

Partners, suppliers and contractors

We develop our activities with the support of partners, suppliers and contractors, who put our principles into action. During 2010, we worked with 24,077 suppliers and contractors from 79 countries.



Relations with our partners

At the end of 2010, we had non-operating interests in 259 blocks in 19 countries, three more than the year before, as a result of our entry into Angola, Indonesia and Oman. Of these blocks, 166 were dedicated to exploration activities, 81 are under development and the remaining 12 are service contracts.

Our relations with our partners are governed by joint operating agreements (JOA), which define the responsibilities of each partner, and in particular, the operating partner.

In activities where Repsol is not the operating partner, we undertake to use our influence to ensure that our partners implement our management policies and systems, or that they abide by ethical, social and environmental principles and systems that are equivalent to ours. We notify our partners of our corporate responsibility requirements primarily via the technical committees.

Given the importance of our partners' implementing ethical, social and environmental standards in their operations that are similar to our own, we have pledged, as part of our 2012 Sustainability Plan, to include clauses containing these criteria in all new JOAs.

Using our influence where we are not the operator

In 2010 we carried out 25 audits on non-operated assets⁽⁷⁴⁾ in 17 countries. Due to the increased investment in non-operated activities resulting from recent exploratory successes, we have rolled out a plan that aims to audit virtually all of the company's non-operated assets, in line with the highest industry standards for technical quality. As part of this process, we foresee a considerable increase in the number of audits to be carried out in 2011.

When we audit a non-operated asset, we carry out a comprehensive analysis whose scope is adapted to the needs and peculiarities of each partnership, covering areas such as verification of contractual compliance, reviews of transactions and division of production, internal control processes and analysis of technical aspects.

(74) Each of the auditable non-operated assets is a partnership that is not operated by the company, and is governed by a private contract between the parties. These associations may in turn be the holders of exploration and operation rights on various blocks.

Any non-compliance detected as a result of our audits is formally reported in writing. Should any aspects be identified that, because of their relevance or urgency, require immediate action, there are additional channels for reporting them both internally and to partners, for example by issuing audit notes, sending formal letters, and through work meetings with partners or the committee in charge of monitoring the operation.

MECHANISMS FOR COMBATING CORRUPTION

In order to combat corruption, our audits on non-operated assets include selective reviews of transactions and payments made by the contractor. Should any inappropriate or insufficiently justified payments be detected, these are analyzed and, if necessary, the relevant formal complaints are made. These incidents are reported to Repsol senior management.

Audits are also carried out prior to the acquisition of assets, which include an exhaustive review of past costs incurred and contract negotiation and signing processes, with particular focus on possible risks of corruption or failure to comply with the Foreign Corrupt Practices Act.

More information on the countries where we have non-operated assets, the requirements we include in joint operation agreements with our partners, and the technical and association control committees can be found at partners.repsol.com

Responsible management of contractors and suppliers

Repsol's supply chain policies and management system ensure the integrity of our relations with suppliers and contractors. Our contractors are required to meet internationally-recognized standards such as the United Nations Universal Declaration of Human Rights and the International Labor Organization (ILO) Declaration on Fundamental Principles and Rights at Work.

INVOICING BY LEADING SUPPLIERS AND CONTRACTORS

Percentage of total invoicing	2008	2009	2010
3 largest suppliers	4.61	5.05	6.12
10 largest suppliers	9.79	10.60	13.81
20 largest suppliers	14.79	16.40	19.88

We ensure that all our suppliers and contractors provide equal opportunities when subcontracting goods and services by means of rating and contract-awarding processes that prevent our purchases from being concentrated in the hands of only a few suppliers.

How we ensure the corporate responsibility of our suppliers and contractors

We supplemented our body of policies in 2010 by incorporating new criteria and guidelines to strengthen our commitment to ensuring ethical conduct and respect for human rights on the part of our suppliers and contractors. These modifications will be applied from 2011 onwards:

- We extended the questionnaire used to determine would-be suppliers' qualifications with a specific Ethics and Human Rights section,

asking suppliers to tell us about their position with regard to internationally-recognized rights and the fight against all forms of fraud, corruption and bribery. These questions, which can be the basis for exclusion from supplying to Repsol, go into greater detail in the case of suppliers providing goods or services with Medium or High criticality levels.

- We have incorporated ethical conduct and respect for human rights into the rating process we use to evaluate suppliers, in the same way as we do other aspects such as the supplier's financial status, the implementation level of its management systems and the degree to which it meets technical requirements.
- We keep a list of the countries and areas of activity (goods or services) considered to pose the greatest risk of corruption and human rights abuses. We have established additional requirements, such as filling in self-assessment questionnaires or carrying out specific ethics and human rights audits, in purchasing or contracting processes where the combination of corruption and human rights abuses is high or very high.

The company has a unified supplier information management system for this purpose, called SISPRO. This system is unique, applied worldwide, and includes the information generated during the supplier rating, performance assessment, development and planning processes. It also contains the information we demand of our suppliers on ethical and social aspects of their corporate responsibility.

TRAINING AND AWARENESS-RAISING

In **Argelia** we have created an interdisciplinary work group, with the participation of our purchasing and contracts, communication, external relations and legal services departments, to create new contractual clauses addressing the values and commitments adopted in our Ethics and Conduct Regulation in all new contracts managed by each business unit.

In **Bolivia** and **Ecuador**, we have publicized our regulation on relations with indigenous communities through workshops with contractors and suppliers, and we have included this policy in all the bidding terms and conditions. This provides our suppliers of goods and services with prior and timely information about the company's social standards before becoming involved with our activities. All contractors who work in the field in these countries must undergo a training session on Repsol's Ethics and Conduct Regulation.

In **Mexico**, the purchasing and contracts unit has put a new plan called C6ndor into operation to train local contractors. This will also entail a system to evaluate them. This system will apply to all contractors wishing to supply services to the company.

Contractor and supplier ratings

We oblige all suppliers and contractors, before embarking on any commercial relationship with us, to pass a qualification process in line with the level of criticality of the goods or services they hope to provide. This criticality level determines the strictness of the rating process. In 2010 we increased from three to four levels of criticality, called Very Low,

SUPPLIER AND CONTRACTOR RATING PROCESSES			
	2008	2009	2010
Suppliers of goods:			
Qualified	128	1,329	1,858
Provisionally qualified ⁽⁷⁵⁾	22	5	36
Not accepted	18	76	96
Services contractors			
Qualified	362	2,451	3,190
Provisionally qualified	55	35	143
Not accepted	73	279	285

Low, Medium and High.

In 2010, 6.8% of suppliers and contractors failed to pass the Repsol rating process. The main reasons for this were:

- For suppliers of goods:
 - Quality system failed to ensure sufficient traceability of the goods.
 - Manufacturing system failed to ensure compliance with Repsol technical specifications.
- For services contractors:
 - Occupational risk prevention system failed to comply with Repsol requirements.
 - High workplace accident rates.

Control mechanisms

Repsol's Contracts and Purchasing Policy requires audits to be carried out on suppliers operating in activities involving areas of high criticality. In 2010, 798 audits were carried out in 13 countries.

Repsol mainly contracts external companies to carry out our audits. Repsol personnel accompany the audit company on some of the visits; and some of the audits are even carried out exclusively by in-house staff.

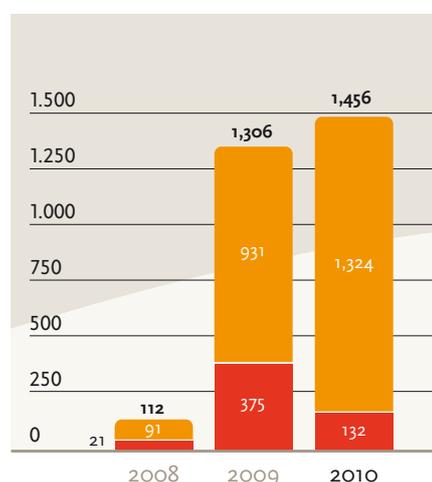
(75) On some occasions a supplier may be "provisionally qualified" when it is found that they fail to comply with some minor requirement that prevents it from being classified as "qualified". This is a temporary situation that should be possible to remedy within a short period.

AUDITS ON SUPPLIERS AND CONTRACTORS

Country	2008	2009	2010
Spain	77	200	111
Argentina	539	659	610
Bolivia		9	
Brazil		1	
Chile		3	
China		3	3
Colombia	2		
Ecuador		20	6
France		1	
Germany			1
Italy		1	3
Japan			3
Mexico			1
Peru	1	37	41
Portugal	25	26	14
Russia			3
Trinidad and Tobago	2	5	
USA			1
Venezuela	1	2	1
TOTAL	647	967	798

The reduction in the number of audits carried out in comparison with 2009 is a result of the fact that our 2010 purchases were primarily from recently qualified suppliers providing goods in areas of high criticality, so there was no need to initiate a new audit process or renew their ratings.

Subcontractors must also pass Repsol's rating process, which is applied in accordance with the criticality level of the service they seek to provide. We are looking into the possibility of drawing up action protocols including specific requirements for the project or area of activity that will be demanded of these companies. These would mandate the requirements necessary to carry out their activity, taking into account the kind of facility where they will be operating, with the requirements adapted to suit these circumstances.

Assessments carried out

- Suppliers of goods
- Service contractors

PERFORMANCE ASSESSMENT

Repsol has established a systematic and documented assessment process to cover the most significant aspects of our relations with our suppliers. Those that have supplied us with goods and services of high criticality over the past 12 months must receive at least one annual performance assessment.

The results of these evaluations enable the supplier to continuously improve, and Repsol to make more objective decisions. All the evaluations carried out are recorded in our supplier information management system, SISPRO.

These assessments cover issues including operational and commercial aspects, the supplier's compliance with ethical, human rights and environmental requirements, management systems and compliance with current legislation.

Repsol's Contracts and Purchasing Policy, contractor and supplier management system, detailed information on changes in the supplier-rating procedure, the ethical and human rights requirements in the rating questionnaires, contractors' safety accreditation, communication channels with suppliers and contractors, and Repsol's relationship with subcontractors can be found at suppliers.repsol.com

The measures we take to resolve the situation are established according to the gravity and frequency of any non-compliance detected, including giving formal warnings; if the situation continues, we revoke the contracts or elect not to renew them. In 2010, 10 contracts were revoked due to problems with the supplier's performance.

Local purchasing and contracts

Over the course of 2010 we obtained goods and services from 24,077 suppliers in 79 different countries.

In countries such as Cuba and Morocco, where we carry out exploration activities, it is not always possible to find specialised local suppliers. In these cases it is necessary to work with international suppliers.

EVOLUTION OF PURCHASING AND CONTRACTS	Million euros		
	2008	2009	2010
Total purchases ⁽⁷⁶⁾	8,572	6,251	7,565
Total suppliers	25,417	24,005	24,077
Local purchasing	7,070	5,324	6,461
% OF TOTAL	82.48%	85.17%	85.41%

PURCHASING AND CONTRACTS IN 2010 ⁽⁷⁷⁾			Million euros
Country	Total	Local	% purchases from local suppliers
Spain	2,723	2,255	82.81%
Argentina	3,011	2,814	93.45%
Algeria	22	16.5	74.84%
Bolivia	149	126.5	84.90%
Brazil	705	443	62.85%
Canada	64.4	64.1	99.54%
Colombia	16.9	16.4	97.23%
Cuba	3.3	2.2	66.79%
Ecuador	136	130	95.89%
France	5	5	100.00%
Libya	73.3	71.4	97.50%
Morocco	24	0.06	0.25%
Mexico	9.7	9.5	97.96%
Norway	0.6	0.6	100.00%
Peru	217	166.7	76.73%
Portugal	274	219	80.00%
Trinidad and Tobago	65	59	90.76%
USA	42	39	92.58%
Venezuela	23.7	22.4	94.50%
TOTAL	7,565	6,461	85.41%

(76) The difference in the figures for purchases in 2008 and 2009 with respect to those given in the reports for previous years is due to the fact that some orders underwent slight changes as a result of revisions carried out in the first months of the subsequent year.

(77) The purchasing total refers exclusively to purchases made by the Department of purchasing and contracts.

PROGRAM OF DIRECT PURCHASING FROM THE MANUFACTURER

In **Mexico** the purchasing and contracts unit places priority on local suppliers, developing direct relationships with them and cutting out middlemen. This enables the unit to ensure that the value generated is properly distributed throughout the entire supply chain, promoting local capacity development.

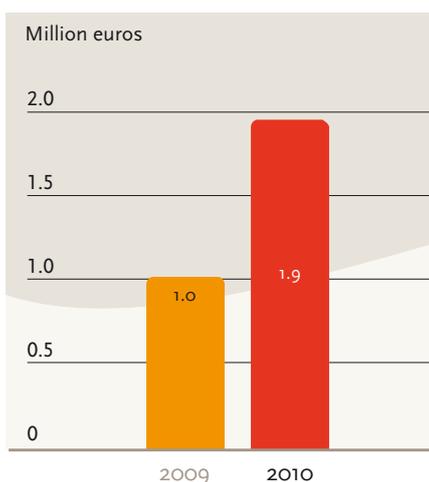
INCLUSIVE BUSINESSES IN ECUADOR

Inclusive businesses are economic activities that enable the most disadvantaged groups in society to become involved in generating value. In short, these are financially profitable business initiatives that use a mutually beneficial structure to incorporate low-income communities into their value chains and improve their quality of life.

Over the course of 2010, the purchasing and contracts unit worked with the Repsol Ecuador Foundation to develop this model, enabling us to identify inclusive suppliers, with whom we contract to supply various products and services for the company.

More information about the countries of origin of all our suppliers and contractors, the percentage of long-term contracts with local suppliers and contractors by country, our contribution to local employment creation and our relationships with local suppliers can be found at suppliers.repsol.com

Purchases from CEEs



Purchasing and contracts from special employment centers

Special employment centers (CEE, by its Spanish acronym) are companies in which at least 70% of the workforce must be made up of disabled people with at least a 33% reduction in their working capacity.

Aside from having workers with disabilities in its workforce, Repsol also contributes to employment creation by purchasing goods and contracting services from CEEs. In 2010, we made purchases from 36 special employment centers in Spain. These goods and services included promotional items, IT consumable goods, document printing, and gardening, porter and catering services.