

# Partners, contractors and suppliers

In 2009, 84.4% of all procurement and contracting carried out by Repsol YPF was local. We performed 967 supplier and contractor audits. In operations in which Repsol YPF does not have operating control, we do everything we can to ensure that our partners implement our regulations on ethical, social and environmental matters, or apply equivalent policies.

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## Update on 2009 objectives

### Activities planned

To continue implementing the new supplier management regulations in other countries and business areas of the company.

### Degree of progress 2009

The supplier management system introduced has been implemented in all the countries and business areas of the company.



## Relations with our partners

Many of the activities undertaken by Repsol YPF are carried out with partners under agreements or joint ventures. Our regulations governing relations with our partners entail a due diligence process, which lays down the environmental, social, health and safety guidelines to be followed in all operations.



The due diligence process includes assessment and management of risks that may arise in commercial operations involving acquisition or exchange of assets, and in mergers, partnerships or joint ventures. It is particularly important to perform these assessments in socially or environmentally sensitive areas, such as places where indigenous communities live, or in exceptional security situations.

Before taking the decision to acquire an asset, an assessment is made of both existing and potential risks, with particular focus on aspects such as communities affected or the impacts resulting from work carried out in previous phases.

In those activities in which Repsol YPF is not the operating partner, it pledges to do all it can to ensure its partners implement its regulations and management systems, or follow equivalent principles and systems in all ethical, social and environmental matters. Repsol YPF notifies its partners of its requirements in ethical, social, environmental and safety issues primarily at meetings, as well as through technical project reviews. These sessions enable experiences to be shared and project impacts to be analyzed.

Audit and Control Management also verifies non-operated assets. The aim of associations control is to provide reasonable assurance that agreements between partners are complied with in

all aspects. In 2009, 22 audit projects were performed on partnerships in which Repsol YPF is not the operator.

At 31 December 2009, Repsol YPF possessed holdings but did not act as the operator in 243 exploration and production blocks in 16 countries: Algeria, Argentina, Bolivia, Brazil, Canada, Colombia, Kazakhstan, Liberia, Libya, Norway, Peru, Saudi Arabia, Sierra Leone, Trinidad and Tobago the United States and Venezuela. Of these 243 blocks, 165 are devoted to exploration activities and 71 are under development<sup>(1)</sup>.

To find out whether our partners' practices are aligned with Repsol YPF regulations, the company asks its partners to fill out the Foreign Corrupt Practices Act (FCPA) Due Diligence questionnaire, which includes

specific questions on policies and practices to combat corruption.

Moreover, the association contracts include a specific clause (*Conduct of the Parties*), under which the signatory parties agree to reject any type of payment, gift, bribe or favoritism in exchange for any person or entity being able to obtain a benefit or undertake an activity that goes against the principles described in the OECD Convention on Combating Bribery of Foreign Public Officials and in the US Foreign Corrupt Practices Act.

(1) For further information consult the Consolidated Annual Accounts Report 2009.

### Joint Operation Agreements

Our relations with our partners in the case of alliances or joint ventures, are governed by Joint Operating Agreements (JOA). The aim of a JOA is to define the responsibilities and limits of each of the partners in the operation and management of an asset.

Two or more companies may enter into a JOA in order to share exploration and/or production risks and costs in

an oil and gas field. One of the parties takes responsibility for day-to-day operations, and all the parties to the JOA share the costs and profits in proportion to their holding. This enables companies to diversify their risks and extend their project portfolio.



The Petronor Refinery in Muskiz (Spain).

## Contractor and supplier management

Repsol YPF's relations with its contractors and suppliers, together with management of procurement and contracting of goods and services, are based on a set of regulations common to all the company's businesses in every country.

These regulations encourage integrity on the part of suppliers, contractors and subcontractors, requiring them to comply with the fundamental conventions of the International Labor Organization and current safety and environmental regulations.

### Improvements in the supplier management system

At the beginning of 2008, a unified system to manage information on suppliers, known as SIS PRO, came into operation. This is unique, worldwide

in scope, and incorporates all the information produced in supplier rating, authorisation, performance assessment, development and planning processes.

In 2009, this system was fully implemented in the various countries where Repsol YPF operates and it was adapted to meet requirements stemming from the increase in information we request from our suppliers on ethical and social aspects relating to their corporate responsibility. The regulations governing supplier management underwent their

### Pilot experience with suppliers in Bolivia

In November a survey was carried out on five local contractors working in mechanical assembly, public works and oil pipeline construction, under the auspices of a working group set up to find local suppliers to take part in future projects in Bolivia. The survey was based around the corporate responsibility questions that are

going to be included in the Repsol YPF rating questionnaire in 2010. The aim was to find out about the level of knowledge and implementation of corporate responsibility matters in companies in this country.

first review at the end of 2009, and this is expected to be completed during the first half of 2010. The areas of improvement include the review and adaptation of our suppliers' corporate responsibility requirements. More specifically, additional areas have been identified for inclusion in the rating questionnaires, concerning integrity and ethics, working practices and human rights.

In order to find out the degree to which our suppliers meet these additional requirements, a pilot study was carried out in November 2009 with important suppliers, who were asked to fill out a brief questionnaire on corporate responsibility, the results of which will be analyzed in the first quarter of 2010.

### Rating and audits

The main reasons for suppliers and contractors not passing the rating process can be grouped into three main areas – economic/ financial, safety and technical. The SIS PRO system does not yet enable sufficient details about the rating processes to be filed, which is an area for improvement in 2010.

Repsol YPF's regulations governing procurement and contracting require audits to be carried out in areas of high criticality (level 2). In 2009, 967 rating audits were carried out on suppliers and contractors. The spread by country, according to the geographic location of the facilities of the companies, was as follows:

Some of the areas that supplier and contractor audits focus on include the degree to which occupational risk prevention systems have been implemented, specific safety arrangements, safety policy, monitoring of accident rates and regular monitoring of working and health conditions.

In Argentina, audits are carried out not only on suppliers rated at high criticality levels, but also those with medium criticality (level 1) ratings. This explains why the number of audits performed there is higher.

The increase in the number of audits performed in 2009 is due to the progressive introduction of these regulations in the different businesses and countries where Repsol YPF operates. All the audit reports presented to the audited companies indicate their strong points, areas for improvement and a set of recommendations. We intend to offer a summary of the results of the audits performed in future annual reports.

## Rating and audits 2009

During the year, 7,896 rating processes were performed on suppliers and

contractors, of which 6,968 were rated and 928 did not pass.

Ratings	Rating Processes	Not Rated
Goods suppliers	2,514	195
Service contractors	5,382	733
<b>TOTAL</b>	<b>7,896</b>	<b>928</b>

### AUDITS IN 2009

Country	Número de auditorías		
	2007	2008	2009
Spain	28	77	200
Argentina	716	539	659
Bolivia	–	–	9
Brazil	–	–	1
Colombia	–	2	0
Chile	–	–	3
China	–	–	3
Ecuador	–	–	20
France	–	–	1
Italia	–	–	1
Peru	–	1	37
Portugal	–	25	26
Trinidad and Tobago	–	2	5
Venezuela	–	1	2
<b>TOTAL</b>	<b>744</b>	<b>647</b>	<b>967</b>



Repsol YPF facilities in Trinidad and Tobago.



## Local procurement and contracting

Repsol YPF spent approximately €6,492 million on procurement and contracting in 2009. Around 84% of supplies were obtained from local providers.

### LOCAL PROCUREMENT

	2007	2008	2009
Local amount	5,180	7,165	5,481
% of total	78.4%	82.9%	84.4%

Millions euros

### PROCUREMENT AND CONTRACTING<sup>(1)</sup> IN 2009 BY COUNTRY

Country	Total 2009	Local 2009	%
Spain	2,720	2,181	80.18
Argentina	2,250	2,105	93.55
Argelia	173	113	65.32
Bolivia	78	69	88.46
Brazil	258	177	68.60
Canadá	126	125.7	99.76
Colombia	10.2	9.8	96.08
Cuba	6.6	0.3	4.54
Ecuador	84	73	86.90
USA	211	159	75.36
France	5	5	100.00
Libya	99	83	83.83
Morocco	30	0	0.00
Mexico	9.8	9.1	92.86
Peru	136	117	86.03
Portugal	182	149	81.87
Trinidad and Tobago	68	64	94.11
Venezuela	45	41	91.11
<b>TOTAL</b>	<b>6,492</b>	<b>5,481</b>	<b>84.42</b>

Millions euros

(1) The procurement total refers exclusively to operations carried out by the procurement and contracting department. Repsol places priority on using local sources although it does not have a formal policy on this.

## Local contractors and suppliers in Ecuador

Our procurement and contracting practices in Ecuador give an advantage to local suppliers, favoring them over international suppliers. In the case of goods purchases, we check that the products are marketed locally and that the manufacturer has a representative in the country.

Only if goods are not available and there is no local representative does Repsol YPF contact international suppliers. In general, services are hired from companies registered in Ecuador.

## Enlargement of the local supplier base for future investment projects

Repsol YPF developed a work plan in 2009 to select and rate local suppliers, mainly service contractor firms, to broaden its base of suppliers for the investment projects it is going to carry out over coming years. In 2009, this activity focused on Bolivia and Peru. A multidisciplinary working team made up of members of the company's various divisions and businesses was set up to carry out this selection work.

## Service contracting from special employment centers

Repsol YPF helps to create jobs for disabled workers by contracting them via special employment centers (SECs).

In 2009, procurement by Repsol YPF from SECs in Spain totaled more than €1 million.

# Safety in contracted services

General procurement and contracting conditions, as well as the framework procedure for rating and assessing suppliers, state that suppliers or contractors must comply with the safety provisions in force and applicable to the order or contract in each country and, in all cases, with those laid down in Repsol YPF's internal regulations and practice.

Furthermore, the company has standards defining the safety criteria applicable to contracted jobs and services. The aim is to establish a management framework which includes the policy on relations with contractors, their safety ratings, requirements for contracting them and the evaluation and monitoring mechanisms to be used while jobs are underway.

## Safety certification for contractors in Spain and Portugal

In June 2009, the safety certification system for contractor firms in the service station sector came into force.

This project, in which Repsol YPF has been involved with other operating companies, allows business activities to be coordinated between operators and their service station works and maintenance contractors.

The certification consists of an online system that manages and maintains all the documentation associated with the Law on Occupational Risk Prevention, as well as exchanging information on risks at oil company facilities. Once the documentation has been compiled,

the worker-training process begins, including basic safety issues in works carried out at service stations. Once these requirements have been fulfilled, the contractor obtains a safety passport, a compulsory certification document to allow access to work sites or for carrying out jobs at service stations.

This enables the operating company to ensure that all the safety requirements are complied with before the start of any work at any point of sale in the Iberian Peninsula.



Helipad on the Stena Dr Ilmax drillship.

## Outside involvement

The Repsol YPF Procurement and Contracting division collaborated with and took part in several associations and forums in 2009, some of the most important of these being:

- Collaboration in two working groups within the Spanish Association of Procurement, Contracting and Provisioning (AERCE): “Corporate Social Responsibility in Procurement” and “Supplier Risk Management”.
- Participation in the Global Procurement Forum, a procurement forum to share best practices between companies in the sector.
- Participation in the Second Suppliers and Purchasers Forum organized by Achilles South Europe, with Repsol YPF taking part in the round table entitled “CSR and responsible supplier management”.
- Collaboration in designing a classification model with criteria for rating supplier corporateresponsibility, to be included in the Achilles registration system.

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## Objectives 2010

To make progress on the supplier management system in order to provide a summary of the results of the rating and audit processes applied to suppliers and contractors.

To complete the review of the corporate responsibility regulations governing supplier management.