our organization and all the people within it, in the functions we perform, and in our relations with stakeholders.

It includes guidelines for conduct with regard to respect for human rights, action against fraud and corruption, and relations with stakeholders, among other issues.

Training and awareness-raising

Training and awareness-raising about our Ethics and Conduct Regulation is an essential requirement in ensuring that it is better understood and followed.

In 2010, we undertook a significant awareness-raising action, which was aimed at the more than 5,000 employees of the company-owned Service Station Network. A session on ethics and human rights was also held during the annual CD Media Forum, which brings together the Safety and Environment, Purchasing and Contracts, and Engineering and Technology units, and was attended by 650 participants. Both these events covered all the aspects of the Ethics and Conduct Regulation. These campaigns altogether covered 16% of our employees in 2010.

Reporting non-compliance

Repsol staff can communicate any compliance failure or violation of the conduct set out in the Ethics and Conduct Regulation. They may do this by informing the head of their department or by reporting it to the Ethics Committee. Repsol will not tolerate any kind of action being taken against employees who report allegations of non-compliance in good faith, and will punish any violations of our regulations that constitute labor offences under the law, without prejudice to other liabilities that these may also incur.

The Ethics Committee has a communication channel on the corporate intranet and at www.repsol.com, which enables employees and third parties to submit queries about the Ethics and Conduct Regulation in

complete confidence, as well as to report possible compliance failures or infringements of this regulation.

Monitoring and control system

The Ethics Committee has responsibility for managing the system to monitor and ensure compliance with the Ethics and Conduct Regulation. The Committee met on three occasions in 2010 to discuss our response to reports received and files processed on the issue of ethics, and the ethical and conduct commitments that Repsol has assumed as part of its 2012 Sustainability Plan.

From the creation of the Ethics Committee up to 31 December 2010, its communication channel had received 84 reports directly or indirectly related to the Ethics and Conduct Regulation. Some of the main issues raised relate to labor situations (36%), commercial complaints (32%), contractual relationships with suppliers and contractors (16%), and queries and information requests (12%).

The Repsol Audit and Control Department oversees compliance with the Ethics and Conduct Regulation in all of the company's projects. This involves revising existing controls within the various units, including non-operated assets. The issues addressed include aspects related to potential conflicts of interest, the proper use and protection of company assets, bribery and corruption, information transparency and confidentiality, relationships with customers, suppliers, contractors and partners, personal data protection, compliance with the law, and financial records. In 2010, we carried out 59 audits related to ethical issues.

General controls have been identified in the Internal Control of Financial Reporting model. These are designed to cover the main risks relating to employees' ethical conduct.

Likewise, the Audit and Control Department is involved in investigating reports received by the Ethics Committee and the Audit and Control Committee through the non-compliance communication channels.

In 2010, 61 sanctions were imposed for failure to comply with the Ethics and Conduct Regulation, of which 25 were classed as very serious and grounds for dismissal.

More information on the Ethics and Conduct Regulation, the make-up of the Ethics Committee and the description of the non-compliance communications channels can be found at ethic.repsol.com

Measures to fight bribery and corruption

Our mechanisms to prevent, detect, and investigate cases of corruption

The Repsol Audit and Control Department took various actions to prevent the risk of fraud in 2010 through its teams dedicated to audit, internal control of financial reporting, association control, systems auditing, regulatory compliance, and online audit:

- We maintained and updated our internal policy on the evaluation and control of financial reporting fraud risks.
- We updated our inventory of controls designed to mitigate financial reporting fraud risks, something we do annually. In 2010, this accounted

for 25% of overall company controls. The effectiveness of these controls is reviewed each year through tests to evaluate the extent to which they function in the way they were intended.

- In 2010 we continued significant efforts to strengthen our approach to the separation of functions associated with the Internal Control System of Financial Reporting within Repsol.
- We assess fraud risk in our internal audits through use of the methodology developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our audits review the possibility of fraud within each unit. Some of the qualitative factors evaluated each year in order to produce the plans is the possibility of fraud being committed within each unit and process subject to auditing.
- The Online Audit Unit has designed indicators that alert us to the possibility of fraud or anomalous situations. The indicators cover, for example, controls related to the management of powers of attorney, human resources, acquisitions, payments, and others.
- The Association Control Department reviews the accounting records of the associations in which the Group participates on a sampling basis. Part of this review involves analyzing the possibility of corruption, including violations of the US Foreign Corrupt Practices Act, unsupported payments, and others.
- Detailed audits are also carried out before entering new areas, to ensure that any unsupported expenditure or undue payment is rejected and reported at the correct level.

Coverage across our units

The Internal Control System on Financial Reporting identified 263 controls specifically aimed at covering the various aspects of fraud risks in financial reporting across the group Repsol YPF:

- Intentional error in Financial Accounting.
- Improper use of assets.
- Ability of management to bypass the control process.
- Inadequate separation of functions in key financial reporting processes.

As part of the separation of functions model linked to the Internal Control System on Financial Reporting, corrective actions were studied and put in place based on the results periodically obtained from the 49 information systems created.

In addition, 39% of the indicators monitored by the Online Audit unit are focused, at least to a certain degree, on fraud. These indicators were implemented in 25 companies in the Group over the course of 2010, representing 11% of the total.

Our response to incidents of corruption

In cases where a potential incident of corruption is identified, the Audit and Control Department launches an investigation that aims to properly understand how it originated. Once the problem has been analyzed, it is notified and reported at the appropriate levels so that the relevant disciplinary steps can be taken. Subsequently, the action plan is monitored to ensure that the agreed measures have been properly implemented.

More information on association control and the mechanisms in place to detect and prevent corruption within the value chain can be found in the chapter *Partners, suppliers and contractors*.

Financial transparency

Repsol's position

Repsol is in favor of transparency and opposed to any kind of corruption. The company has been a member of the Extractive Industries Transparency Initiative (EITI) from its inception. The EITI is the global initiative that we consider best placed to achieve the goal of increasing transparency within the context of respect for contracts and the law. Repsol provides the EITI secretariat with financial support and participates in its initiatives to spread good practice.

The EITI's priorities in 2010 were:

- To oversee the validation of 24 of the 28 candidate countries with a deadline of 2010. By the end of the year, only five of these had passed the process to become compliant countries.
- To support compliant countries in making progress towards implementation.
- To develop an EITI policy using lessons learned from the validation process.
- To promote the initiative in other countries.

Repsol and the EITI group in Peru

Repsol plays an active part in the EITI Group in Peru. In 2010, aside from reconciling the payments and revenue of the extractive industries, the way in which this public revenue is used was reviewed and analyzed as part of an EITI regional pilot program in the Cajamarca area.

The Lima forum, which took place in July 2010, brought an end to a period of public promotion of this initiative, which had started in March, and which involved actions in Moquegua Ancash, Loreto, Cusco, and Cajamarca. These promotional campaigns publicized the results of the national reconciliation study, presented at the end of 2009, explaining to the public how extractive industry companies make payments to the State, and the mechanisms that the State uses to receive these funds and distribute them to the regions.

On 14 December 2010, the EITI Council identified Peru as a country that is close to complying with the validation process, and it has been given six months, until 12 June 2011, to complete the corrective actions required in order to achieve compliant status.

DIALOGUE WITH CIVIL SOCIETY ON TRANSPARENCY

Repsol had contact with various civil society organizations throughout 2010 in the area of financial transparency.

- The company is involved in ongoing talks with a development NGO about providing specific financial information on a country-by-country basis, and has offered to provide detailed explanations and analysis of our activities in certain countries viewed as tax havens under Spanish legislation, and the rationale for these activities.
- Repsol accepted an invitation from the Publish What You Pay coalition, a group of global civil society organizations, to take part in a roundtable event held in collaboration with the Revenue Watch Institute to discuss individual countries' submissions to an International Accounting Standard Board's Discussion Paper, with a view to a possible future international accounting regulation for the extractive industry, which would update the current *International Financial Reporting Standard*, IFRS6.
- Repsol responded to a questionnaire from Transparency International related to transparency in the oil and gas sector. Repsol is the only company judged to be among the top 10 for the three sections evaluated in the study: information on anti-corruption programs; dissemination of information about the organization; and country-by-country reporting.
- Repsol YPF Ecuador took part in the international conference *Transparency in the oil sector: new challenges and opportunities*, which was held on October 21 and 22 in Quito. We participated in the 'Building Multisectorial Alliances' working group made up of government, civil society, and private companies working on the issue of transparency.

TAXES PAID BY COUNTRY

Millions of euros	2010
Spain	7,930
Argentina	4,477
Brazil	518
Italy	301
Libya	584
Peru	594
Portugal	1,043
Trinidad and Tobago	455
Venezuela	103
Other countries ⁽⁴⁹⁾	163
TOTAL	16,168

Payments made to governments

Taxes paid by the Repsol YPF Group in 2010⁽⁴⁸⁾ stood at €16,168 billion, of which approximately 49% comprised special taxes imposed on the manufacture and/or sale of hydrocarbons and 28% related to taxes withheld or passed on to third parties (such as withholdings on salaries and VAT).

(48) Excluding Gas Natural Fenosa.

(49) Includes taxes of less than €100 million paid in other countries where the Repsol Group operates.

ADHERENCE TO THE CODE OF GOOD TAX PRACTICES

As part of our commitment to transparency, in November 2010 Repsol signed the Code of Good Tax Practices, produced by the Large Business Forum and the Spanish Tax Agency. The aim of this initiative, promoted by the Spanish Government, is to encourage transparency, good faith, and cooperation with the Spanish Tax Agency (AEAT) in business tax practices and legal security in the application and interpretation of tax regulations.

Involvement in the European Commission register of interest representatives

In line with its firm commitment to transparency, Repsol joined the European Commission register of interest representatives at the start of 2011. This initiative aims to make transparent firms' lobbying activities. We provided the following information on 2010:

Item	Description	Information provided by Repsol
Associations and networks	Information on the company's membership of any associations, federations or confederations, and its participation in any networks, as well as the nature of the links it has.	Our primary memberships: – Sectoral: Concaawe, Europia, CEFIC ⁽⁵⁰⁾ , PlasticEurope, OGP ⁽⁵¹⁾ Europe, IETA ⁽⁵²⁾ , CEN ⁽⁵³⁾ e ISOPA ⁽⁵⁴⁾ . – Business: ERT ⁽⁵⁵⁾ .
Financial data	Estimation of costs related to direct interest-representation activities at European Institutions carried out by the entity this year: Other financial data or supplementary clarifications provided by the entity for transparency purposes:	Between €250,000 and €300,000. The amounts declared are our best estimates of expenditure related to direct lobbying activities, meetings, direct correspondence and involvement by our employees in preparing documents and in the working groups of various associations and think tanks. We take into consideration both the cost of the time invested and of any travel taken. We do not include membership fees, given that these are declared separately by the various associations.
Interest-representation activities	Purpose of the main interest-representation activities carried out by the company:	The main representation activities we carried out in Europe have been focused on European policies in the fields of energy, industry, environment, climate change, and foreign trade.

(50) European Chemical Industry Council.

(51) International Association of Oil and Gas Producers.

(52) International Emissions Trading Association

(53) Comité Europeo de Normalización.

(54) European Isocianate & Polyol Producers Association.

(55) European Round Table of Industrialists.

Repsol YPF expressly declares its political neutrality with regards to the public authorities of the countries where it operates. Likewise, the Repsol Ethics and Conduct Regulation expressly prohibits payments to political parties intended to illicitly obtain or maintain business or other advantages.

Tax havens

In our business dealings, Repsol does not use special purpose vehicles or any other kind of structures to hide, cover up, or reduce the transparency of its activities before the tax authorities or any other stakeholder.

In particular, by signing up to the Code of Good Tax Practices, Repsol has expressly committed itself not to use opaque structures for tax purposes. Opaque structures are anything designed to prevent the tax administration from identifying responsible parties or owners of goods or rights, through the use of special purpose entities in tax havens or territories that do not cooperate with the tax authorities.

In support of this commitment, the company has been working actively over recent years to reduce its already limited presence in territories classified as tax havens or territories that do not cooperate with tax authorities. The Repsol Board of Directors, via the Audit and Control Committee, must always be notified of the creation or acquisition of stakes in entities domiciled in countries or territories considered to be tax havens.

Repsol's presence in territories included in the April 2009 OECD list of non-cooperative tax havens is limited to Liberia, where we carry out hydrocarbons exploration activities through a local branch office.

Spanish legislation⁽⁵⁶⁾ provides a broader definition of tax havens. By this definition, we have 10 active companies constituted in such countries, specifically Bermuda and the Cayman Islands. Out of these companies, only three are controlled by Repsol. Their purposes are insurance activities (Bermuda), financial activities (Cayman Islands), and industrial share holdings (Bermuda). In addition, four companies not constituted in tax havens have a presence in these countries, where they are involved in hydrocarbons exploration activities (Liberia, as mentioned previously), trading in oil products (Singapore), and industrial share management (Barbados). It is foreseeable that all of these apart from Liberia will soon no longer be considered tax havens, having negotiated or being in the process of negotiating information exchange agreements, or agreements to avoid dual taxation with the Spanish authorities.

Grants received

Grants recorded in our balance sheet, which stood at €110 million and €124 million in 2010 and 2009, respectively, related primarily to construction of gas infrastructure (€80 million in 2010 and €108 million in 2009).

Our profit and loss account shows the corresponding income under the sub-heading including capital subsidies in the results. Meanwhile, the amount of operating subsidies recorded as yearly revenue under the sub-heading 'Other revenue' stood at €227 million and €192 million in 2010 and 2009, respectively.

(56) Royal Decree 1080/1991, of July 5.

Lawsuits arising from anti-competitive practices

Repsol faced no sanction procedures initiated in 2010 due to allegations of anti-competitive practices (excluding YPF). All the supplementary information on the contingent liabilities and commitments of the Repsol YPF Group for 2010 is detailed in Note 34 of the annual consolidated accounts of Repsol YPF, S.A.

SHARING INFORMATION ON SERVICE STATION CONTRACTS

Repsol, through its subsidiary Repsol Comercial de Productos Petrolíferos, is the only oil company that reached a commitment with the European Union to publish the expiry dates of the contracts binding service stations to Repsol.

Publishing these dates enables other market operators to submit bids for Repsol service stations approaching the end of their exclusive supply agreements, with the owner of the service station then being free to accept bids submitted either by Repsol or any of its competitors. This is therefore a means of encouraging and promoting competition in the Spanish service stations market.

More information about transparency, our involvement in the EITI initiative and the progress made by the EITI group in Peru is available at transparency.repsol.com