

# Repsol and Corporate Responsibility

Repsol is a socially responsible company. This means we work to understand the expectations of our stakeholders, evaluate them in light of our ethics and principles, and endeavor to give a transparent and accountable response.



## Corporate governance

The Board of Directors is our highest-level governance body with corporate responsibility duties.

The Repsol Board of Directors is composed of 16 Directors, of whom two are Executive Directors, six are External Directors representing institutional shareholders, and eight are independent Non-executive Directors.

There are two female Directors: Ms Paulina Beato Blanco, a Member of the Audit and Control Committee; and Ms María Isabel Gabarró Miquel, who serves on the Strategy, Investment and Corporate Responsibility Committee.

During 2010, the Board of Directors met 13 times. Seven of these meetings proceeded without the attendance of all Members. The percentage of non-attendances out of the total number of votes cast during the period was 3.36. Members who provide no specific instructions as to their votes are considered failures to attend.

In general, the Board of Directors itself evaluates the performance of the Board and its Committees on an annual basis, without the involvement of third parties external to the company.

At its meeting held on January 26, 2011, the Board of Directors agreed that its functioning during the 2010 financial year, as well as that of the Delegate Committee, the Audit and Control Committee, the Appointments and Remuneration Committee, and the Strategy, Investment and Corporate Responsibility Committee, was satisfactory and that these bodies and the Chairman of the Board of Directors properly carry out the functions they have been entrusted with under the law and internal policies applicable.

The members of the Board of Directors, including Executive Directors, received remuneration of 4.91 million euros<sup>(13)</sup>.

(13) This amount does not include remuneration for carrying out management functions nor for belonging to the Boards of Directors of affiliates. For more information, see note 33 of the 2010 consolidated annual accounts 2010 of the Repsol YPF group.

## Significant share ownership

Repsol's largest shareholders are the following institutions:

Shareholder	Total % of the share capital
Sacyr Vallehermoso, S.A. <sup>(14)</sup>	20.01
Criteria CaixaCorp, S.A	12.97
Petróleos Mexicanos <sup>(15)</sup>	4.81

More information on the Board of Directors, its Committees, remuneration, policies, and corporate governance monitoring at [repsol.com](http://repsol.com)

## The Strategy, Investment and Corporate Responsibility Committee

The Strategy, Investment and Corporate Responsibility Committee is comprised of six Directors, four of whom are External Directors representing institutional shareholders, and two are independent Directors. The Committee is chaired by an External or Non-executive Director.

The Committee is charged with understanding and directing Repsol's policy, objectives, and guidelines on Corporate Responsibility and informing the Board of Directors about these, as well as reviewing and advising on the Group Corporate Responsibility Report prior to its submittal to the Board of Directors.

During 2010, the Strategy, Investment and Corporate Responsibility Committee met three times. Their agenda included the Strategic Plan, the 2009 Corporate Responsibility Report, and aspects related to safety and the environment.

## Organization and activities

Repsol's activities and organizational structure<sup>(16)</sup> are divided into five business areas:

Three integrated strategic businesses (not including YPF):

1. **Upstream**, responsible for exploration operations and development of reserves of crude oil and natural gas;
2. **LNG**, our Liquefied Natural Gas business;
3. **Downstream**, our refining operations and marketing of petroleum, chemical, and LPG products.

Two stakeholdings in strategic companies:

1. **YPF**, which includes the operations of YPF, S.A., and the companies of its Group in all the businesses detailed above. We have an operated participation of 79.81%.
2. **Gas Natural Fenosa**, whose main activities are the marketing of natural gas and the generation, distribution, and marketing of electricity. We have a non-operated participation of 30.13%.

(14) The Sacyr Vallehermoso stake is held by Sacyr Vallehermoso Participaciones Mobiliarias, S.L.

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

(16) See the section "About this report" for details of the reporting boundary applied to all the information and data in this Corporate Responsibility Report.

## NEW BUSINESS UNIT FOR NEW ENERGY

In 2010 we set up a business unit for New Energy to boost and provide a business grounding to new initiatives that contribute to a more diversified energy future with reduced CO<sub>2</sub> emissions intensity.

The new unit is part of the Downstream Division and its mission is to identify opportunities, promote projects and carry out business initiatives in areas such as bioenergy and renewable transport fuels, and to other areas where there may be synergies with current Repsol businesses and our areas of operation.

It will also develop new business related to CO<sub>2</sub> emissions reduction and carbon pricing, with an emphasis on its capture and storage.

Business area	Description	Geographic environment	Highlighted actions in 2010
Upstream	Exploration and production of petroleum and natural gas outside Argentina.	Participation in exploration and production blocks in 26 countries, operator in 20 of these.	<ul style="list-style-type: none"> <li>- Repsol and Sinopec agreed to carry out exploration and production projects in Brazil, creating one of the biggest energy companies in Latin America.</li> <li>- We made 4 discoveries in Brazil (Creal B and Piracucá 2), Sierra Leone (Mercury-1) and Venezuela (Perla 2).</li> <li>- We entered into areas with high offshore exploration potential in Angola, Indonesia, and Norway.</li> </ul>
LNG	Liquefaction, transport, marketing, and regasification of liquid natural gas activities (LNG) and marketing of natural gas in North America.	Presence in 7 countries.	<ul style="list-style-type: none"> <li>- We brought the Peru LNG liquefaction plant, in Pampa Melchorita (Peru) into production.</li> <li>- We signed a multi-year agreement to supply LNG for the Canaport LNG plant (Canada) with Qatargas.</li> </ul>
Downstream	Supply and trading of crude oil and products, refining of petroleum, marketing of petroleum products and LPG, and the production and marketing of chemical products.	Presence in 10 countries.	<ul style="list-style-type: none"> <li>- Repsol created the new business unit for New Energy.</li> <li>- We made progress in our projects to extend the Cartagena refinery and to convert the Muskiz refinery.</li> <li>- We made an agreement with the Malayan industrial group UMV for the manufacture and distribution of Repsol lubricants in Malaysia, China and other countries in the region.</li> <li>- We made an agreement with Dynasol, a Repsol affiliate and the Chinese company Xing'an to manufacture and market synthetic rubber.</li> </ul>
YPF	Exploration, production, refining, logistics, marketing activities and chemical products assumed by YPF and its affiliates independently.	Argentina	<ul style="list-style-type: none"> <li>- We presented the company's strategic guidelines for 2010-2019</li> <li>- We made a discovery of non-conventional natural gas (shale gas) in the Neuquén basin.</li> </ul>

## The horizon 2014 strategic plan

During 2010, we presented our Horizon 2014 Strategic Plan, which sets out our commitments for the 2010-2014 period. The significant exploration success achieved during 2008 and 2009, and the changes that affected the sector due to the financial crisis, led us to fine-tune our group objectives. This will enable us to address the next phase of growth.

The main strategic guidelines governing each business are as follows:

- Upstream: the growth engine of the company
  - Maintain a presence in geographic areas with high exploration potential and recognized capacity for exploration in deep water.
  - Develop a solid portfolio of strategic projects.

- Downstream: optimization and improvement of profitability
  - Boost our operating margins by applying leading technology at the refineries.
  - Produce solid revenues.
- YPF: uncover hidden value in the company
  - Rigorously manage our investments and costs.
  - Create growth in earnings and dividends.

## New top executives at Repsol YPF

As of 30 December 2010, Repsol YPF had noted the following appointments:

Mr. Miguel Ángel Devesa del Barrio, previously Corporate Director of Corporate Strategy and Development, was appointed Chief Financial Officer.

In addition, Ms Begoña Elices García, previously Corporate Director of Communication and the Chairman's Office., was appointed General Director of Communication and the Chairman's Office.

Both Mr Miguel Ángel Devesa and Ms Begoña Elices became Members of the company Executive Committee in January 2011.

In 2010, Members of the Executive Committee, including Executive Members, received remuneration of 18.5 million euros in total.

More information on Repsol activities, business, and management structures at [repsol.com](http://repsol.com)

## Our contribution to economic value

ECONOMIC VALUE GENERATED AND DISTRIBUTED	
Item	Millions of euros
<b>Economic value generated</b>	<b>59,927</b>
Sales and other operating income <sup>(17)</sup>	56,710
Financial income	159
Earnings from disposal of fixed assets	3,058
<b>Economic value distributed</b>	<b>53,601</b>
Purchases and other operating and training expenses	37,422
Staff expenses (except training)	2,392
Tax paid: Tax accrued in the financial year and included as expenses in the consolidated statements of the Group, including Corporate Tax and Special Taxes	11,437
Dividend and financial expenses <sup>(18)</sup>	2,320
Community investment	30
<b>Retained economic value</b>	<b>6,326</b>

(17) This includes special taxes and others of a similar nature amounting to 7,234 million euros.

(18) This includes the 1,282 million euros for dividends corresponding to the proposal for the allocation of earnings from the 2010 financial year which will be submitted for approval.

## How we identify and manage risks

Our procedures and systems department is responsible for our approach to risk. Their role is to identify, measure, evaluate, prioritize, control, and manage the risks to which we are exposed in our business. They also assess whether we have taken adequate steps to ensure those risks are assumed, mitigated, covered, or prevented.

Repsol, as a petroleum and gas company, is active in many countries, each with different regulatory frameworks. As a consequence, we face a number of risks:

- Market risks deriving from the volatility of global oil and gas prices, exchange, and interest rates.
- Financial risks, including those related to our liquidity and solvency, as well as those deriving from our contractual obligations and our commercial commitments with suppliers and customers.
- Strategic risks related to company strategy, how we manage our portfolio and how we make resource allocation decisions requiring Executive Committee or Board of Directors approval.
- Risks in the business environment beyond the company's control, such as the macroeconomic context, trends in our sector, specific countries, natural catastrophes, the competition, partnerships, and our stakeholders' perceptions.
- Regulatory and compliance risks, such as changes to laws, regulations and compliance mechanisms related to legal, fiscal, safety and environment matters, as well as reporting and aspects of corporate governance.
- Operational risks pertaining to our effectiveness and efficiency as a result of deficient internal processes, as illustrated in the following table:

We consider that our highest priority risks are those that may compromise our ability to achieve the objectives of our Strategic Plan. We manage assets and businesses prudently. However, many of the risks mentioned are inherent to carrying out our work.

At Repsol, our identified risks are managed by the company units. Moreover, we use independent analysis, supervision, and control units in areas such as Internal Audit, Internal Control of Financial Reporting, Insurance, Credit Risk Management, Market Middle Office, Risk Monitoring, Safety and Environment, Corporate Responsibility, and Control of Reserves.

We review our risk map annually; this is coordinated by our Audit and Control Management group. Each unit with risk management responsibility helps update the risk map in light of trends in our main indicators and conditions in our operating environment. Each risk is linked to the business units responsible for managing it, our existing controls and parameters, and relevant legislation.

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### Operational risks

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#### Ethical and conduct risks

These relate to failure to comply with our ethical principles, which may lead to sanctions, litigation and claims; loss of market value, brand image, reputation, partners, clients, and suppliers; or impaired relations with governments and authorities, even affecting our ability to operate.

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#### Safety and environmental risks

These relate to accidents resulting from the company's operating activities. Management of these risks is fully integrated into the different business units through our safety and environmental, and insurance management system.

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#### Human rights risks

These relate to the impact on human rights that can result from our activities, including those that may result from relations with communities, partners, distributors, suppliers, and contractors.

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During 2010, we conducted an in-depth examination of our efforts to manage operating risks of our principal business units in accordance with a methodology for identifying, prioritizing and evaluating the risks that could affect achievement of our company objectives.

Our Audit and Control Department is responsible for planning our audit activities every year. Our audit projects focus on risks, with an emphasis on those units, processes, or countries we believe are critical. To do this, we rely on a methodology we have developed for the identification and evaluation of risks, beginning with our risk map.

We continually monitor our progress on a set of indicators in processes relevant for the company. This helps us minimize risks as it extends our coverage of the transactions audited, and contributes to the early detection of incidents. As of December 31, 2010, 1,000 control points were being monitored each month related to indicators in use at 25 Repsol companies.

The Internal Control System for financial reporting comprises a total of 1,028 controls, which make it possible for us to be reasonably assured of the reliability of our Group financial reporting. These controls are subject to an ongoing process of evaluation and improvement.

Our Legislative Compliance Program monitors our conformance with our formal legal obligations (to governments, public administrations and/or public authorities) connected to our activities. This helps us limit our compliance-related risks. This program extends to 42 countries and is based on periodic self-evaluation of compliance in a number of areas.

More information on our risk identification and management at [corporateresponsibility.repsol.com](http://corporateresponsibility.repsol.com)

For the fifth consecutive year, Repsol's Corporate Responsibility performance was acknowledged by our continued inclusion in the prestigious Dow Jones Sustainability, FTSE4Good, and Ethibel Sustainability indices.



## The Repsol model of Corporate Responsibility

During 2010, we drafted a new regulation – the Corporate Responsibility Model – to be applied across the entire company. By applying this model, we can help contribute to sustainable development. The model encourages systematic dialogue with our stakeholders, which means we seek to learn their expectations of the company's responsibilities and to establish internal mechanisms to take account of these expectations in our decisions.

The Corporate Responsibility Committee, comprised of 14 executives representing a large part of the Repsol business and corporate units, met twice during 2010, with further communication by email. Among the subjects they discussed and took decisions on were: the sustainability plan, corporate responsibility performance, the corporate responsibility model, analysis of our stakeholders' concerns, internal corporate responsibility priorities, and our annual corporate responsibility reporting process.

During 2010, we took steps to plan the components and functions of the Corporate Responsibility Committees in Spain, Argentina, Bolivia, Ecuador, and Peru, which are expected to hold their first meetings in 2011.

Detailed information on awards and acknowledgements for our performance in Corporate Responsibility in 2010 and previous years at [acknowledgements.repsol.com](http://acknowledgements.repsol.com)

More information on the sustainability indices where Repsol is included at [indexes.repsol.com](http://indexes.repsol.com)

## 2012 Sustainability plan

In 2010 we put our second Sustainability Plan into action. It is comprised of 9 strategic programs and 61 actions, which are divided in turn into sub-actions with associated milestones and indicators. A large number of our business and corporate units participated in its drafting. All the actions of this second Plan will help us to continue to direct our business along an ethical path, to respect human rights, and to minimize the environmental impact as our company grows and undertakes new investment projects.

More information on the Corporate Responsibility Model, the functions of the governance bodies and the actions of the 2012 Sustainability Plan at [RCmodel.repsol.com](http://RCmodel.repsol.com)

The initiatives that constitute this Plan are not intended to be a single solution to our company's sustainability challenge. Rather, they represent a road map, which can and must be updated and extended with new initiatives each year.

### 2012 SUSTAINABILITY PLAN

Strategic program	Number of actions	Dates for achieving the actions
Ethical conduct and combating corruption	9	2010, 2011 AND 2012
Respect for human rights	6	2011 AND 2012
Commitment to our people	6	2010, 2011 AND 2012
Increased safety	7	2010, 2011 AND 2012
Participation in the community	9	2010, 2011 AND 2012
Sustainable energy and climate change	5	2010, 2011 AND 2012
Control and minimization of environmental impact	8	2010, 2011 AND 2012
Influencing our suppliers, contractors, subcontratistas, subcontractors, distributors, partners and customers	6	2010, 2011 AND 2012
Take into account our social and environmental responsibility	5	2010, 2011 AND 2012

## Relationships with our shareholders and investors

Repsol looks after our relationships with our shareholders, institutional investors, and stock market analysts through our shareholder information office (SIO) and Investor Relations Department.

### Shareholders

Through our SIO, shareholders can request any the information they might need, by visiting the office, using a free telephone line – 900 100 100 – or by mail or email. The SIO attended to approximately 52,000 calls during 2010, an average of 200 per day. The most common consultations focused on the share price, the General Meeting, the policy and dates for the payment of dividends, as well as a variety of facts about the company. Moreover, in 2010, we received about 5,000 emails requesting information on Repsol.

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### MANAGING OUR REPUTATION

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In 2010 Repsol restructured its organization chart in the area of communication, revitalizing the management of reputation. This year we created a specific unit to define the policies, strategy, and management aspects related to corporate reputation, and to periodically monitor its status.

Its first mission was to develop a Strategic Corporate Reputation Plan to diagnose the current situation and create a reputation indicator chart, making it possible to monitor, identify priority needs and establish plans to improve the diagnosis in the medium term.

The new technologies and the explosion of social networks mean that today citizens can express themselves simply and directly on the net. At Repsol we consider our digital reputation to be the public perception of us, our products, trademarks and leaders, on the Internet. In order to manage this, in 2010, we laid the foundations for managing our online presence from the corporate area, through a strategy that makes it possible to promote and manage content and assets using social media.

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### Investors

The Investor Relations Department communicates freely with institutional investors and stock market analysts. During 2010:

- We presented several roadshows and meetings with institutional investors in Europe and the United States.
- Investors visited the company offices, which, together with other activities, meant that we made contact with 300 institutional investors during 2010.
- We attended several sector conferences in Europe and in the United States, which included meetings organized with institutional investors.
- We organized a field trip in Peru, focused on helping analysts and institutional investors to get to know the operations of the company in person. It was attended by 23 analysts who follow our performance.

It is important to us to understand the priority institutional investors grant to ethical, social, environmental, and good governance matters. This enables us to align our practices and improve our performance. During 2010, we worked to identify investors that incorporate sustainability considerations in their investment policies and criteria. This analysis was aimed at gathering information that helps us to identify relevant matters and the strengths and weaknesses in our ethical, social, and environmental performance. As a result of this analysis, during 2010, we planned the first roadshow on matters of corporate responsibility, which was carried out in the first weeks of 2011.