

## **Ethics, transparency and the fight against corruption**

Repsol YPF's Ethics and Conduct Regulation defines the conduct guidelines for employees, suppliers, contractors and partners in relation to human rights, transparency and the fight against corruption. In 2009 we participated in the first initiative on financial transparency in the extractive industry developed in Peru. We have paid the governments of the host countries where we operate nearly twice our net profit by way of taxes and royalties. In 2009 no litigation was filed for monopolistic or anticompetitive practices.

## The Ethics Committee

The Ethics Committee is in charge of ensuring that employees abide by the Code of Ethics and Conduct. At the time of writing, the committee is made up of a chairman, a vice-chairman and three members.

The Ethics Committee has met on 12 occasions. Its members, who receive no payment to perform their duties, are Repsol YPF managers who contribute, within their respective areas of activity, to investigating communications sent to the committee, implementing resolutions and enforcing the agreements reached, and have sufficient decision-making capacity within the company to do so.

### **Communications channels with the Ethics Committee**

The committee has a communication channel on the corporate intranet and at [www.repsol.com](http://www.repsol.com), which allows employees and any third party to send comments and queries about the Code of Ethics and Conduct in complete confidence, and also enables it to provide information on possible non-compliance or infringements of this code. The communication channel was



## The Ethics Committee

Position	Roles
Chairman	Executive Director of the General Secretariat and Board of Directors
Vice-Chairwoman	Executive Director of People and Organisation
Member	Corporate Director of Labour Relations, oversees Employment Law and Workplace Health issues.
Member	Corporate Director of Legal Services
Member	Director of Audit and Control

## Internal control system

The Audit and Control Department ensures the Ethics and Conduct Regulation is properly applied in all projects. This department is in charge of reviewing the control measures in place in the different company units on aspects related to proper use and protection of the company's assets, potential conflicts of interest, information transparency and

confidentiality, relations with customers, suppliers, contractors and partners, protection of personal data, compliance with legislation and financial records. It also helps to investigate ethics-related communications received by the company.

overhauled in 2009 to enable easier processing and management of communications, as well as to make the system function better.

The committee also has a postal address to which these communications can be sent:

**Comisión de Ética de Repsol YPF, S.A.**  
**Paseo de la Castellana, 278**  
**28046 Madrid (Spain)**

There are similar channels by means of which anybody can report any incident related to accounting, internal accounting controls and audits involving Repsol YPF, in complete confidence, to the Repsol YPF Audit and Control Committee and the YPF Audit Committee. In 2009, a total of 26 communications received through the Ethics Committee communication channels were processed. From its creation until the date of this report, 79 communications related directly

or indirectly to the Code of Ethics and Conduct have been received, mainly in relation to labor conditions (37%), commercial claims (32%), contractual relations with suppliers and contractors (18%) and queries and requests for information (11%). Repsol YPF will not accept any kind of action being taken against employees who report apparent non-compliance in good faith and will sanction any non-compliance or infringements that constitute labor offences according to current employment law, notwithstanding other liabilities that could be incurred.

### Dissemination of the Ethics and Conduct Regulation

In 2009, the committee approved a communication campaign to publicize the Ethics and Conduct Regulation, the Ethics Committee and the committee's communication channels. This campaign got underway in November with a

newsletter sent out to all the group's managers and another sent to all the employees.

The actions covered by this campaign included publishing specific news on each of the points stipulated in the Ethics and Conduct Regulation. Information on human rights, public freedoms, equal opportunities and non-discrimination was published in 2009. When an employee joins Repsol YPF, he/she receives a copy of the Ethics and Conduct Regulation and signs a form to acknowledge receipt.

# Financial transparency

The extraction industry represents a major source of income for the governments of countries with natural resources. If properly managed, these can and should contribute very positively to their economic growth. But in some cases, they can be a source of corruption, social inequalities and conflict.

NGOs such as Global Witness, Oxfam, Save the Children and Transparency International, among others, have launched the Publish What You Pay campaign, which is aimed at helping the people of resource-rich developing countries to call on their governments to report on how it is using income from the mining and oil industries.

To this end, Publish What You Pay proposes that extraction companies be obliged to include in their financial reports, country by country, the taxes and royalties they pay to host governments, as well as sales between subsidiaries and to third parties, income earned, production volumes and their financial value, and production and development costs.

Repsol YPF is concerned about the situation of the citizens of some resource-rich countries, who may not be benefiting properly from the wealth we generate, and we agree that greater transparency could help to improve this situation.

We are also concerned that making it a legal requirement to publish commercially-sensitive information cannot effectively cover all private and public extraction companies in OECD and non-OECD countries, and worried about



Elevators at the company's head office in Madrid (Spain).

the short and medium-term effects that enforcing this could have on the people we are currently committed to supplying with safe and affordable energy.

Repsol YPF is closely following the evolution of the Publish What You Pay campaign and we are open to dialogue with its representatives and those of its NGOs members. Nevertheless, we have decided to actively support transparency through another international initiative: the Extractive Industries Transparency Initiative (EITI).

## **What is Repsol YPF's position?**

Repsol YPF supports transparency and is opposed to any kind of corruption.

The company has been a member of the Extractive Industries Transparency Initiative (EITI) since it was set up in 2003. This is a global initiative that we feel is better placed to successfully increase transparency through respect for contracts and laws. Repsol YPF has provided financial backing to the secretariat of the EITI ever since it was established, and participates in its publicity initiatives.

EITI brings together governments, international organisations, public and private companies, investors and social agents, working together in a multilateral and voluntary way. The process starts when a government makes a formal



pledge to abide by the principles and standards of the EITI and heads a working group, in which both industry and social agents participate. The group has a period of around two years in which to agree on the necessary regulatory and contractual changes before producing a report on the taxes paid and levied, which must be validated by an independent third party.



As of 31 December 2009, Repsol YPF was an operator in exploration and production projects in the following countries:

- **Exploration:** Algeria, Argentina, Bolivia, Brazil, Colombia, Cuba, Spain, United States, Guyana, Libya, Morocco, Mauritania, Peru, Suriname and Venezuela.
- **Production:** Algeria, Argentina, Bolivia, Colombia, Ecuador, Spain, Mexico, Trinidad and Tobago, and Venezuela.

Of the 30 countries that support the EITI initiative, two have fulfilled their commitments and the rest are undergoing

validation. As of 31 December 2009, Repsol YPF carried out operating control activities in two of the 30 countries that are backing this initiative (see table below).

Repsol YPF forms part of the EITI work group in Peru<sup>(\*)</sup>, the only Latin American country to have joined the EITI. Repsol YPF will dedicate whatever resources are necessary to play an active role in the working groups set up in countries where it operates and which support the EITI.

Actions carried out in 2009 by Repsol YPF aimed at disseminating and promoting the EITI initiative:

- Support to the EITI from the chair of the Corporate Responsibility Committee of the Regional Association of Oil and Natural Gas Companies in Latin America and the Caribbean (ARPEL).
- Participation with presentations at the EITI/ARPEL seminar held in Lima (Peru) on 1, 2 and 3 December 2009.

### Payments made to governments

The taxes paid in 2009 by Repsol YPF to the different governments of the countries where it operates amounted to €13.89 billion, of which 79% was in taxes levied and the remainder in taxes borne.

Paid and levied taxes <sup>(*)</sup>	Million euros
Spain	7.102
Argentina	1.951
Rest of the world	1.942
<b>TOTAL</b>	<b>10.995</b>

<sup>(\*)</sup> Taxes paid and levied in 2009 including those where the Repsol YPF Group acted as a withholder, such as VAT, Personal Income Tax and similar taxes in each country.

Total corporate income tax accrued in 2009, for earnings before tax of €2.776 billion, amounted to €1.130 billion (40.7%).

Accrued corporate income tax	Million euros
Spain	428
Argentina	478
Rest of the world	224
<b>TOTAL</b>	<b>1,130</b>

Repsol YPF expressly declares its political neutrality to public administrations in the host countries where we operate. Likewise, the Repsol YPF Group's Ethics and Conduct Regulation expressly forbids payments to political parties to unlawfully obtain or retain business or other advantages.

### Financial aid

Aid granted through subsidies and loans to the Repsol YPF Group at 31 December 2009 amounted to €124 million. The most significant capital subsidies correspond to aid granted for the construction of gas infrastructure to the amount of €108 million. In 2009, operating grants were received to the amount of €3 million.

### MINING RIGHTS IN EITI COUNTRIES

	Mining Rights	
	Operated by Repsol	Operated by third parties
Mauritania	1 exploration block	
Peru	3 explorations blocks	2 exploration blocks and 2 production blocks

# Transparency of information

Repsol YPF considers transparency of information to be a basic principle that must govern its activities. The company and its employees undertake to communicate both internal and external information in a truthful manner. In no case shall they provide incorrect, incomplete or inaccurate information or information that is confusing to the reader.

## Remunerations

The payment received by the members of the Board of Directors in 2009 for their role as members of the board, charged against the aforementioned statutory allowance, stood at €4.9 million<sup>(1)</sup>.

In 2009, the total payment received by management members of the Executive Committee amounted to €12.6 million<sup>(1)</sup>.

## Sanctions and litigations arising from monopolistic practices

No new cases involving monopolistic or anti-competitive practices were opened in 2009.

Financial penalties relating to cases closed in 2009 amounted to €19.8 million. Further details for this period are shown in Note 35 of the Consolidated Annual Accounts.



Repsol YPF employees at the Madrid office (Spain).

## SANCTIONS AND LITIGATIONS ARISING FROM MONOPOLISTIC PRACTICES

Evolution	2007	2008	2009
No. of open cases	0	1	0
No. of closed cases	1	1	2
No. of cases on going	8	7	6

<sup>(1)</sup> For further information, please see the Repsol YPF Group's 2009 Consolidated Annual Accounts.

## Preventing and combating corruption

Repsol YPF's measures against bribery and corruption, as well as penalties for non-compliance, are detailed in the Repsol YPF Employee Ethics and Conduct Regulation<sup>(1)</sup>.



Access to Repsol YPF facilities in Puertollano (Spain).

Repsol YPF's Audit and Control Department, through its audit project teams, internal financial reporting control, association control, systems audits, regulatory compliance and online audits, implements measures to prevent the risk of fraud.

### Internal control of financial reporting

A set of documents establishing the framework for the company's internal financial reporting system have been developed in accordance with the requirements of Section 404 of the Sarbanes-Oxley Act:

- Financial Reporting Fraud Risk Management Manual.
- Inventory of Financial Reporting risk.
- Financial Reporting Internal Control Manual.

Internal regulations have been developed within this regulatory framework to evaluate and control financial reporting fraud risks. Likewise, we have a control inventory aimed at mitigating fraud risks, which is updated annually and which accounted for 23% of Repsol YPF's total control measures in 2009. The effectiveness of these control measures is reviewed every year through tests to

evaluate their functioning, bearing in mind their special relevance.

In 2009 the company also continued to make great efforts towards consolidating a model for separation of functions.

### Internal audit

With regard to the internal audit function, the Audit and Control Department gauges fraud risk using the methodology developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as one of the internal control issues that must be reviewed in each of the projects carried out by the different onsite audit units: association audits, information system audits and audit projects.

Additionally, among the qualitative factors evaluated annually for planning purposes,

the possibility of fraud in each auditable unit and process is analyzed.

Meanwhile, online auditing indicators have been designed to give alerts about possible fraud or anomalous situations, among other issues. The objective of online auditing is to carry out ongoing monitoring of a set of indicators from different cycles covering risks identified for each of these cycles, such as purchases, sales and invoicing; investment, collection and payment management; and management of powers of attorney, tax management and financial reporting.

As of 31 December 2009, 866 control points were being monitored per month relating to indicators put in place in 22 companies.

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## 2010 objectives

To strengthen communication and ensure that Repsol YPF's employees receive in the Ethics and Conduct Regulation training.

To promote the EITI initiative among the host governments of countries where Repsol YPF operates.

<sup>(1)</sup> information can be found at [www.repsol.com](http://www.repsol.com)