

An aerial photograph of a lighthouse situated in the middle of a vast, deep blue ocean. The lighthouse is a tall, cylindrical structure with alternating white and dark horizontal bands. It has a small, green, conical roof on top. A long, dark shadow of the lighthouse is cast onto the water's surface, extending towards the bottom right. The water around the lighthouse shows some white foam from the waves.

2010

ANNUAL

Corporate Responsibility
and Sustainability Report
Telefónica S.A.

Telefónica

2010

ANNUAL

Corporate Responsibility
and Sustainability Report
Telefónica S.A.

Telefónica

1.	LETTER FROM THE EXECUTIVE CHAIRMAN	03	7.	MANAGEMENT OF OPPORTUNITIES	79	9.4.	Compliance with the Regulation and Competition Standard	151
2.	ABOUT AND SCOPE OF THE REPORT	06	7.1.	Social Innovation	80		Relevant proceedings regarding competition	151
2.1.	Principles for the preparation of the report	07	7.2.	Green ICT	86		Relevant proceedings regarding regulations	152
2.2.	Analysis of materiality	09	8.	STAKEHOLDER ENGAGEMENT	93		Actions to comply with Competition and Telecommunications Standards	153
3.	ABOUT THE REPORT	11	9.	BUILDING RELATIONSHIPS BASED ON TRUST WITH THE STAKEHOLDERS	102	9.5.	With our suppliers	154
4.	PRINCIPLES OF THE GLOBAL COMPACT	13	9.1.	With our professionals	103		Telefónica Global Services (TGS)	155
4.1.	Principle 1	15		A single team	103		Telefónica Compras Electrónicas (TCE)	155
4.2.	Principle 2	18		Our Professionals in Numbers	104		Survey on satisfaction of suppliers	155
4.3.	Principle 3	21		Attracting and Retaining talent	106	9.6.	With our shareholders	156
4.4.	Principle 4	24		Training and development	109		On-line channel	156
4.5.	Principle 5	27		Recognition of the work by Telefónica's professionals	113		Shareholders	157
4.6.	Principle 6	30		Employee satisfaction and commitment	113		Institutional investors	157
4.7.	Principle 7	33		Freedom of association and social dialogue	115	10.	GRI TABLES	158
4.8.	Principle 8	36		The Internal Communications model	116	11.	CONSOLIDATION PERIMETER OF THE INFORMATION CONTAINED IN THIS REPORT	169
4.9.	Principle 9	39	9.2.	With our customers	119	12.	CHECKS AND VALIDATIONS	173
4.10.	Principle 10	42		Customers at the heart of everything we do	119	12.1.	Recognition	174
5.	TELEFÓNICA'S CORPORATE RESPONSIBILITY AND SUSTAINABILITY STRATEGY	45		Customer satisfaction	121	12.2.	Communication of progress on the Global Compact	175
6.	COMMON ACTION MINIMUMS RISK MANAGEMENT	49		The Customer Ombudsman Service and complaint management	122	12.3.	Contribution to the Millennium Development Goals	176
6.1.	Diversity	51		Clarification of tariffs and billing	123	12.4.	LBG Assurance Statement	178
6.2.	Health and safety	56		Voluntary information codes for our products and services	124	12.5.	Independent Report of Ernst & Young	179
6.3.	Integrity	60	9.3.	With our community	125	12.6.	AENOR Certification	181
6.4.	Protection of personal data and privacy	64		Progress driver	125			
6.5.	Responsibility in the supply chain	66		Responsible investment (ISR)	128			
6.6.	Electromagnetic fields	71		Technological innovation	129			
6.7.	Protection of children	73		Improving the network	131			
6.8.	Environmental Management	76		Universal Service	133			
				Capacity to respond in emergencies	134			
				Social action	136			
				Telefónica University Chairs	145			

01

LETTER FROM THE
EXECUTIVE CHAIRMAN

César Alierta Izuel

Executive Chairman of Telefónica, S.A.

Dear Friends,

It is a pleasure for me to present you with Telefonica's Corporate Responsibility and Sustainability Report, a document which introduces a significant change to our strategy on this topic and our achievements in 2010: for the first time in nine years we have added the concept of *Sustainability* to the name of the report.

In 2010, we had our best year ever in terms of corporate responsibility. For starters, we led the Dow Jones Sustainability Index (DJSI) for the second consecutive year - the most important socially responsible investment index in the telecommunications supersector including landline and mobile operations. The prestigious magazine Fortune also recognised us as the "Most admired company" in the telecommunications sector among other reasons leading the corporate responsibility ranking in the sector. In addition, Telefónica has led the Carbon Disclosure Project (CDP) in our sector; it is worth recalling that CDP gathers together 475 investors who jointly manage assets valued at

36 billion euros and which compiles information on risks and opportunities identified relating to climate change, plans to reduce emissions and the transparency of corporate measures to mitigate climate change. In addition, the company has renewed its presence on the ethics investment index FTSE4Good for another year. Finally, to these global achievements, we have the numerous accolades and awards received by all our operators in the different countries where we are present.

Keeping up these achievements in 2011 will not be easy. Exceeding them will be a herculean task. For this reason we have proposed in depth process re-engineering which ranges from a new strategic viewpoint to a new work model. Only somebody who reinvents themselves each day can sustain a leadership position. Allow me to briefly describe to you the steps we have started to take in this direction.

First of all, we have incorporated into our *bravo! programme* - a global programme to transform the company for the period 2010-2012 - Corporate Responsibility and

Sustainability as key levers of the culture programme. Therefore, together with our brand, our employees, corporate responsibility is a necessary lever to boost our relationship with society. Progress on this topic is followed both in the Board of Directors, Telefónica's main governing body, and the executive committee, the main managerial body.

Secondly, also in the field of internal management, we have linked our strategy on this topic to the definition made by the DJSI: "Corporate Sustainability - it states in the index - is a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments". This definition is also enabling us to make not only a more significant conceptual approximation to the phenomenon of corporate responsibility but, especially, more of a link to the business strategy, especially in three fields:



- The management of risks in our business. We are creating global policies in the most relevant topics in our sector, with the aim of fostering responsible and transparent management in our entire *footprint*. Topics such as protection of children; responsible supply chain; protection of human rights; privacy and protection of data; environmental management; electromagnetic fields, etc. are matters in which the company seeks to consolidate the same response globally.
- The management of opportunities linked to the impact of our services in society. The accessibility of ICT to enable the integration of the disabled or the elderly, and new solutions to boost savings and energy efficiency, are clear market opportunities for Telefónica, opportunities which also generate a clear positive impact in society.
- The *Stakeholder engagement*, which is enabling us not only to “jointly create” new solutions together with our customers (especially public administrations) but will also help us to incorporate Telefónica into debates on sustainability which are being carried out in the digital world, social networks and the blogosphere.

Thirdly, we are simplifying our reporting model and, especially, seeking a certain global standard which helps the accountability of our responsible behaviour. Every day, the number of stakeholders asking for consistent and comparable data around sustainability grows; for this reason, any attempt to find a common reporting framework will be welcomed by Telefónica. In our case, we have opted to link the reporting model to the main global and multilateral initiatives: Global Compact and Global Reporting Initiative (GRI). What is more, we have adopted this both from a global and a local perspective; it is worth recalling that Telefónica produces 16 Corporate Responsibility reports locally and one at a corporate level, which are also reviewed externally. For this reason, in 2010 we opted to join the platform Global Compact Lead, an initiative comprised of approximately 50 multinational companies which seek to boost the notion of sustainability driven by the United Nations.

Finally, we are adapting our internal management model in order to fulfil these objectives. Working on sustainability issues means working horizontally, across the organisation, at a corporate, regional and country level. By ensuring we work in this way, we will be capable of achieving our challenges.. corporation, region or country. By ensuring this “horizontality” we will be capable of achieving our challenges.

Our challenge is great. And our hopes of achieving it are high. We continue to count on your trust.

Yours faithfully,

César Alierta Izuel
Executive Chairman of Telefónica, S.A.

02

ABOUT AND SCOPE OF THE REPORT

Principles for the preparation of the report

The interests of the Company's various stakeholders are taken into account to guarantee information balance

Inclusiveness, relevance and capacity for response

According to the Global Reporting Initiative (GRI)

Content:

This 2010 Annual CR Report has been drawn up using the general G3 principals required by the Global Reporting Initiative (GRI). In this section we will give a brief explanation of how the GRI-G3 reporting principles have been applied when it comes to preparing it, detailing the principles for determining content, and the principles to ensure its quality.

With the aim of guaranteeing a balanced and reasonable presentation of the performance of the organisation, the contents the report should include need to be determined. This has been carried out by taking into account Telefónica's purpose and experience, as well as our stakeholders' interests.

Materiality: The information in this report covers the issues and indicators that reflect the significant, social, environmental and economic impacts of Telefónica or those that may have a substantial influence on our stakeholders' decisions and assessments, taking into account both internal and external factors.

Inclusivity of stakeholders: Telefónica has identified its stakeholders and, in this Report, identifies how it has responded to their expectations and reasonable interests.

Sustainability context: Telefónica presents its performance in the broadest context of sustainability. Telefónica presents its understanding of sustainable development and includes it in the matters dealt with in this Report, using the objective information that is available and the measurements of sustainable development, the conditions and objectives, the relationship with the Company's strategy, the long-term opportunities and risks, discussions with stakeholders on the matter and the performance in the various geographical contexts in which Telefónica operates.



Exhaustiveness: coverage of indicators and material aspects, and the definition of the scope of the report, should be sufficient to reflect significant social, economic and environmental impacts, and to enable stakeholders to appraise the performance of the operation during the period covered by the report.

Quality:

Balance: the report reflects the positive and negative aspects of the performance of the organisation to enable a reasonable assessment of general performance.

Comparability: the report and the information it contains can be annually compared by means of graphs and tables, indicating when the significant perimeter and coverage variations that have occurred apply. The CR ATLAS also favours the comparability of the indicators deemed to be most relevant to the management of CR in Telefónica.

Accuracy: the information in the report is accurate and provides sufficient details of figures, sources, measurement techniques, calculation bases, hypotheses and estimates so that our stakeholders can assess Telefónica's performance. Said information is contrasted with an independent report by Ernst & Young.

Frequency: the information is presented in time and in accordance with a regular schedule in order that stakeholders can take decisions with adequate information.

Clarity: the information is given in a way that is understandable and accessible for our stakeholders, so that they can use the report in terms of risks and opportunities and in terms of stakeholders.

Reliability/ verification: the information and procedures followed in the drafting of this report have been compiled, registered, analysed and submitted for external examination.

According to AA1000 (APS)

The AA1000AS (2008) was drawn up with the aim of "guaranteeing the quality of reporting on sustainability in the organisation and the processes, systems and skills that are used as a basis for its implementation by every part of the organisation". Thus, the audit carried out by Ernst & Young was carried out pursuant to the following principles, defined by Standard AA1000 ASS (2008):

Inclusiveness: refers to the participation of stakeholders in the development and achievement of a responsible and strategic approach to sustainability.

Relevance: through which Telefónica determines the relevance or importance of an issue to stakeholders.

Response capacity: this report provides Telefónica's response to our stakeholders' demands, presented in terms of sustainability highlights and challenges for the Company as published in this report.



AccountAbility

Analysis of materiality

This analysis of material issues has enabled us to focus our Corporate Responsibility and Sustainability Report on the issues identified as being most relevant

Initially, 48 material issues were identified, which were then prioritised based on our strategy and the concerns of our stakeholders

In order to prepare our 9th Corporate Responsibility and Sustainability Report, and continuing work carried out in previous years, we prepared an analysis of all material issues (in accordance with the AA1000AS standard) in order to focus the report on the most relevant issues and the demands and concerns of our stakeholders.

There were two stages to this study.

Firstly an analysis of the telecommunications sector, our corporate strategy and the expectations of our stakeholders was carried out, identifying 48 relevant issues. A number of sources were used for this analysis:

- The requirements and standards of international bodies such as the OECD, the ILO, the European Commission and digital agendas.
- Market indexes, such as the Dow Jones Sustainability Index and the FTSE4Good.
- Industry analysis reports.

- Telefónica risk analysis.
- Financial results analysis.
- Review of projects under corporate and local Business Principles Offices.

- Dialogue with our stakeholder. In addition to the multi-stakeholder conferences held in most countries about the Corporate Responsibility Report and other key issues, in 2010 we consolidated our Web 2.0 dialogue channels (website¹, blogs, Twitter, YouTube, Flickr).



* The origins of the materiality analysis can be found in the study "The contribution the ICT Industry Can Make to Sustainable Development" commissioned by the Global eSustainability Initiative (GeSI) and carried out by Business for Social Responsibility (BSR).

¹ www.crandsustainability.telefonica.com

In the second stage, the initial results were prioritised based on two variables:

- Their actual or potential impact on our strategy.
- The level of concern of our stakeholders.

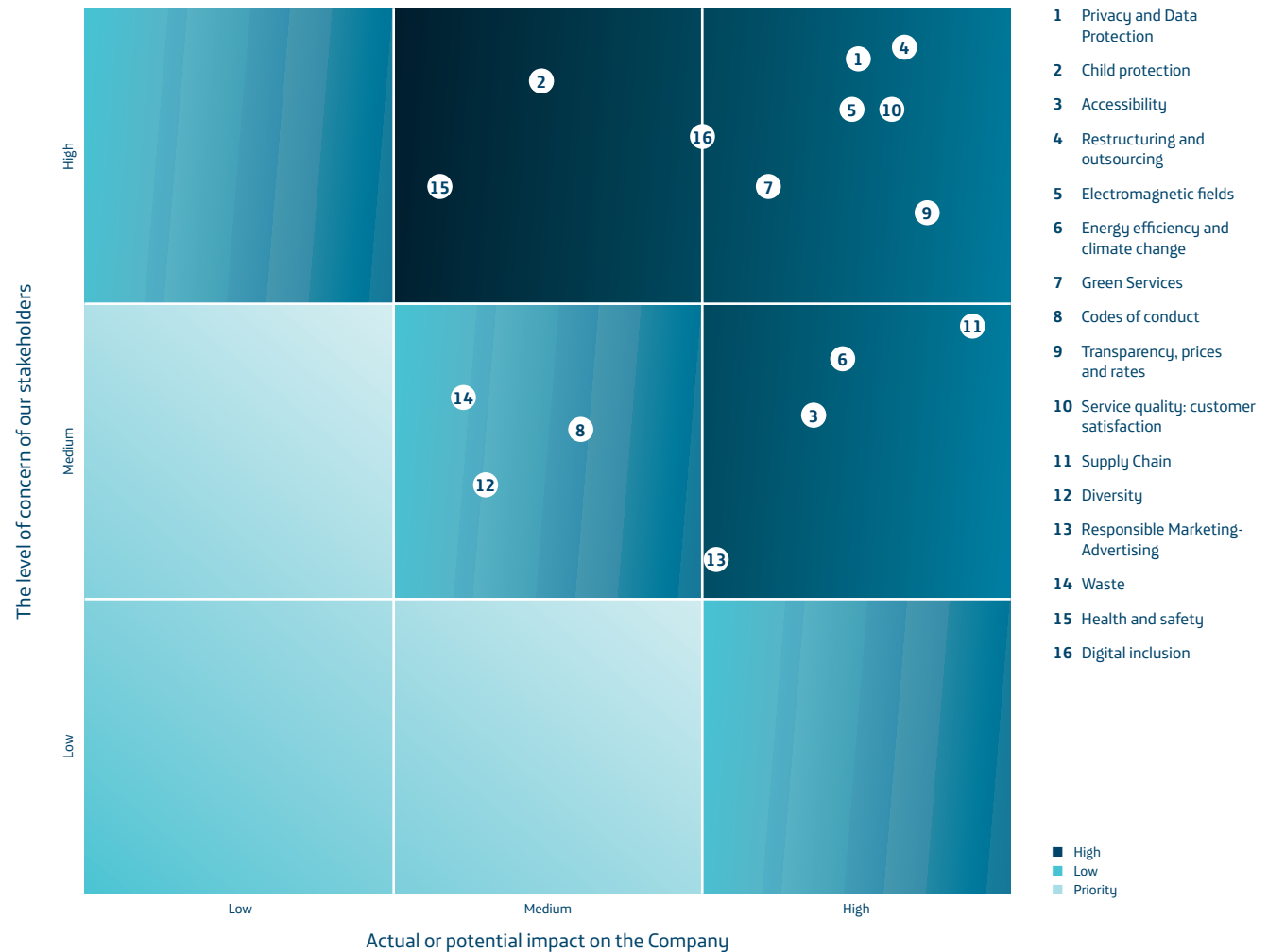
This prioritisation exercise was performed with the units responsible for managing the material issues identified. We also applied a risk analysis filter for each country, which consisted of an evaluation of the impact on strategy and on our reputation.

The results obtained confirmed the importance for us of aspects such as privacy and data protection, child protection, the supply chain, digital inclusion, energy efficiency and climate change, service quality, and so on.

These results also reflected increased concern among our stakeholders of issues with high impact on our strategy, such as electromagnetic fields, green services, outsourcing and restructuring and health and safety.

The materiality matrix shows the issues with medium-high impact based on the analysis carried out. The development of these issues will form part of what we have termed block 2 of the 2010 Corporate Responsibility and Sustainability Report.

Materiality matrix



03

ABOUT
THE REPORT

Our Annual Corporate Responsibility and Sustainability Report is supported by the pillars of credibility, rigor and transparency

Three blocks consolidate our model

This is a management report that incorporates the improvements and advances carried out in sustainability. It follows up the results obtained, and evaluates the meeting of objectives and the commitments made.

We continue strengthening our reporting model structured into three blocks.

First Block or Level

The Report that you are reading, prepared taking into account the Principles of the Global Compact and the GRI indicators, aiming to maintain an inter-sectorial criteria that allows comparison, improves transparency, reflects the advances in management and the spirit of the progress reports of the Global Compact.

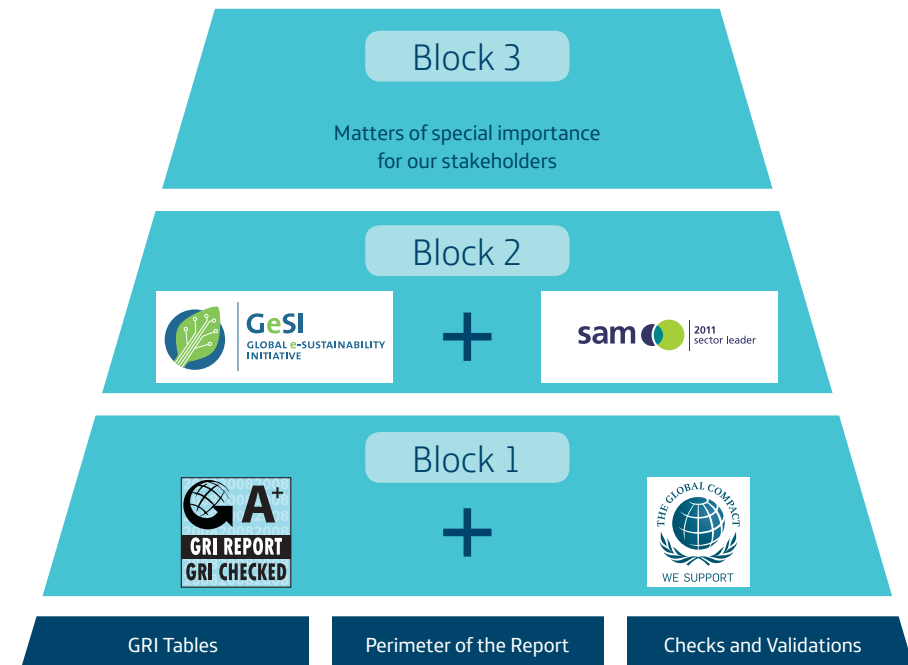
Second Block or Level

This is a management plan based on our strategy (risk management, opportunities and stakeholder engagement), in line with the principles of inclusivity, materiality and

a response to the AA1000AS standard, as well as the drawing up of a guide on Sustainability Reports of the Global Reporting Initiative (GRI) version 3.0. G3.

Third Block or Level

Monographies on issues which are relevant to us, where there also exists a demand for information from our stakeholders.



04

PRINCIPLES OF THE GLOBAL COMPACT

The 10 Principles of the Global Compact and their correspondence with the GRI indicators establish the structure of this block

In 2010 we continued working with the Global Compact Office both on a global and local scale, with the national networks in the countries in which we operate. In this way we have

participated in the definition of "Blueprint for Corporate Sustainability Leadership" that sets standards for sustainable corporate behaviour of reference in the world. From among these

the implementation of the ten Principles of the Global Compact is emphasized in the strategies and operations of the companies.

Human Rights

Principle 1

Here at Telefónica we fully support the framework approved by the United Nations Human Rights Council in 2008 for better management of the challenges faced by businesses and Human Rights. For that reason, we ensure our corporate responsibility with regard to the same with proactive work throughout our value chain and area of influence.

Principle 2

For this reason Telefónica is working every day to ensure that none of our companies are complicit in any breaches of human rights, whether directly with our employees, customers or communities, or indirectly through our providers.

Labour standards

Principle 3

Telefónica is working to ensure that all its workers - both direct and indirect - are able to form or join the union of their choice, without threat of reprisals or intimidation, in accordance with the local legislation of the countries in which they are operating.

Principle 4

Telefónica guarantees the non-existence of forced work in any of our companies. Therefore, we have clear guidelines on established working hours, safety at work and the remuneration of professionals.

Principle 5

Telefónica acts on three fronts to make a significant contribution to the eradication of child labour in the countries in which we are present: through its own internal regulations, through the responsible management of the supply chain and through Fundación Telefónica's Proniño and EducaRed programmes.

Principle 6

Telefónica's Global Diversity Project is responsible for internally making this Principle a reality, mainly through the inclusion of a perspective of diversity in an employee's life cycle.

Environment

Principle 7

Telefónica gives appropriate answers to global problems, such as mitigation or adapting to climate change through our products and services. We work hard in the appropriate identification of environmental risks in our operations, contributing in a sectorial and global way.

Principle 8

Telefónica works with local teams trained and committed to environmental objectives and Climatic Change and Energy Efficiency. We manage the environmental responsibility of all the business lines in an efficient way.

Principle 9

Telefónica identifies and develops products and services that generate energy efficiency and reduction of CO₂ emissions of our customers. We have a series of "green" services in the markets in which we operate, thanks to the work in areas of business and innovation.

Anti-corruption

Principle 10

Telefónica is also aware of the high cost of corruption, as well as the medium to longer-term opportunities which will open up to companies with a strong anti-corruption strategy. Accordingly, we have developed a series of elements which represent a robust and totally intransigent control system.

04 Principle 1 of the Global Compact

PRINCIPLES OF THE GLOBAL COMPACT

“Businesses should support and respect the protection of internationally proclaimed Human Rights”

“Protect, respect and remedy” are the three pillars of the framework approved by the United Nations for Human Rights

Here at Telefónica we fully support the framework approved by the United Nations Human Rights Council in 2008 for better management of the challenges faced by businesses and human rights. This framework is based on three pillars, “**Protect, Respect and Remedy**”: the state duty to protect against human rights abuses by third parties, including businesses; the corporate responsibility to respect human rights; and greater access for victims to effective remedy, both judicial and non-judicial.

Within our business responsibility to “Respect”, we have been working proactively to set an example of Human Rights best practice throughout our value chain and in our area of influence.

Our Business Principles, which were approved by the Board of Directors in 2006, reflect respect for internationally recognised human rights. As a general principle, they prohibit any form of behaviour (direct or indirect) which involves a violation of the principles in the United Nation's Universal Declaration of Human Rights and the declarations of the International Labour Organization. These are then developed for each of our stakeholder groups (employees,

customers, suppliers, etc.) and the human rights which might be affected (freedom to form unions, health and safety, data protection, privacy, elimination of child labour, etc.).



Global Reporting Initiative Indicators

S03 Percentage of employees trained in organization's anti-corruption policies and procedures.

PR8 Total number of duly founded claims in relation to respect for privacy and personal data protection of customers.

Indicator measured in Telefónica	Measurement unit	2009	2010
Employees trained in Business Principles	Percentage	57.0%	59.7%
Monetary value of fines for failure to comply with data protection regulations ¹	Euros	3,832,652	2,132,321

¹ The total for fines relates to data protection and privacy issues in Spain, Germany, Colombia and the Czech Republic.

04 Principle 1

PRINCIPLES OF THE GLOBAL COMPACT

of the Global Compact

Telefónica is part of the Executive Committee of the corporate sustainability leadership platform created by the UN



Telefónica is one of the 54 multinationals chosen by the United Nations to be part of the Global Compact LEAD, a business platform created to promote sustainability around the world. These companies were chosen as they are global leaders in the sustainable economy.

The 54 leading companies in sustainability (all of which are signatories of the UN Global

Compact) have undertaken to work towards the applications of the Blueprint for Corporate Sustainability Leadership, which provides a full route map based on three dimensions: implementing the 10 Principles of the Global Compact (Human Rights, employment and environmental standards and the fight against corruption) in their strategies and operations; implementing initiatives to contribute to achieving the Millennium Development Goals; and reinforcing support for the local Global Compact networks established in 90 countries. This model results in 50 measures which businesses can take to improve their sustainability.

This route map is based on a firm commitment to sustainability by the senior management of "LEAD" companies and their Boards of Directors, and management based on transparency.

For more information, visit: www.unglobalcompact.org/lead

Our Business Principles apply to all our employees and in all our operations, irrespective of the country in which we are carrying out our activity. We also encourage our partners and suppliers to comply with similar principles to ours. We continued our training activities in 2010, with around 74,000 employees trained in our ethical code, not including Atento employees.

Together with this commitment, Telefónica aims to identify and prevent any potential negative impact from our activities and in our area of influence which might affect human rights. For more information, see [Principle 2](#).

Health and safety

The Management of the Joint Health and Safety at Work Service has been designated as the Group International Competence Centre for Health and Safety (CCISS after its Spanish acronym), and provides proactive advice on health and safety in the regions in which we operate.

Its functions include the roll out and implementation of the **"Health, Safety and Welfare" project**, the objective of which is to reduce accident rates; share best practices among regions to take advantage of the synergies generated; and to ensure that our management systems are advanced. In 2010 it received replies to around 64% of the self-diagnosis questionnaires it sent out. The questionnaire enables us to examine the development of Health, Safety and Welfare, and to prepare a prevention plan based on the results obtained.

Child protection

Telefónica is working actively to promote appropriate use of information and communication technology, focusing particularly on children and adolescents. We have developed a strategy based on three pillars: self-regulation, specific products and education. These are based on relationships with specific stakeholders which guide our actions enabling us to develop activities in order to meet our objectives. It should be noted that the national Codes of Conduct in Europe signed between 2007 and

Human Rights in Colombia

Over recent years, Colombia has been the object of specific analysis by ISR indexes, particularly the FTSE4Good. As a result, Telefónica has paid particular attention to this. In 2010 we continued working on a Human Rights project with the purpose of incorporating our attitude to Human Rights into all the processes and mechanisms which affect the performance of our activities.

There are three phases to the proposed plan: the **first** identifies the impacts which could result from the performance of our activities, or in which we could be involved in by our relationships with third parties. This analysis is being carried out from both operational and environmental perspectives.

The **second** phase consists of reviewing local and international human rights requirements. The **third** and final phase involves the development of specific action plans to address any issues identified in our behaviour.

In 2010 we performed an initial diagnosis of human rights management throughout the whole of our value chain. This involved holding interviews with all areas of our company in Colombia in order to complete a questionnaire to give us an initial comprehensive overview.

04 Principle 1

PRINCIPLES OF THE GLOBAL COMPACT

of the Global Compact

2008 by national mobile phone operators, which are revised and redefined every year, have been implemented to encourage safe use of mobile phones by children. In 2010 we worked on a new Code of Conduct which will be signed not just by Mobile Phone operators, but also by other important parties such as ISPs, social networks and so on; this will be produced in 2011.

In terms of our products and services, users of our television service can restrict content using a PIN code. Furthermore, by default, all adult content is offered on demand (OPT-IN). We also have a range of tools in Europe to control access to Internet content, such as access systems based on age verification.

In Spain and Germany, all prepaid mobile phones have access to adult content blocked by default; customers must identify themselves by presenting an official identification document to activate access to such content (OPT-IN).

Privacy and data protection

In 2010 we achieved an adequate and uniform level of personal data protection in all of our operations, irrespective of the country in which we are operating.

We have also developed initiatives both for our employees and our customers to meet the requirements of Corporate Personal Data Protection Regulations approved in 2008. And we have given classroom and on-line courses to train our employees in data protection.

Finally, we have continued the work begun in 2009 to establish contractual mechanisms for compliance with personal data protection regulations by the Group's subcontractors and suppliers.

Aula365



This is the first social network of educational content which enables students to connect with each other and to share their learning interests and hold conversations in a safe, moderated environment. More information: www.movistar.es/aula365

Our Business Principles

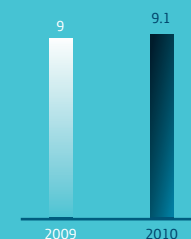
Telefónica

"We respect the principles of the UN Universal Declaration of Human Rights, as well as the declarations of the International Labour Organization. We promote equal opportunities and we treat all individuals fairly and impartially, without discriminating".

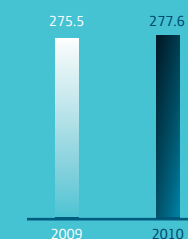
Health and safety

In 2010 we continued working on the qualitative and quantitative analysis of accident rates in the company. This analysis enabled us to obtain greater information on the circumstances in which accidents occur so that we can eradicate them.

Incident Rate (IR)

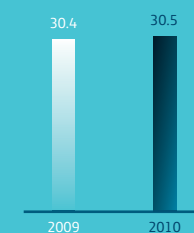


Severity Rate (SR)



	2009	2010
Units		
Absenteeism rate (GRI)	6,046	5,562
Accident rate (GRI)	0.8	0.9
Days lost rate (GRI)	16	27.8
Occupational illness rate (GRI)	0.4	0.3

Average Duration Rate (ADR)



IR: Total number of accidents/average number of workers.

SR: Days lost due to accident/average number of workers.

ADR: Days lost due to accidents/total number of accidents.

Note: Figures do not include Atento.

04 Principle 2 of the Global Compact

PRINCIPLES OF THE GLOBAL COMPACT

“Businesses should make sure they are not complicit in Human Rights abuses”

Here at Telefónica we are working to stop any breaches of human rights in our value chain

Complicity in Human Rights abuses - one of the points to assess and manage - remains a major challenge for companies. In general, we work directly with each stakeholder to avoid such situations and to avoid complicity of any type, whether direct, advantageous or tacit.

As detailed in Principle 1, Telefónica's relationship with each of its stakeholders (both internal and external) is defined by our Business Principles. These clearly state that respect for human rights is integrated into each and every such relationship.

For this reason we are working every day to ensure that none of our companies are complicit in any breaches of human rights, whether directly with our employees, customers or communities, or indirectly through our suppliers.

Directly

1. In Telefónica we seek to maintain a professional and transparent relationship with our customers. Over the past year we have been working to simplify and clarify our product offering, to develop our multi-channel strategy and, above all, to translate such progress into customer satisfaction in each country.

In 2010, we made new communication and dialogue channels available to our customers, taking advantage of the new opportunities offered by social networks.

For example, in Spain:

www.facebook.com/movistar.es
www.twitter.com/movistar_es
www.tuenti.com/movistar



Global Reporting Initiative Indicators

HR2 Percentage of significant suppliers that have undergone screening on Human Rights.

PR5 Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.

Indicator measured in Telefónica	Measurement unit	2009	2010
Total number of audits performed on at-risk suppliers	Units	840	1,163
Global customer satisfaction index	Units	6.98	7.13

04 Principle 2

PRINCIPLES OF THE GLOBAL COMPACT

of the Global Compact

These new channels are in addition to our conventional channels, such as customer service through which we listen to our customers in order to build our relationship with them.

In late 2010 we created a new "customer ombudsman" department in Venezuela, becoming the first and only telecommunications operator in the country to have proactively created such a unit. This new department provides an effective response to complaints and suggestions from customers, and so reinforces our other conventional channels.

In addition, our existing two customer defence services have continued to operate:

- The Customer Defence Service (CDS) in Spain handled 6,407 cases last year, 25% more than in 2009, a somewhat lower rate of growth than in previous years. 82% of these cases were resolved in the favour of the customer.

One new development in working procedures in 2010 involved the creation of an urgent process for managing complaints related to customer privacy; this established direct communication mechanisms with the areas involved, enabling us to give the customer a satisfactory response very swiftly.

All the work carried out enabled the Customer Satisfaction Index (CSI) to rise to 7.13 points at the end of 2010 (up from 6.98 points in 2009). At the end of the year, Telefónica was the market leader in customer satisfaction, with a +0.06% advantage over its nearest rival.

The percentage of dissatisfied customers fell by 3.03 percentage points to 10.29 overall, thus confirming the downward trend noted throughout the year.

2. In Telefónica we work together with others to resolve social problems in the local communities where we work, providing capabilities and technology.

As a result, and given the emergencies and catastrophes which occurred in 2010 (in Haiti, Peru, Chile and Brazil), we have contributed economic, material and technical support to help offset the impact of such events on local communities.

The initiatives in which we were involved include: (i) working with the Red Cross with a donation of 900,000 euros to help victims of the Haiti earthquake; and (ii) the action taken following the Chile earthquake, which focused on freeing up public telephones, free long-distance calls and donation of 70 satellite phone systems to the Government.

In this way we are aiming to help to re-establish one of the most urgent needs in such situations - telecommunications - whilst contributing to the future recovery of the areas, helping communities to recover the right to the conditions of a dignified life.

Indirectly

Telefónica works with suppliers to ensure respect for human rights throughout our supply chain.

To this end we have a strategy for preventing and offsetting risks in our supply chain, which is based on evaluating the potential level of risk of suppliers and defining actions in accordance with the risk and the country.

Through our Supply Chain Responsibility Policy, we inform our suppliers of the sustainability criteria and standards we expect of them, encouraging them to spread such standards throughout their supply chains.

For the third consecutive year, our on-site audits were a key tool for ensuring compliance with our minimum requirements. In 2010, Telefónica performed 1,163 suppliers audits, which, as in previous years, were mostly related to local and regional criteria.

Positioning "Conflict Metals"

Telefónica published its "*Positioning Statements: Conflict Metals*" last August.

In this statement we stress that we share the concern of the ICT sector of how the supply of certain metals, used to manufacture some electronic consumer articles, is contributing to the violation of human rights caused by armed groups in the region of conflict located to the east of the Democratic Republic of the Congo (DRC).

We do not directly acquire this kind of material as Telefónica, although some of the end products we acquire may contain small amounts of them. By means of our strategy in the supply chain, we encourage responsible action over the mining of these minerals and we do not support the use of metals from mines located in areas of conflict, such as the DRC, by our suppliers.

Similarly, as members of the Global e-Sustainability Initiative supply chain working group, we participate in work around managing the social, environmental and humanitarian problems associated with mining this kind of metal. Efforts during the last year focused on improving transparency and increasing the traceability of these materials throughout the supply chain.

04 Principle 2

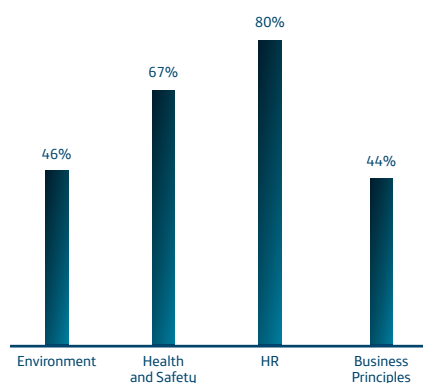
PRINCIPLES OF THE GLOBAL COMPACT

of the Global Compact

Furthermore we continued working on one of the challenges we set ourselves for 2010, the definition of a *standardised audit check list*. We have been working over the last year to improve this, with 37 new at-risk suppliers being audited based on the standard model. As a result, over 150 suppliers have been audited over recent years using comparable criteria.

The audits performed in 2010 found that, despite the efforts made, the two points to continue monitoring are: (i) promoting Corporate Responsibility in suppliers (in accordance with our Business Principles); (ii) stricter control of environmental management.

Compliance by our providers in the areas evaluated



Telefónica is working to incorporate E-TASC (a Global e-Sustainability Initiative self-evaluation tool) in 40 of our main suppliers. Through the information compiled in this self-evaluation process, we will be able to identify potential areas of risk of non-compliance with Corporate Responsibility criteria.

Sustainability training and awareness raising

Through our participation in initiatives such as the Global e-Sustainability Initiative, Forum Empresa and the Itri Tin Supply Chain Initiative, we are contributing to spreading and raising awareness of sustainability.

In 2010 we helped to train our suppliers so that they would be aware of our responsible supply chain management strategy, and would learn how to strengthen their own corporate responsibility culture. Examples of this include: (i) "A new business outlook", the first corporate responsibility workshop for small and medium-sized enterprises supplying the company in El Salvador; and (ii) the "Transforming to create shared supply-chain benefits" conference, where some of the issues we analysed with our suppliers in Ecuador included best business practices, ethics and business transparency.

Our Business Principles

Telefónica

"We require our suppliers to conduct their business applying principles similar to ours, as well as demanding from them compliance with the laws and regulations of each country".

General registration conditions

All suppliers should accept Telefónica's Business Principles and its Supply Chain Responsibility Policy, agreeing to the general clause contained in the general registration conditions:

The provider declares and guarantees, as a requirement for being considered as a provider to our companies and being included on the register through the Provider Portal, that it complies with Telefónica's Supply Chain Responsibility Policy, and that:

- *It shall not permit child labour;*
- *There are no cases of forced labour or servitude in its business;*

- *There are no employment conditions which are a potential risk to life and there is no cruel or inhuman treatment of workers;*

- *It will guarantee compliance with environmental legislation which is applicable to its activity.*

Telefónica requires that its suppliers adopt similar standards to those in its own supply chains to ensure compliance with human and basic employment rights and respect for the environment".

04 Principle 3 of the Global Compact

PRINCIPLES OF THE GLOBAL COMPACT

“Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining”

In 2010, 75% of our employees had their working conditions regulated by collective agreements

At the present time there are a number of international treaties which include (directly or indirectly) freedom of union rights. These include the 1948 Universal Declaration of Human Rights or the 87 International Labour Organisation Agreement, which is dedicated exclusively to this issue. Each and every one of these treaties recognises Principle 3 of the Global Compact as a fundamental workers' right.

Telefónica is working to ensure that all its workers - both direct and indirect - are able to form or join the union of their choice, without threat of reprisals or intimidation, in accordance with the local legislation of the countries in which they are operating. During 2010, at Telefónica we

maintained and developed this undertaking with all our companies' employees regardless of the country in which they work, guaranteeing rights of association and worker rights.

Freedom of association

The Company is guided in this area by its Business Principles, and by the Social Protocols of International Agreements and the Code of Conduct it has agreed with the Union Network International (UNI).

At Telefónica we respect the privacy of choice of employees over union affiliation, for which reason we do not request data on this affiliation. As a sample of the dynamism

of the company's union activity, we highlight that 157,849 employees voted in Telefónica union elections which meant more than 55% of the total workforce. All these selection processes took place with freedom and total guarantee.

Our labour relations policy in **Latin America** favours transparent communication with our employees. With this aim, we boost initiatives to guarantee the participation and welcome suggestions especially on training matters, opportunities for professional development, organisational changes and compliance with business principles.

Global Reporting Initiative Indicators

LA4 Percentage of employees covered by collective bargaining agreement

Indicator measured in Telefónica	Measurement unit	2009	2010
Employees with negotiated collective agreements ¹	Percentage	72.6%	74.9%

¹ The percentage of employees with collective agreements, where such agreements are negotiated through trade unions (guilds, employees' representatives, etc.).

04 Principle 3

PRINCIPLES OF THE GLOBAL COMPACT

of the Global Compact

The union relations in our Latin American companies are based on respect for legitimate representatives and compliance with international regulations. We guarantee permanent dialogue in the countries by establishing relationships based on trust. In 2010, the union relationships took place normally and with a low level of conflict. Over this period we made progress on union dialogue and perfecting of rules and policies regarding the relationship with contractor companies.

In all the countries in which Telefónica operates in **Europe** there is union representation on the workforce, except for Ireland. The role played in Ireland by People Forum in the consultations and information mechanisms necessary to carry out the restructuring of the organisation was notable. People Forum is an association created in 2009 which represents 100% of our employees in Ireland, with the aim of involving the company's employees in decision-making and improving dialogue methods and improving dialogue methods between the parties.

Collective bargaining

In 2010 the fact that the percentage of Telefónica employees with working conditions regulated by collective agreements increased by more than two percentage points, up to 75% of the workforce, was notable. Therefore, the number of workers who joined the Telefónica's collective agreements increased by 27,000 people.

Within the scope of Telefónica **España** we commenced three collective bargaining negotiations; first in Telefónica Soluciones, prevailing until December 2010, which ended successfully; a second in Telefónica Móviles España which meant the extension of the prior agreement; and a third in Telefónica de España in which, after three months of negotiation, it was not possible to reach an agreement to extend the prior agreement. In 2011 a new process of collective bargaining will open in which the company, with its best will to reach agreements, will make its proposals within the new labour framework which will enable us to maintain our competitive position on the market.

In April 2011, Telefónica told its investors about a plan to reduce costs and improve productivity. This plan considers, among other measures, suppression of 20% of the work stations of the Spanish subsidiary, mainly in the landline business. It is notable that the history of Telefónica Employment Regulation File demonstrates that workers signed up to it have always done so under the best possible conditions. In addition, Telefónica has always made staff adjustments with the complete agreement of the majority unions, respecting the principles of voluntary nature, universality and non-discrimination, in addition to, as is obvious, the approval of the Ministry of Labour.

It is in this framework of negotiation and social dialogue over the last few years, where Telefónica wishes to tackle the plan to reduce costs and improve productivity and it wants to do so, furthermore, with the highest level of consensus to ensure both the continuity of Telefónica España employees and its competitive position on the market and to reconcile the productive model.

It is worth recalling that in 2010 and in Spain, approximately 35,000 workers were directly linked to Telefónica's core business (28,000 in the landline business, 4,000 in the mobile business and approximately 3,000 in related businesses such as Telefónica stores, cabins, etc). The landline business manages 13.3 million telephone lines and 5.7 million Broadband lines while the mobile business serves more than 24 million lines. Therefore, compared to its direct competitors in Spain, Telefónica has more than twice the number of employees than the other land line, ADSL and mobile operators together.

Representation of the employees on health and safety equality committees

A notable aspect in the set of regions where we operate, is the high representativity and participation of workers on the health and safety committees at work (approximately 200 committees globally). These committees periodically debate, consult and regulate the actions of each company on the aforementioned issue.

Health and Safety Committees

We highlight the high participation of Telefónica employees' representatives on the health and safety committees in the different countries where they participate in the decisions which promote improved working conditions and physical, mental and social well-being.

Country	Number of Health and Safety Equality Committees	% of employees represented
Colombia	4	75%
Chile	27	100%
Mexico	1	20%
Nicaragua	9	75%
Ecuador	9	10%
Telesp Brazil	9	100%
Peru	2	100%
Venezuela	34	100%
Argentina	6	50%
Total Latin America	102	53%
United Kingdom	1	100%
Czech Republic	1	75%
Germany	2	25%
Ireland	1	50%
Total Europe	5	74%
Total Spain	75	97%

04 Principle 3

PRINCIPLES OF THE GLOBAL COMPACT

of the Global Compact

Some of the issues tackled in these equality committees are: the assessment of work-related risks; the provision of protection and work clothing equipment; information and training on work-related risks; "safe work" operations and procedures and periodic reviews and inspections of facilities and activities.

By means of these equality forums, Telefónica employees are represented at the highest level, promoting improved working conditions and safeguarding their physical, mental and social well-being.

Transparency and Communication

At Telefónica we work on communication with employees within a model of continuous improvement, communicating from time to time, by means of our internal channels, any agreements or organisational or organisational changes which occur. We have to point out that among these internal communication channels there are reporting channels made available to all employees on the Internet to consider issues associated with compliance with our Business Principles which also include any incident against freedom of association. All the reports are seen in accordance with the principles of respect, confidentiality, background and exhaustivity. For further information, refer to [Principle 10](#).

For our transparency policy, it is very important for the company to be appreciated in general by employees, for which reason we note the satisfaction survey performed annually among the entire workforce and which this year, once again, has improved with respect to last year.

The undertaking with freedom of association brought to the supply chain

At Telefónica we also support freedom of association and rights to collective bargaining indirectly through its suppliers. As part of the inscription process, our suppliers should accept the standards covered in our responsibility policy in the supply chain. These standards are drawn up in accordance with the UN Human Rights Declaration and the agreements of the International Labour Organisation. For further information, refer to [Principle 2](#).

Our Business Principles

Telefónica

"We respect our people's right to belong to the trade union of their choice and we do not tolerate any type of retaliation or hostile action towards those people who participate in union activities".

Agreement with the European Works Council

At Telefónica Europe we signed a new agreement in 2010 with the "European Works Council (EWC)" to set up joint work procedures in the future and agree bilateral meetings every six months at the European

Forum headquarters with Telefónica's senior management members.

The aim of the next few meetings is to debate on different aspects; from the structure of the businesses, the introduction of new work forms into Telefónica companies in the United Kingdom, Czech Republic, Slovakia, Germany and Ireland.



04 Principle 4 of the Global Compact

PRINCIPLES OF THE GLOBAL COMPACT

“Businesses should uphold the elimination of all forms of forced and compulsory labour”

The satisfaction index was 74 percentage points in 2010

At Telefónica we do not tolerate the presence of forced labour in any of our companies regardless of the country where we operate. This concern which was initially focused on our employees also extends throughout our value chain. Specifically to our suppliers as we are aware of our responsibility, both because of our international presence and the impact and volume of our direct suppliers.

In this sense, we can speak of various activities to guarantee the eradication of these practices which, although they may appear more frequent in developing countries, are also present in those more developed countries so that this becomes a global problem to which Telefónica wishes to provide answers.

Therefore, we have clear guidelines on established working hours, safety at work and the remuneration of employees.

Conciliation and flexibility

At Telefónica we encourage new forms of work which enable more flexibility for our employees making it easier to reconcile personal and professional lives.

We are also concerned about improved well-being, both from the point of view of health and leisure; in many cases these advantages are extendable to their direct family setting.

The **Quality of Life Observatory in Telefónica Latin America**, where work is carried out for the entire region on identification of the best practices to be able to share them, is notable. There are four kinds of benefit: flexitime, health, sharing and support. Examples of some of these are: teleworking, benefits and discounts in arranged establishments, performance-related bonus, agreement with medical centres, on-line training, Christmas party for children, licences for adoption, marriage, savings fund, corporate life insurance, etc.

Global Reporting Initiative Indicators

LA10 Average training hours a year by employee

Indicator measured in Telefónica	Measurement unit	2009	2010
Total training hours over the year	Thousands of hours	11,218	12,289
Total training expenses	Thousands of euros	63,300	56,457

04 Principle 4

PRINCIPLES OF THE GLOBAL COMPACT

of the Global Compact

At **Telefónica de España**, among the actions aimed at quality of life we can highlight flexibility at work and function (functional flexibility, teleworking, flexible hours), and employee support programmes (management of stress, management of health and well-being, or help to manage personal life). Some examples are: social welfare (multidisciplinary team, psychologists, social workers), ATAM (Telefónica's disability assistance association), provisional residence transfers for personal or family reasons, employee subsidised holidays plans, camps for children and English courses abroad, etc.

Safety at work

In 2010 we designated a centre for international competence for health and safety in Telefónica (CCISS) for proactive advice on prevention of work-related risks, with the aim of supporting health, safety and well-being at work. For further information, refer to [Principle 1](#).

Within the health, safety and well-being project last year, in **Spain**, all our companies attached to the jointly owned service for prevention of work-related risks obtained the auditing certificate for prevention of work-related risks. Our corporate headquarters in District C has also certified its health and safety management system in line with the international standard OHSAS (Occupational Health and Safety Assessment Series).



In **Europe**, we participated actively during 2010 in the project "Good Work=Good Health", promoted by ETNO (European Telecommunications Network Operators), where the best practices in our sector on management of mental health and well-being at work were compared.

In the region of **Latin America** we highlight the activities performed in Chile to improve our preparation for emergency earthquake situations such as those which occurred in the country recently. In this context explanatory chats, identification of safe areas, evacuations drills, psychological intervention workshops in the event of earthquakes, etc. were held.

Fair wages

The fixed compensation that Telefónica pays its employees is in all cases above local minimum wages. In many cases this fixed remuneration is complemented with a package of social benefits appropriate for the markets in which we operate.

The wage incentives and benefits of our employees include: pensions plan, medical insurance, meal vouchers, financed advances, offers of Telefónica products and services, grants for studies, nursery services, gym, periods of leave from work, free days for volunteering, teleworking, guarantee to purchase a house, holiday plans, mobile telephones and *smartphones*, distribution of profits based on Telefónica results, payment of bonus by objectives and Telefónica share option programmes.

Great Place to Work



Ever more countries are choosing Telefónica as one of the best places to work.

Great Place to Work Awards 2010

Region/ Company	Place in the GPTW 2010 league table
Latin America	
Telefónica Venezuela	1
Telefónica Ecuador	2
TM Colombia	2
Movistar Mexico	2
TM Argentina	3
Telecom	6
Telefónica Central America	8
Telefónica Chile	9
TM Peru	13
Terra Mexico	15
TSC	17
Terra Chile	18
TGestiona Peru S.A.C.	35
VIVO	Among the "100 best companies to work for in Brazil"
	17th among the "70 Best IT and Telecom Companies to work for"
Terra Brazil	41st among the "70 Best IT and Telecom Companies to work for"
Telesp	42nd among the "70 Best IT and Telecom Companies to work for"
ATENTO	
Atento Central America	2
Atento Argentina	4
Atento Mexico	4
Atento Peru	27
Europe	
Telefonica O2 Ireland	6
TISA (Headquarters)	7
Telefonica O2 Germany	The Best list Deutschlands Beste Arbeitgeber 2010

04 Principle 4

PRINCIPLES OF THE GLOBAL COMPACT

of the Global Compact

In 2010 the Global Plan for Employee Share Purchases was launched which was approved on 23 June 2009 by the Telefónica Ordinary General Shareholders' Meeting. S.A. for a maximum amount of 50 million euros. Through this plan we offer the employees the possibility to purchase Telefónica, S.A. shares with the commitment by Telefónica of giving the participants a number of shares for free as long as they meet certain requirements. The registration of employees in the plan was totally voluntary. The registration period started on 26 de May de 2010; at the end, more than 40,000 Telefónica Group employees in 20 countries had signed up.

The company also has incentive plans for more than 1,900 managers from the 25 countries where it operates. In 2010 the plan approved in 2006 by the General Shareholders' Meeting which was incorporated into the Telefónica wage policy in 2006 expired, in accordance with the practices of the large majority of international companies. This plan, with 750 million euros, had the aim of retaining talent and linking the remuneration of the manager to improved productivity and improved profitability for the shareholder.

Once the 2006 plan concluded, the company proposed at the General Shareholders' Meeting of 2011 the approval of a five-year plan split into three cycles and for an amount of 450 million euros. It is important to note that the amounts highlighted are maximum amounts and that the 1900 managers to whom they are aimed have their wages virtually frozen. To be able to access this the company needs to comply with an aim several years ahead and this result needs to be equal or greater than that obtained by the remaining companies in the sector (Dow Jones Global 50 Titans Telecommunications Index).

Telefónica carries out market wages surveys periodically to maintain a competitive position both to retain and to attract talent.

Responsibility in our value chain

At Telefónica, as is usual year to year, we collaborate together with our suppliers to avoid situations of servitude or forced labour occurring in our value chain. Therefore, during 2010, we continued working to encourage minimum criteria and standards on sustainability among our suppliers. Therefore, for example in Latin America, by means of our Aliados programme, we safeguard the improvement in the social and working conditions for our intensive workforce suppliers. For further information, refer to [Principle 2](#).

Our Business Principles

Telefónica

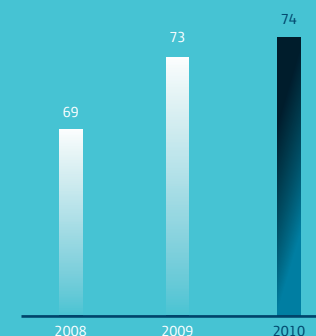
"We do not tolerate, either directly or indirectly, any type of child labour, forced labour, threats, coercion, abuse, violence or intimidation in our work environment".

Employee Satisfaction Index at Telefónica

At Telefónica we are geared towards creating a working environment which enables personal and professional development of our employees, for which reason we carry out satisfaction surveys every year in all our companies.

This survey allows us to understand strengths and weaknesses and turn them into action plans. Up to now the results have been very satisfactory as the levels of participation of our employees have grown gradually in every country and globally.

Employee Satisfaction Index (%)



Principle 5 of the Global Compact

“Businesses should uphold the effective abolition of child labour”

In total, 211,349 children and adolescents benefited directly from the Proniño programme in 2010

The International Labour Organisation (ILO) defines child labour as “any economic activity carried out by children and adolescents, under the minimum working age pursuant to national legislation, or by those under 18 years of age, which interferes with their schooling, is carried out in dangerous environments or under conditions affecting their psychological, physical, social and moral, immediate or future development”.

At present, around 215 million children¹ are working around the world, 14 million of them in Latin America, and many of them full time.

Telefónica acts on three fronts to make a significant contribution to the eradication of child labour. The first is through its own internal regulations, which guarantee a minimum age for contracting employees in all of our companies. The second front is the responsible management of our supply chain, which includes mechanisms

to ensure that we do not contract child labour (for more information, refer to [Principle 2](#)). The third front is through the Fundación Telefónica programmes Proniño and EducaRed, which aim to facilitate access to quality education for children and adolescents.

Proniño

Proniño was created twelve years ago as Telefónica's social action programme and has been managed since 2005 by our foundation and our local operators in thirteen Latin American countries: Argentina, Brazil, Colombia, Chile, Ecuador, El Salvador, Guatemala, Nicaragua, Mexico, Panama, Peru, Uruguay and Venezuela. At present, it is the leading initiative by a private company to contribute to the eradication of child labour and thus stop this abuse of the rights of children and adolescents.



Proniño's 2010 social impact

- **118** implementing NGOs.
- **5,860** educational centres involved.
- **211,349** beneficiaries of comprehensive protection.
- **432** Fundación Telefónica classrooms installed.
- **223,988** other beneficiaries of Fundación Telefónica classrooms.

¹ Source: International Labour Organisation (ILO).

Global Reporting Initiative Indicators

HR6: Activities identified as constituting a potential risk of exploiting child labour, and measures adopted to contribute to eradicating this.

04 Principle 5

PRINCIPLES OF THE GLOBAL COMPACT

of the Global Compact



In 2010, Proniño combined working on-line with direct local intervention and the promotion of public policies which enable a sustainable, long-term way out of the problem of child labour. A leading role will be played in this by ICT, particularly through social networks in a Web 2.0 environment, together with new educational paradigms, such as networked-collaborative learning. This has improved social, digital and educational inclusion in areas where there are high rates of child labour.

As a transforming programme, Proniño seeks to generate increased areas for collaborative working and to build commitment among key people in this area: educators, staff at colleges, community organisations, etc. Furthermore, it also aims to promote Web 2.0 social networks as an innovative tool for sharing, collaborating, communicating and exchanging best practices related to the issue of child labour through the transformation of those social agents who affect the children who are at the greatest risk of ceasing their education.

Fundación Telefónica acts in three ways through the Proniño programme:

- **Comprehensive protection:** this consists of implementation of projects submitted by the various social organisations involved in the programme to remove children from child labour and give them back their rights which are being breached.

- **Quality education:** this aims to improve educational processes and learning for children participating in the programme through teaching methods which include, among other things, ICT, helping to create a life project and making the school into a social space for the prevention and eradication of child labour.

- **Increasing social and institutional robustness:** the objective is to raise society's awareness of the issue of child labour by calling attention to this abuse, and increasing knowledge about the issue. To this end, in 2010 we published 10 reports on different issues in various countries. Furthermore, in this area we aim to boost the parties involved

EducaRed's 2010 social impact

- **52.6** million visits to the global EducaRed portal and over **233** million page views.
- Over **142,000** people trained in around **2,100** courses, with **1.2** million hours of training.
- In total, over **32.4 million** direct participants in the many *on-line* and classroom educational initiatives offered.
- Current cooperation agreements with over **200** entities, bodies and companies, many of which are experts in educational innovation.

3rd International Conference on Child Labour: networks and innovation for the prevention and eradication of child labour

This event brings together leading child labour specialists, creating spaces for commitment and reflection. Unlike in previous years, this year the conference had both virtual and live face-to-face elements.

The **virtual phase** was the first such experience of its kind, providing a boost for the use of new technologies as a medium to create innovative approaches to social intervention. The on-line event allowed an interesting debate to take place focusing on a number of areas: Why are there still children working? Are existing models of intervention and the methods of combating child labour effective? How can ICT help to fight child labour? What are you personally doing to combat child labour?

The **"live" event** which took place in November in Bogota, Colombia, allowed the debate to continue, examining subject areas such as the role of ICT as an essential element in the prevention of and fight against child labour, the promotion and use of social networks and other platforms as an innovative way to combat the problem and the mobilisation of public-private bodies, among others. The main aim was to consolidate a network of organisations and individuals in order to exchange good working practices and create sustainable commitment and connections that contribute toward the eradication of child labour and the meeting of Millennium Development Goals.

More than 6,700 people took part in the virtual conference whilst 1,200 people from 14 countries attended the live event. Relevant figures: over 44,000 web hits and more than 151,000 pages visited.

04 Principle 5

PRINCIPLES OF THE GLOBAL COMPACT

of the Global Compact

in the programme and create a network of actors and institutions to make actions in the fight against child labour sustainable, tackle the problem and involve more institutions and social agents through public and private cooperation.

In 2010, the partnership between Fundación Telefónica and UNICEF, as part of the celebration of 20 years of the Declaration of the Rights of the Child, resulted in publication of the report "No more child labour: a target which can be achieved". The purpose of this report was to encourage public policies to be adopted and to strengthen dialogue and reflection in all sectors involved in national development about the progress achieved by the State and Society to achieve the right to an education for children, and their protection from economic exploitation and employment which is dangerous or might damage their education or development.

www.unicef.org/venezuela/spanish/No_mas_trabajo_infantil_UNICEF.pdf

EducaRed

The main objective of the EducaRed programme is to promote improvements to the quality of education and educational excellence through the incorporation of ICT into both formal and informal teaching and learning. To this end, EducaRed offers a range of high-quality tools, educational content and services based on ICT; resources for collaborative working, and a wide-ranging programme of comprehensive training in order to promote the innovative capacity of the whole educational community: teachers, pupils, parents, schools and others involved in the education sector.

This programme, which is supported by an Internet portal, has become a leading educational resource in Spanish and Portuguese for all levels of education, from primary to university.

One of the major developments in 2010 was the evolution of EducaRed towards being a multi-cultural educational social network; to this end, it signed major cooperation agreements with a number of educational social networks, such as Red Espiral and iEARN (the International Education and Resource Network), in order to combine forces to boost contributions to increasing educational quality.

Our Business Principles

Telefónica

"We collaborate in civic, community and not for profit organizations and with public initiatives aimed at eradicating social problems in those local communities in which we operate by providing our capabilities and our technology".

World Day Against Child Labour

The activities being developed as part of the 12 June and International Week Against Child Labour include a trip to Spain for the Latin American winners of the "Hoy Escolar" (Student today) competition, an initiative which aimed to promote education about the value and use of ICT among young people through digital journalism. The competition was open to pupils at state, private and state assisted schools in Spain and schools in Latin America involved in the Proniño programme.

The Latin American winners of the two rounds of the competition were teams from the Minuto de Dios School in Bucaramanga, Colombia, and the Liceo Jubilar School in Uruguay. The winners took part in a range of leisure, cultural and educational activities, including a visit to Parliament and an official reception with Her Royal Highness, the Princess of Asturias.



04 Principle 6 of the Global Compact

PRINCIPLES OF THE GLOBAL COMPACT

“Businesses should uphold the elimination of discrimination in respect of employment and occupation”

Telefónica is committed to equality as a generator of business through its Diversity Project

According to the World Labour Organisation (WLO), recognition of fundamental rights in the workplace is ever increasing in among organisations, communities and companies. These rights, among which is the abolishment of discrimination in employment and in the workplace, establish criteria which serve as points of reference for responsible, sustainable corporate conduct.

This aspect is also increasingly recognised in similar codes of conduct and other initiatives in the private sector as part of their employees' rights.

From this stem our Business Principles, which govern the behaviour of all our employees and explicitly state that: “We shall strive to promote equality of opportunities and treat everybody

fairly and impartially, without prejudice as to a person's race, colour, nationality, ethnic origin, religion, gender, sexual orientation, civil status, age, disability or family responsibilities”.

Our **Global Diversity Project** is responsible for internally making this Principle 6 of the Global Compact a reality, mainly through the inclusion of a perspective of diversity in an employee's

Global Reporting Initiative Indicators

LA13 Make-up of the Corporate Governance and Workforce bodies, broken down by gender and age group.

Indicator measured in Telefónica	Measurement unit	2009	2010
Female	Percentage	50.1	51.5
Women in management	Percentage	15.6 ¹	16.8
Number of disabled people	People	1,420	1,610

HR4 Total number of discrimination complaints.

Indicator measured in Telefónica	Measurement unit	2009	2010
Number of discrimination complaints investigated by the Business Principles Office	Units	0	0

¹ This information has been adapted in order to make it possible to compare information from 2010, after the standardisation of sources of information.

04 Principle 6

PRINCIPLES OF THE GLOBAL COMPACT

of the Global Compact

life cycle - from the recruiting processes to the evaluation and recognition of redundancy, and the training of our employees in this regard.

At Telefónica we believe that the key to success lies in people. Given that we are all different, we see that difference as a competitive advantage, celebrating the inclusion of a variety of origins, experiences and perspectives as the secret of success.

Similarly one of our objectives is to build a singularly diverse team of people with a view to responding to the needs of our equally diverse customer portfolio. It is these customers that demand that we, as service suppliers, comply with standards of conduct in terms of diversity and equality. We are working together in the commercial area in order to identify requirements and adapt our internal processes to them.

In 2010, we continued to focus on three key areas:

Social awareness action

Telefónica invites its employees to experience what it means to be responsible for their own development, making the challenges we offer them an opportunity for personal growth.

- Through our **e-learning** platform we are seeking to raise awareness among our staff regarding the importance of diversity to a company with over 285,000 employees in 25 countries speaking eight different

languages. Among the training courses aimed at our employees is "Cultural Diversity Management", the main aim of which is to ensure that employees learn to accept our multicultural reality and adapt to it within their workplace.

- In the United Kingdom we are continuing with our **modular on-line training programme** for our employees - now in its second year - focusing on diversity and inclusion. By the end of the year 96.53% of our employees had successfully completed it, exceeding our 2010 target of 95%.

Development of internal policy

We are committed to ensuring equality throughout our employment policy: hiring, compensation packages, promotion, rotation, new working methods, conciliatory measures and the integration of the disabled. This means that we can ensure that the determining factors in the assessment and compensation of our employees are always based on ability, competence, merit and performance.

Among other areas, special mention should be made of the following:

- We offer all our staff the chance to access all information concerning vacant positions via the intranet, thus ensuring that selection processes are even more transparent.
- Through our International Appointment Management Programme we promote the mobility of talent as a key factor in the personal development of our staff, as well as best ensuring a transfer of knowledge and good working practices between company bodies and countries.

1st Telefónica Ability Awards in Spain

Telefónica ability awards



On 17th January, Her Majesty Queen Sofia chaired the Telefónica Ability Awards ceremony, a series of awards organised by Telefónica in recognition of the companies and organisations who have best integrated the area of disability into their business model. The event, which took place at Distrito C, Telefónica's head offices in Madrid, was attended by over 400 guests.

The Organising Committee had previously selected 48 companies as finalists from the 273 who had initially entered. The whole process, which began in April 2010, was supervised and supported by PwC Spain.

The first Telefónica Ability Awards went to the following companies and organisations:

- Best Large Private Company: Repsol.
- Best SME: Hotel Entremares.
- Best Public Institution: Aena.
- Senior management commitment and employee leadership: Grupo Siro.
- Recruitment and selection: MRW.
- Accessibility: Sanitas.
- Customer orientation: Ávila City Council.
- Training and professional development: Grupo Siro.
- Accident prevention and retention: Capgemini.

Telefónica's role was to act as a facilitator and integrator, assisting the Panel in its duties, the real driving force behind changing perceptions towards disability. Over the coming years, the Company is committed to extending the Ability Awards to other markets in which it operates, both in Europe and Latin America.

For further information visit:
www.telefonicaabilityawards.com

04 Principle 6

PRINCIPLES OF THE GLOBAL COMPACT

of the Global Compact

- Among other measures, we are promoting teleworking as a system which favours the conciliation of our employees' personal and professional lives.

Management Indicators

At the close of 2010, Telefónica employed 146,909 women, 51.5% of the total workforce, up 1.4% on the previous year. Similarly, women constituted 16.8% of Company management (compared to 15.6% the previous year).

The number of employees with disability in 2010 stood at 1,610, 13.4% more than in 2009, due mainly to a significant increase in Brazil.

Our commitment to people with disability can be seen in the holding of the 1st Annual Telefónica Ability Awards in Spain. These awards, which originated in Ireland, seek to recognise those companies that develop sustainable business models whilst integrating the issue of disability into the value chain.

Through ATAM - the Telefónica Disabled Attention Association - we are working to ensure the workplace integration of people with disabilities, which in 2010 attended to more than 1,600 people. ATAM represents our commitment to improving access to the labour market for people with disabilities. We consider employment to be an element of fundamental importance in ensuring a person's independence and their full participation as an active member of society.

ATAM works not only with people with disabilities who are seeking employment but also with companies themselves, providing assessment, advice and orientation on hiring and how best to adapt the workplace. To this end, ATAM was called on 223 times, assisting companies through visits, offers, contracting and intermediation.

At Telefónica we are also firmly committed to the integration of people with disabilities and ensuring we are free from discrimination. This has been the reason for the introduction of our Workplace Integration of People with Disabilities Corporate Regulation. With respect to the compliance with these Regulations in 2010, and bearing in mind the various legal environments within the countries in which we operate, there would appear to have been no breaches of the established standards by any Group company.

Worthy of special mention in this regard is Spain, where the overall compliance of all Telefónica companies (through both direct and sub-contracting) is 2.34%, exceeding the percentage required by law (the Integration of Persons with Disabilities Act or LISMI). To achieve this, procedures were put in place to ensure the contracting of goods and services from social organisations working to promote the inclusion of those at risk of social exclusion within the labour market. In 2010, the Company invested over 7 million euros in such social suppliers within Spain (Special Employment Centres).

Our Business Principles

Telefónica

"We promote equality of opportunity and treat all people fairly and impartially, without prejudice based on race, colour, nationality, ethnic origin, religion, sex, sexual orientation, civil status, age, disability or family responsibilities."

The mobility of talent among Telefónica companies

Since 2008 Telefónica has had an International Appointment Management Programme in place, designed to promote the mobility of talent as a key factor in the personal development of our staff, as well as best ensuring a transfer of knowledge and good working practices between company bodies and countries.

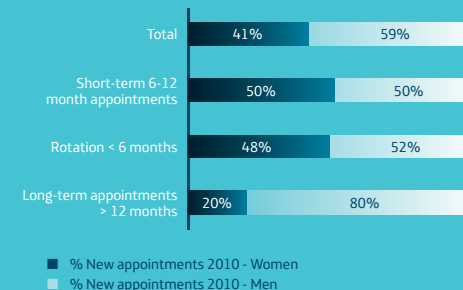
In 2010 we continued the trend established over previous years, with long-term moves (over 1 year) becoming more frequent, closely followed by our rotation programmes (up to 6 months) and, finally, least frequently, the short-term international appointments (up to 12 months).

In 2010 there was a total of 297 such appointments. Of all these new appointments in 2010, 59% corresponded to men and 41% to women. This means there is a greater balance than in 2009, where the split was 65%-35% respectively. This is due to the fact that in 2010

the number of women thus appointed increased by 23% whilst the number of men remained stable.

If we look at the type of appointment, the gender distribution was:

Distribution based on appointment and gender type



04 Principle 7 of the Global Compact

PRINCIPLES OF THE GLOBAL COMPACT

“Businesses should support a precautionary approach to environmental challenges”

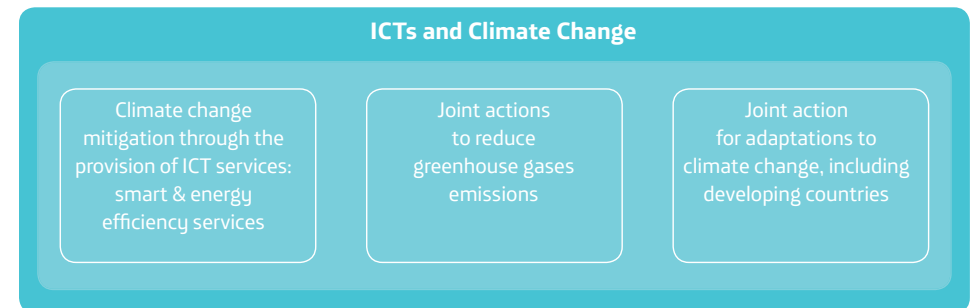
Within our scope we are helping to reduce climate change

Telefónica's environmental strategy focuses on risk management and taking full advantage of opportunities. This strategy is part of an integrated policy of sustainability applicable to the whole Company, as well as an environmental policy that has been fully ratified by the Group's senior management. In 2010 we continued to identify environmental risks present in all our operations. This risk is managed through Telefónica's Environmental Management System, which has been implemented since 2009.

We are aware of the fact that one of the greatest worldwide challenges is that of Climate Change. Neither the Information and Communications Technology sector (ICT) nor Telefónica can be on the sidelines. We therefore have an organisational structure in place, which goes under the title of the Office of Climate Change and Energy Efficiency. This Office, represented by corporate and business units, is responsible for managing, controlling and promoting all projects by Telefónica related to energy, climate

change and green services. All with the same aim in mind: firstly, to reduce internal emissions through energy efficiency initiatives and secondly, to provide products and services that facilitate the reduction of greenhouse gases (GHG) among our customers and in strategic sectors within the economy. In 2010, we have identified climate change risks to the Company and have also assessed the opportunities to reduce the effects of climate change through the provision of our products and services.

We are aware that we can contribute to global action through ICTs based on the three main pillars of the Bali Action Plan established at the Conference of the Parties (COP) on 13th December 2007 and ratified with the Cancun Accord in December 2010. Telefónica's approach to tackle climate change on a global level and within the scope of our activities is described below:



*Adapted to ITU – GESI 2010: Use of ICTs to tackle climate change.
ITU: International Telecommunication Union.*

04 Principle 7

PRINCIPLES OF THE GLOBAL COMPACT

of the Global Compact

A Carbon Disclosure Project (CDP) leader

In 2010, Telefónica led the Carbon Disclosure Leadership Index (CDLI) which measures the amount and quality of the information regarding climate change matters. We also received an A in the new Carbon Performance Leadership Index (CPLI), which measures advances made in the identification of risk and the development of opportunities in climate change and energy management, as well as responsibility related to climate change.

The CDP acts on behalf of a total of 534 institutional investors who manage a total of 64 trillion dollars, as well as organisational and governmental bodies.

Climate change mitigation

We are certain that the best way to fight climate change is to offer our customers worldwide a series of products and services that allow them to be more efficient. Today Telefónica offers a number of services described in Principle 9

Global Reporting Initiative Indicators

EC2 Financial implications and other risks and opportunities for the organization's activities due to climate change.
S05 Public policy positions and participation in their development and lobbying activities.
AM 18 Initiatives to reduce greenhouse gas emissions.

of this document which range from video-conferencing systems to virtualisation services and cloud computing for example.

In the areas of business and innovation we are working to define a range of energy efficiency services for our customers. One of these services is the global smart city model, based on principles of connectivity, energy efficiency and dematerialisation. We believe that cities will become the units of governance and management on climate change with the greatest impact worldwide. In 2010, Telefónica R+D developed a pilot smart city project in Santander (northern Spain) which will serve as a base in defining Telefónica's smart city model on a global level. A smart city should promote wealth and economic growth whilst also serving as models of energy efficiency and sustainability in cities, counting of course on the use of ICTs.

Joint actions to reduce greenhouse gases emissions

There is worldwide interest in corporate management strategies regarding the reduction of greenhouse gas emissions, which is being increasingly demanded by governments, investment groups, shareholders and the general public. Reducing greenhouse gases at a business level requires commitment and appropriate

corporate governance models, and above all, accurate and transparent quantification of CO₂ emissions that allow the measurement of real reduction results.

Telefónica works with a number of internal and external stakeholders to take advantage of the opportunities that the ICT sector offers in terms of reducing greenhouse gas emissions worldwide.

We have also been working intensely to reduce internal greenhouse gas emissions since 2006, focusing above all on energy efficiency and the reduction in the consumption of fuel in fixed and mobile networks. Further details of these best working practices are described in Principle 8 of this document. Telefónica measures its greenhouse gas emissions each year; it is important to mention that Telefónica's contribution, and that of Telecommunications operators in general is minimum in terms of worldwide emissions. In 2010 greenhouse gas emissions stood at 1,990,772 t CO₂-Eq. However, new technologies have great potential to reduce emissions in other sectors.

The real measurement of internal greenhouse gas reduction in ICT companies and that resulting from the use of ICT services, requires suitable approaches to assess these benefits as well as

COP 17 ITU

In 2010 Telefónica took part in the development of the first study on the continuation of ICT to the mitigation and adaptation to climate change, carried out together by the ITU (International Telecommunications Union) and GESI (Global e-Sustainability Initiative). The document "Using ICT to tackle climate change" was presented at the World Climate Change Summit COP 17 in Cancun.

Telefónica has taken part in this Report as co-author. Through the use of ICT it is possible to confront climate change in two ways: mitigation, that is to say the reduction in CO₂ emissions, and adaptation, that is, the use of ICT in order to be prepared and to respond to the climate changes. At Telefónica we have worked on this study because we believe that it is a tool that will enable all governments, our customers, and society in general to understand in a simple way, with practical cases, the contribution of ICT.

In the team of experts that has created the report, there are also four specialists from France Telecom, Climate Associates, Research In Motion (Blackberry) and the ITU.

For further information:
www.itu.int/ITU-T/climatechange/
itu-gesi-report.html



04 Principle 7

PRINCIPLES OF THE GLOBAL COMPACT

of the Global Compact

teamwork within the sector. We strongly believe that without these approaches no progress can be made.

In 2010, we worked with a number of groups in the sector among which we should highlight ICT4EE (ICT for Energy Efficiency in the European Commission) and the standardisation Bureau of the International Telecommunications Union (ITU), the UN body responsible for telecommunications. Other external groups with whom Telefónica works include: The GSMA, The European Telecommunications Network Operators (ETNO) and the Global E-Sustainability Initiative (GESI).

The ICT4EE forum is responsible for identifying the existing methodologies used to quantify CO₂ emissions generated by the ICT sector, as well as reaching a consensus on approaches to reduce greenhouse gases in sectors such as transport, electricity and buildings. Together with Fujitsu, Telefónica leads one of this forum's working groups.

We are active and committed participants in Group no. 5 of the ITU-T¹, responsible for developing approaches to assess CO₂ impact within the ICT sector as well as that of the products and services offered to end users. This is the only independent working group made up of organisations from the ICT sector (companies and government bodies) responsible for defining suitable approaches to serve as reference points within the sector.

In 2011 we will continue to prioritise development and the contribution to sector-based approaches in order to measure energy efficiency and greenhouse gas emissions, as well as pursuing excellence in processes and projects aimed at reducing CO₂ at a group level.

Joint action for adaptations to climate change, including developing countries

In 2010, we developed a risk assessment model which, for the first time, enables us to evaluate the danger that climate change might have on our operations in Latin America. The potential effects of climate change and extreme events on our fixed and mobile networks in coastal areas has been introduced into the field of corporate risk management. In 2011 we will continue to assess the economic impact and the new risk associated with climate change.

We will also reinforce the identification of products and services which monitor climate conditions on a global level, as well as the vegetation provision with regard to reforestation and deforestation. In addition, we will work with Telefónica International Wholesale Services (TIWS) to establish potential areas of work concerning the capacity of underwater cables in tsunami early warning systems.

Our Business Principles

Telefónica

"We are committed to sustainable development, protecting the environment and reducing any negative impact we might have on our surroundings".

Proposed climate change reduction model: Smart City Santander

Telefónica R+D has begun the roll-out of the first 150 sensors that will make Santander become one of the very first intelligent cities in the new European network of intelligent cities, and the largest laboratory in the world in which the future network can be tested (the so-called Internet of Things). Smart Santander is a project that is co-financed by the European Union, in which a number of international companies take part, led by Telefónica R+D. In 2011, the number of these devices will be increased to a total of 12,000 which will be installed in Santander over the three years the project is due to run.

The first 150 sensors installed in 2010 will be used to detect the occupation of parking spaces and those assigned to people with reduced mobility. They will also be used to measure air temperature and quality and the presence of CO₂ (meteorological sensors). As the number of devices increases, the aspects measured will

diversify. In reality, Santander is set to become the world's largest M2M service laboratory. A laboratory in which the scientific community will be able to test the Future Internet, the so-called Internet of Things.

The M2M technology provided by Telefónica will result in a testing ground which can be used to validate future value added services for end users or companies.

For further information visit: Telefónica Major Customers website. Santander - Intelligent City www.grandesclientes.telefonica.es/articulo.php?id=64&id_submenu=3

¹ Standardisation Group - ITU.

04 Principle 8

of the Global Compact

PRINCIPLES OF THE GLOBAL COMPACT

“Businesses should undertake initiatives to promote greater environmental responsibility”

Global Reporting Initiative Indicators

EN01 Materials used, by weight or volume.

EN03 Direct energy consumption by primary source.

EN04 Indirect energy consumption by primary source.

EN08 Total water withdrawal by source.

EN16 Total direct and indirect greenhouse gas emissions by weight.

EN22 Total weight of waste by type and disposal method.

EN23 Total number and volume of significant accidental spills.

EN27 Percentage of products sold, and their packaging materials, which are recovered at the end of their useful life, by category.

EN29 Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations.

EN30 Total environmental protection expenditure and investments by type.

Indicator measured in Telefónica	Measurement unit	2009	2010
Eco-efficiency			
Total White Paper consumption (including invoices)	t	16,972	14,444
Total Recycled Paper consumption	t	651	530
Consumption of water	Cubic metres	4,470,468	4,010,588
Electrical and electronic equipment waste	t	1,978	2,485
Battery waste	t	2,681	1,870
Customer electrical and electronic equipment waste	t	1,811	1,614
Total waste recycled	t	3,478	4,155
Oil waste	Thousands of litres	466	458
Re-use of electrical and electronic equipment	Units	1,337,403	1,825,754
Fuel spill volume	Cubic metres	76	43

Indicator measured in Telefónica	Measurement unit	2009	2010
Energy and CO₂¹			
Scope 1			
Fleet fuel consumption (diesel and petrol)	Thousands of litres	24,911	35,248
Natural gas consumption operations	Cubic metres	444,283	420,866
Natural gas consumption offices	Cubic metres	6,237,141	6,261,916
Diesel consumption operations	Thousands of litres	13,140	17,372
Offices diesel consumption	Thousands of litres	1,195	1,191
Direct emissions	t CO ₂ eq ²	114,839	149,761
Scope 2			
Electricity consumption in office buildings	MWh	775,764	821,581
Electricity consumption in operations buildings	MWh	4,296,489	5,546,827
Indirect emissions	t CO ₂ eq ²	1,674,531	1,776,944
Scope 3			
Business travel by plane	Units	111,231	125,927
Business travel by train	Units	55,851	75,779
Business travel by car	Units	18,570	33,444
Other indirect emissions	t CO ₂ eq ²	61,877	63,368
Avoided emissions ³	t CO ₂ eq ²	222,879	245,238
Total Emissions	t CO ₂ eq ²	1,851,247	1,990,072

¹ Energy data for 2009 verified in 2010. Energy and emission data 2010 in verification process, include Vivo and TIWS data.

² The inventory for both years includes t CO₂eq: CO₂, CH₄ and N₂O.

³ Emissions avoided thanks to the generation and buying of renewable energy.

04 Principle 8

PRINCIPLES OF THE GLOBAL COMPACT

of the Global Compact

Telefónica and the energy efficiency in the sector ICT – GSMA

Led together with GSMA, the collaboration of a methodology to measure energy efficiency of the mobile telecommunications networks and lending its services to the association of mobile operators (GSMA). This methodology is a standard to measure energy efficiency of the networks. Called Network Energy Efficiency Benchmarking Service (MEE or Mobile Energy Efficiency), companies would be able to identify savings and launch adequate measures to achieve them. The new methodology compares four key indicators for measuring energy consumption in a mobile network by mobile connection; base station, trade and income unit.

This methodology will be presented to the ITU (United Nations agency for the Information and Communications Technology sector), in order for it to be validated and therefore able to be converted into a standard. The MEE service will make it possible to quantify the CO₂ cost and saving for mobile phone operators. In this way it will be possible to coordinate the industry with regulating shareholders and to achieve measuring of methodologies as being accepted as a global standard. In 2011, efforts will be made to extend this work to fixed networks.

Further information: www.gsmworld.com/our-work/mobile_planet/energy_efficiency.htm

The potential environmental risks associated with Telefónica's activity is concentrated on network deployment. During the operation we must manage network waste, reduce paper and water consumption and manage energy consumption and the generation of CO₂ emissions in our operations. In addition, we must also manage the useful life of the network, where efforts in waste management, energy efficiency and visual, environmental and acoustic impact control of our facilities are carried out.

Environmental management plays an important role in the control and management of risks, where we establish minimum standards to guarantee the protection of the environment we operate in.

We have continued working on the implementation of the company's Global Management System, guaranteeing compliance with certain common standards applicable to the management of all our companies' operations. The implementation process will be extended until the end of 2012. This global EMS, designed according to the international ISO14001 standard, fixes the common directives applicable in all our companies.

Currently, over 65% of our companies hold certification which confirm that their EMSs comply with that stated rule, and make all possible efforts to ensure ongoing improvements in environmental matters.

Eco-efficiency

The management of environmental aspects is marked by an efficient use of resources, that is, to generate more benefits using fewer resources and generating less waste.

1. **Water:** Water consumption at Telefónica is controlled in the offices since on the network it is a resource that we do not use. In 2010, there was a 10,3% reduction in consumption mainly due to the development of water saving activities and campaigns with employees to raise awareness.

Responsible network deployment

Telefónica's biggest asset is its network, which is growing in every country in which we operate, especially in mobile networks. This deployment ensures coverage and quality in the service we give to our customers. Mobile accesses rose by 8.9% in 2010, which implied the construction of new infrastructure.

In mobile networks, our system for environmental management acknowledges the environmental feature as the most important in the visual impact. To this end, local environment areas develop programmes for the reduction of the visual impact.

We also back shared infrastructure in our networks. In 2010, our mobile network increased by 6.2% in shared infrastructure.

The environmental aspects of the network require activities of public participation, noise monitoring, waste management and measurement of electromagnetic fields.

It is important to note that 60% of our mobile operations have an implemented system for environment management. In 2011 we will continue our work towards the pursuit of the highest environmental standards in our networks.



Base station Brazil - VIVO

04 Principle 8

PRINCIPLES OF THE GLOBAL COMPACT

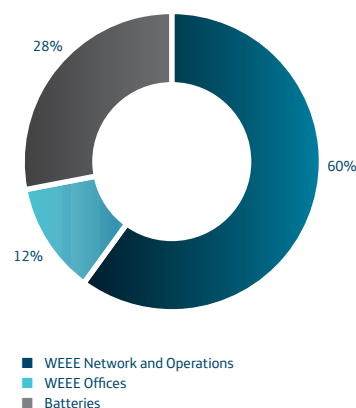
of the Global Compact

2. **Efficiency in the management of paper consumption:** in 2010, 14,444 tonnes of white paper and 530 tonnes of recycled paper was used in company offices. Telefónica implements practices aimed at reducing consumption and promoting the use of recycled paper which, year by year, will spread across the group, the "paper-free office" model. At the same time, the Company is seeking to promote e-invoicing of its customers, for further reduction paper consumption.
3. **Waste management efficiency:** The generation of waste is one of the most significant environmental issues on Telefónica activities. Waste types are varied, but all are managed separately based on the danger they represent, and are treated by authorised companies. The most relevant are those coming from electrical and electronic equipment on the network and from offices (2,485 tonnes), and the dangerous ones: in Telefónica's case mainly batteries (1,870 tonnes). From the total waste generated, Telefónica recycled more than 4,155 tonnes. In addition, we offer in most operations, the possibility of our customers depositing their unused telephones in placed recycling points which have been approved.
4. **Internal energy efficiency and reduction in CO₂:** Energy efficiency within Telefónica is seen as an opportunity for reducing operational costs. It is true that in 2010 we optimised the quantification process of consumption and energy costs as well as greenhouse gases of the Companies of the

group. We developed a specialised verification process of power consumption and CO₂ generation and we established collection processes and methodologies of energy information and mobility on a global level. The objective of this activity was to align our process for quantification of emissions on the ISO 14064-1 standard.

In the table you can see our inventory of direct and indirect emissions set out in a detailed way. In 2010 two companies have joined the group, Vivo, our Brazilian mobile operator and TIWS Telefónica Wholesale Services company of the group in charge of submarine cables globally. This introduction represents an 29% more in our global energy consumption compared to 2010.

Telefónica Waste



Our Business Principles

Telefónica

"We are committed to sustainable development, protecting the environment and reducing any negative impact we might have on our surroundings".

Leadership in energy efficiency



Throughout 2010 we carried out 44 energy efficiency projects globally on the network, achieving a reduction of more than 83,000 MWh and a reduction in the energy consumption of the group of more than 7 million euros.

During the workshop, we gave a prize to the best energy efficiency practice in the group: Free Cooling in Uruguay and to the best corporate governing model "Energy Manager" in the United Kingdom. The best renewable energy project "Telefónica's Distrito C" and special acknowledgement to the Brazilian team for the development of a kwh methodology/ equivalent access.

Energy Managers – Telefónica Group

This workshop marked a milestone within the corporate governing and strategy of the group based on sharing best practices and promoting the use of the best technology available on a global basis for energy efficiency in our networks.

We continue working towards achieving the overall global goals of reducing electricity consumption on networks and in offices of the companies in the group. Until now, we have already reached half of the objective of 30% electric power consumption on networks for equivalent access. This has been achieved thanks to the energy leaders in the countries. The best practices of energy efficiency were shared in the First Global Energy Efficiency Workshop which took place in September 2010. Each of the operations presented its best practices on reducing energy consumption. There were also Partners like Alcatel Lucent, NSN, Huawei, Andrew-Comscope, among others.

04 Principle 9 of the Global Compact

PRINCIPLES OF THE GLOBAL COMPACT

“Businesses should encourage the development and diffusion of environmentally friendly technologies”

We have developed green products and activities globally

In Telefónica we are able to extend our culture of energy efficiency to our customers. In 2010 we delivered several energy efficient and green products and services to our companies and domestic users. The areas of business innovation and development have

been involved in this identification of services process at a group level.

The first service assessed under the 360° model or the Green Customer Experience was the mobile service of the residential sector. The

aim of this model is to deliver a mobile service assessed from an environmental and energy efficient point of view. The proposal includes a mobile service with a clear commercial offer, and a specific device that makes the use of green services easier through the mobile telephone.



04 Principle 9

PRINCIPLES OF THE GLOBAL COMPACT

of the Global Compact

Green Technology



This proposal must be genuine and different from other services which include the Green Technology icon.

We have designed a 360° corporate model that aims at the inclusion of energy efficient and environmental aspects in services or solutions released by Telefónica. For each one of these processes, Telefónica has created several activities worldwide.

1. **Green devices:** Energy efficiency criteria and the responsible use of materials have been introduced. An example of this is Telefónica UK's Eco-rating, which aims at the standardisation of the criteria for eco-efficiency in mobile devices sold.
2. **Green applications:** Telefónica's service will include a number of green applications related to Telefónica and several others from external developers. An example of this is the I-RUTA movistar that enables the optimisation of distances covered by road.
3. **Green services:** E-billing is one of the services included here. Telefónica must establish incentives in order to promote e-billing among the Green customers. Promotional campaigns have already been launched in Ecuador and Spain.



4. **Green offer:** We have implemented a model for green marketing based on our Business Principles. The aim is to create a genuine offer, allowing us to inform and educate the customer in terms of a green and active participation.

5. **Green corners:** For the presentation of the product, creating a "green corner" in our shops. The first model for Telefónica's green corner was introduced at the Mobile World Congress (MWC2010) in Barcelona.



Fleet management

Telefónica España currently provides a fleet management service which enables its customers to optimise their fuel consumption through remote management of their cargo vehicle fleets and logistics services using an integrated digital solution. This service is already available to customers in Spain, and includes modules for improving route efficiency. The service monitors fuel consumption in real time, and provides the user with information to improve driving skills and efficiency. Estimates of the savings of this solution for some of our customers suggest a saving of up to 120,000¹ km of distance travelled/month, resulting in an annual 12% fuel saving. In 2011 we will continue working with our customers to assess the environmental benefits of this solution.

GREEN ICT – a hot topic for industry analysts

In 2010 we established an area of work through Telefónica's Industry Analyst Office to respond to and work with industry analysts on the inclusion of green principles and energy efficiency in Telefónica's innovation maps. Analysts such as Frost&Sullivan and Gartner have recognised Telefónica's leadership in Sustainability. This has enabled experts from the leading analysis companies in the sector - such as IDC, Ovum, Analysys Mason and Verdantix - to find out at first hand about our energy efficiency, climate change and sustainability strategies.

We will continue working with analysts in 2011 to share best practices in green issues in Telefónica and to learn from them at the same time.

¹ Data for logistics, transport and refrigeration campaign (700 refrigerated lorries).

04 Principle 9

PRINCIPLES OF THE GLOBAL COMPACT

of the Global Compact

6. **Green responsibility:** Telefónica must offer its customers the best recycling option. One of the best recycling programmes is that of Movistar Colombia, which since its implementation in 2007 has facilitated the collection of 476,000 devices.



Under this model we have launched in Spain, together with Nokia, the first integrated green commercial offer between a manufacturer and an operator worldwide. **Nokia and Movistar España** launched 2 handsets, C7 and N8, which included all the environmental and energy efficient features of the market. An exclusive eco-variant for Movistar that consists of an eco-folder for Nokia applications and a 5 Star micro USB charger. In 2010, 23,949 C7 handsets and 12,715 N8 handsets were sold in Spain.

In 2011 we will introduce a greater portfolio of green applications and devices to our customers. Another additional step taken by Telefónica aimed at this challenge is the subscription in 2010 to the European Code of conduct for Energy Efficiency in customer's Broadband devices.

These devices currently represent around 15% of energy consumption in the ICT sector, around 47 TWh in 2010 in the EU.

In 2010 our corporate customers received a number of improved services, which will contribute to the optimisation of their energy consumption. Among the services we offer are the services of virtual meetings, such as web conferencing, videoconferencing and telepresence applications. These services are offered in all the markets operated by Telefónica. In addition, *virtual hosting* and *cloud computing* services were granted to our SME and large companies worldwide.

In Spain, the delivery of the automation service of energy efficiency to new customers stands out. These new customers have obtained energy savings between 20% and 30%.



Our Business Principles

Telefónica

"We are committed to sustainable development, protecting the environment and reducing any negative impact we might have on our surroundings".

Virtual Hosting... the first green step towards "the cloud"

Telefónica provides its customers with the virtualisation service. We have designed an infrastructure that takes account of a technology that automatically regulates energy consumption with an intelligent performance adapted to the information load. This provision of services includes the valuation of an energy consumption reduction in the customer's facilities, within the global offering for the customer. A 40% reduction in the TCO (total cost of ownership) of the solution is expected for three years, compared to standard hosting. In order to deliver this service more efficiently, Telefónica implements a lower capacity of servers with the subsequent energy saving. In addition, we signed the European Code of

Conduct for Energy Efficiency in Data Processing Centres. The aim of this code is to avoid the use of obsolete designs that lead to an inefficient energy consumption.

04 Principle 10 of the Global Compact

PRINCIPLES OF THE GLOBAL COMPACT

“Businesses should work against corruption in all its forms, including extortion and bribery”

1,115 internal
audit projects
performed
in the year

Here at Telefónica we are acutely aware of the high cost of corruption. This adds costs throughout the whole business plan value chain, acting as a disincentive to investment. Legally it can lead to penalties and fines being imposed, and also corrodes stakeholder confidence. Finally, the damage this causes impacts on the company's reputation and this is a higher price than any fine that can be imposed.

We are also aware of the medium and longer-term opportunities which will open up to companies with a strong anti-corruption strategy. To this end, Telefónica has developed a series of organisational elements, monitoring systems and regulations which represent a robust control system.

Organisational elements

Telefónica has two commissions which report to the Board of Directors: the Audit and Control Commission (which is replicated in other listed Group companies) and the Human Resources, Corporate Responsibility and Reputation Commission of Telefónica S.A.

There are also a range of specific organisational units; these include the centralised Inspection unit which specialises in fraud prevention and investigation of alleged instances of fraud, the Payment Intervention Unit and the Corporate Risk Management unit which centralises information on risks received by the local risk management units created in our main operations.

Regulatory elements

Our Business Principles - Telefónica's ethical code which applies to all employees and operations - covers the main conflicts of interest, corruption, turning down gifts and bribes and the principle of political neutrality. With regard to the latter, having analysed the payments database, there are no records of party political donations in 2010.

Specific policies and processes have been prepared to facilitate the application of these general principles. For example, in 2010 Ecuador published its regulations on conflicts of interest, joining Colombia and Europe which already have their own regulations.

Global Reporting Initiative Indicators

S03 Percentage of employees trained in organisation's anti-corruption policies and procedures.

S04 Actions taken in response to incidents of corruption.

Indicator measured in Telefónica	Measurement unit	2009	2010
Number of employees dismissed for failure to comply with Business Principles	Employees	8	7
Number of corruption incidents investigated by the Business Principles Office	Units	13	5

04 Principle 10

PRINCIPLES OF THE GLOBAL COMPACT

of the Global Compact

Our purchasing process



We also have regulations which include fraud control principles for processes with the highest potential risk, such as payments, investment, real estate administration, book keeping and information reporting.

Telefónica has been making its purchases under a common Management Model since 1999; this is characterised by the globalisation of purchases, making the purchasing function professional, transparency throughout the process and equality of opportunity for all suppliers. At present, 750 companies are registered as suppliers with our Purchasing Model.

In 2010 we reviewed our Sponsorship regulations, which govern all sponsorship by Telefónica Group companies through a Board and a Committee. The Sponsorship Office is responsible for supervising the process and

providing support and information to other areas involved. This body was administering 720 sponsorships globally in 2010.

Audit and control systems

1,115 internal audit and inspection projects were carried out in Telefónica

in 2010, leading to 7,106 recommendations, for 90% of which action plans have been agreed and committed to.

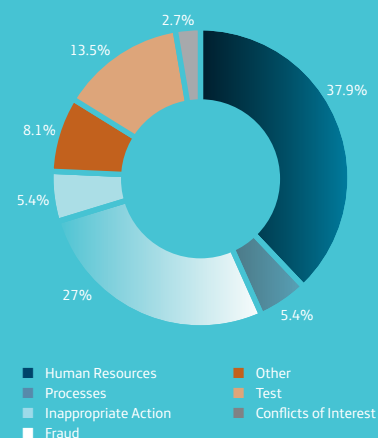
Of these audit and inspection projects, 17% analysed processes related to the cost and investment cycle (purchasing, payments to employees and third parties, logistics and warehouse management, asset management, etc), either partially or in full; 12% of the projects were related to fraud prevention, the investigation of reports of incidents and the review of individual actions; 7% related to assessment of correct compliance with legal employment, tax, data protection and other obligations.

Business Principles Channel

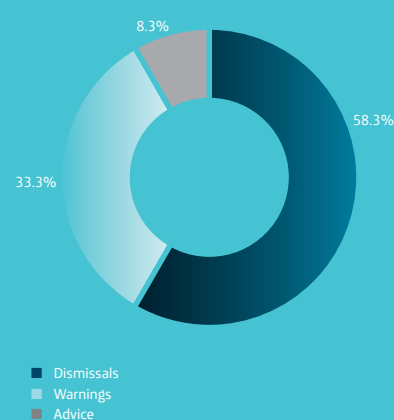
In 2010, our Business Principles channels for employees received a total of 121 communications, either anonymously or personally.

Of these, 84 were queries relating to the application and implementation of our principles and associated policies, whilst the rest related to possible breaches.

Details of communications relating to breaches of Business Principles



Disciplinary actions for possible breaches of Business Principles



04 Principle 10

PRINCIPLES OF THE GLOBAL COMPACT

of the Global Compact

Presence in tax havens

Within Telefónica's corporate structure we have shareholdings in companies domiciled in territories regarded as tax havens; these are in no way related Telefónica seeking to reduce its tax liabilities. In 2010, 21.4% revenues were used for tax payments in all the countries in which we operate.

These structures usually relate to the performance of the Group's own business activity, as in Panama, or to structures inherited with the acquisition of third parties. Many of these companies are currently dormant, in liquidation or have been sold (eg. Manx Telecom, Ltd in 2010).

Name	Activity	Country
Terra Panama	Internet Portal	Panama
T. Móviles Panama	Mobile telephony services	Panama
O2 Assurance Ltd	Inactive insurance company	Isle of Man
Kilmaine Ltd	Holding company with no voting rights	Isle of Man
Atento Panama	Call Centre services	Panama

30% of these audits were of financial and information systems to review the existence and effectiveness of controls on information reporting processes in business and accounting procedures. These annual reviews are obligatory in compliance with the Sarbanes-Oxley Act as Telefónica is listed on the New York stock market.

In addition, every year there is an independent audit of the Group's financial statements. Systems have been made available to all employees to report any issues relating to internal control affecting our financial statements, accounts and account audits, and any suspected failure to comply with our Business Principles.

Our Business Principles

Telefonica

"We do not offer or accept gifts, hospitality or other types of incentives which may reward or influence a business decision. We avoid or declare any conflict of interest which may lead to divided personal loyalties".

Ecuador and its conflict of interest policy

In September 2010, Telefónica Ecuador approved Conflict of Interest Regulations guaranteeing ethics and transparency in professional relationships with others and external organisations. These Regulations cover all cases of conflicts of interest, gifts and invitations, travel, nepotism and partiality in decision making.

This was communicated using internal communication channels, with a training programme being held for the human resources departments of each of the Company's areas.

This was implemented through a Conflict of Interest Declaration, in which the whole workforce was asked to update a conflict of interest statement. As a result, 790 such forms were received.

The Business Principles Office undertook an analysis which lasted more than one year to evaluate the guidelines to be followed in the face of real or potential situations in which an employee might act to favour their own interests or those of someone close or related to them, thus prejudicing third parties or affecting the objectivity of a Telefónica process (decision, action or omission).

05

TELEFÓNICA'S
CORPORATE
RESPONSIBILITY
AND SUSTAINABILITY
STRATEGY

Telefónica's Corporate Sustainability strategy incorporates the requirements of the Dow Jones Sustainability Index

Our Sustainability strategy is organized in three lines with specific metrics: managing risks, managing opportunities and stakeholder engagement

Telefónica's corporate sustainability policy agrees with the Dow Jones Sustainability Index (DJSI) definition: "Corporate sustainability is a business approach which seeks to create long-term value for shareholders by taking advantage of opportunities and effective risk-management in its economic, environmental and social development".

As a result, in 2010 we adapted our organisational structure in two ways: we changed the name of the department responsible for this area (from "Reputation and Corporate Responsibility" to "Reputation and Corporate Sustainability") and created the post of Chief Sustainability Officer (CSO). These two changes demonstrate that we are further establishing these concepts, structures and functions and establishing clearly-defined responsibilities.

These changes also relate to the needs identified in our bravo! global transformation programme (which runs until 2012), the objective of which is to establish sustainable long-term relationships with all our stakeholders.

Our sustainability strategy is based on three areas of work and a number of specific metrics:

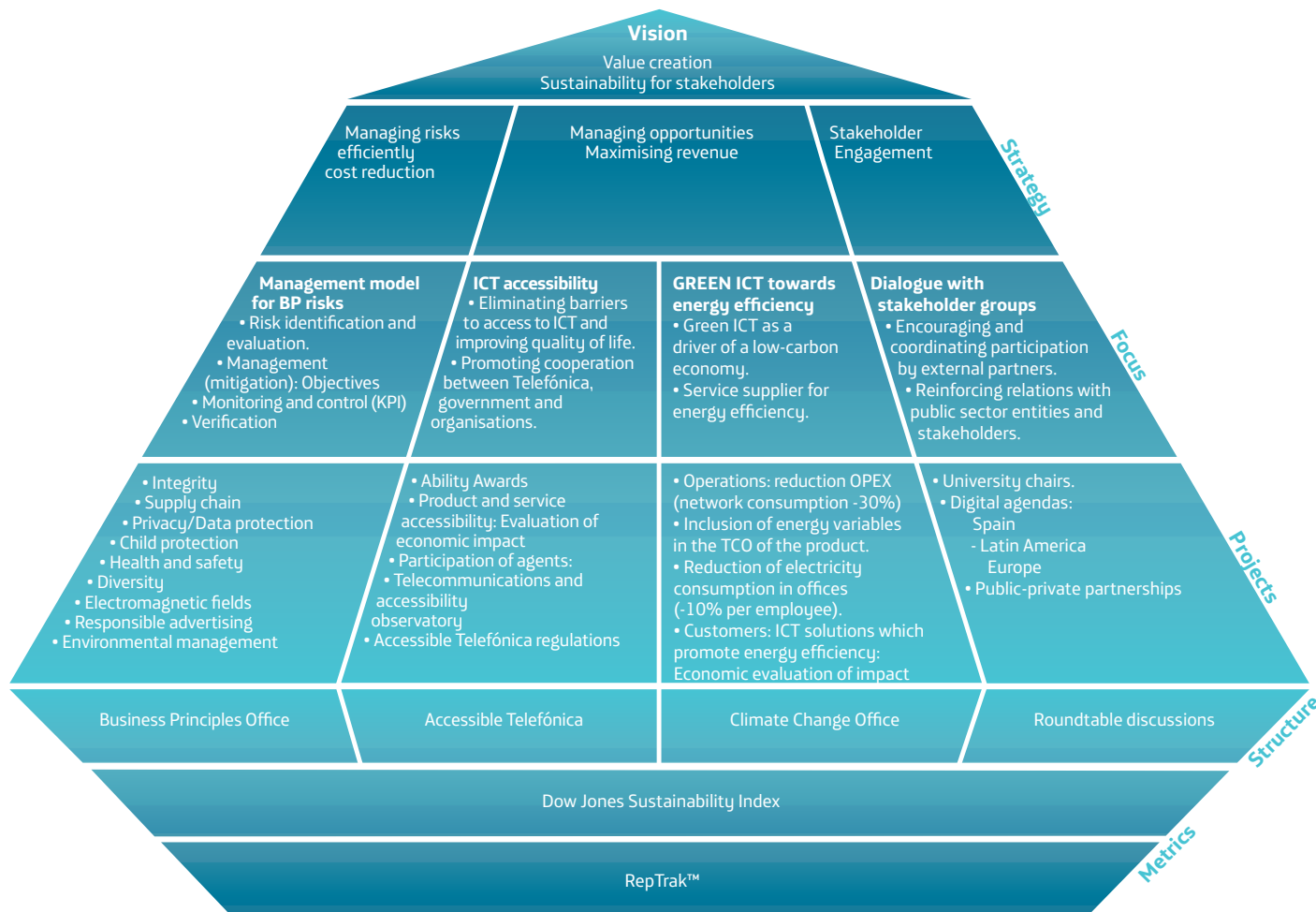
Risk management

This is based on our Business Principles (BP) and the impact on our reputation. We have a simple and effective risk management model based on the identification and assessment of risks and responses and the monitoring of these and their impact on our reputation.

Our Business Principles Office was created in 2006 and is responsible for ensuring compliance with our principles and developing policies and procedures to prevent the risks identified. It includes representatives of the corporate Human Resources and Internal Audit departments, the General Secretariat and the Technical General Secretariat to the Chairman, and has a representative for each of Telefónica's operating regions (Spain, Latin America and Europe). We have similar structures in each of the countries in which we are active.

In 2010, the Business Principles Office implemented a new way of working, modifying its operating activities to include new responsibilities and a more proactive role for local Business Principles Offices. Together with day-to-day management of our Business Principles through training, communication and responding to messages received through our confidential communications channels, the Office works to identify the risks associated with the BPs (including those in the corporate Risk Management model) and to define action plans for the main areas of risk identified. The Offices' Projects Unit was created in 2009 to define our positioning and to establish the internal actions required in relation to the supply chain, human rights, integrity, privacy and data protection, health and safety, electromagnetic fields, environmental management, child protection and responsible advertising.

The Strategic Structure of Corporate Responsibility and Sustainability



Opportunity management

This is achieved through two clearly differentiated activities:

- **Innovation and social inclusion (ICT accessibility):** identification and promotion of projects related to business opportunities with social impact which benefit low-income individuals, the disabled, the elderly and residents of rural areas.

In 2010 we were involved in a host of initiatives to promote digital inclusion in the countries where we are active. Internally, in July 2010 we created our Social Innovation and Inclusive Businesses Department to explore new business opportunities through innovative Information and Communication Technology (ICT) solutions for groups with special needs, particularly the elderly, disabled people and those with limited or no economic resources. We are continuing to develop a number of diverse projects in this area, including the first Telefónica Ability Awards in Spain, through which we give public recognition to those entities which incorporate disabilities into their value chain and business model.

- **Green ICT:** generation of global energy efficiency projects and the development of products and services linked to the energy efficiency of our customers and the reduction of greenhouse gases globally (*green business*).

Our Climate Change and Energy Efficiency Office, which is led by the Transformation Department and the Technical General Secretariat of the Chairman's Office, has been responsible for implementing over 80 projects in the fields of energy efficiency and what are known as "green services" throughout the Company since 2008. In 2010, we achieved over half of our target 30% reduction in electricity consumption in our networks established in 2007; we launched our Green Customer Experience programme; and we achieved leadership in the rankings of the independent Carbon Disclosure Project. Furthermore, we have established the attributes required to evaluate the efficiency of our services to our final customers, such as intelligent buildings, Virtual Hosting and fleet management.

In 2010, we held the first Telefónica Global Energy Efficiency and Climate Change Workshop which also involved our external partners. We have also established an Energy Manager post in most of the countries in which we are active, one of whose responsibilities is to reduce energy consumption.

Stakeholder Engagement

Promoting effective dialogue through social media and public-private partnership to achieve digital agendas in education, health, productivity and energy efficiency. One highlight here is our relationship with universities through Telefónica University Chairs, which promote the use of ICT in the aforementioned areas.

In 2010, we promoted the development of Web 2.0 channels to promote information and debate on corporate sustainability, social innovation, children and ICT and energy efficiency. We launched a Corporate Responsibility and Sustainability micro-site, a number of blogs with content from Telefónica employees and other experts, and Twitter (@RCySost), YouTube and Flickr channels.

Indicators

In addition to specific metrics for each project, we have two strategic indicators for these three areas of work: for management, the Dow Jones Sustainability Index (where we are leaders in the telecommunications sector for the second consecutive year) and, for reputation, RepTrak™, a reputation index which has been measuring Telefónica since 2005.



06

COMMON ACTION
MINIMUMS

RISK MANAGEMENT

Risk Management

The Business Principles Office works to identify risks in the Company's global model

The Office identified 12 necessary action areas

The Business Principles Office and its **Project Unit**, which was created in 2009, is in charge of promoting the creation of policies and projects to develop the Business Principles, facilitate their daily implementation and respond to the risks that are identified.

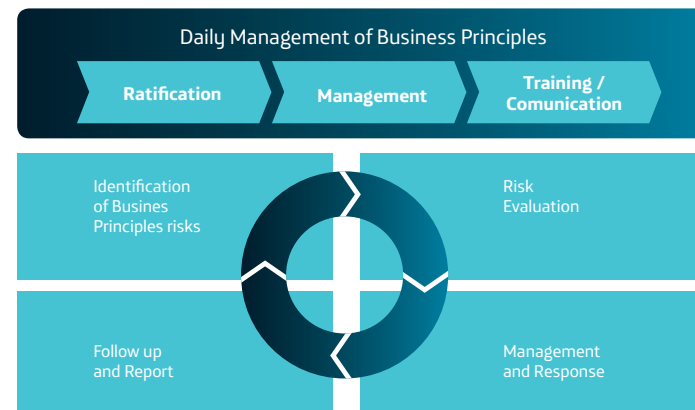
In 2010, the Business Principles Office consolidated its management model. Together with the daily management of the code of ethics, this model includes the identification of the risks associated with the Business Principles (including the new corporate risk management model adopted in 2008), its prioritisation through economic and reputational impact variables and, finally, the promotion of the actions required to avoid, reduce or mitigate the risks given priority using standards and procedures that enable appropriate risk management.

Accordingly, the Office identified and prioritised, through the creation of risk matrices associated with the Business Principles, 12 areas or themes in which it is necessary to establish minimum action standards in accordance with our code of ethics and for the development thereof for all our companies, regardless of the country in which they operate. Occasionally, this self-regulation means going beyond local legislation, and may even allow us to set minimum standards in areas where in fact there is no regulation.

After the identification process, the Projects Unit, located at the Business Principles Office, worked to define, together with the various management areas involved, our public positioning through statements, commitments and policies. Furthermore, it promoted and constituted the actions required on an internal scale (standards, procedures, etc.) to enable the application of this commitment and, therefore, our code of ethics. For monitoring purposes by the Office, a number of key performance indicators are included.

In 2010 therefore, the Projects Unit focused its attention on the following issues: diversity, health and safety, integrity, privacy and data protection, protection of children, supply chain responsibility, electromagnetic fields and environmental management, for which further information is given below.

Other issues such as human rights and responsible marketing will be incorporated under the Office's action radar in 2011.



Diversity as a competitive edge

We are responsible for creating a culture in which we all feel included

Introduction

We are all different At Telefónica, we see differentiation as a competitive edge. In the union of various origins, experiences and perspectives, the key to success. Because we all grow thanks to the unique characteristics of everyone.

We are responsible for creating a culture in which we all feel respected and included.

Target

Telefónica sees Diversity as a management lever that contributes to the creation of value shown in the performance of the Company's real processes.

Our Business Principles that apply to the behaviour of every employee explicitly provides that: "we promote equality of opportunity and treat all people fairly and impartially, without prejudice based on race, colour, nationality, ethnic origin, religion, sex, sexual orientation, civil status, age, disability or family responsibilities".

Application Standard

Besides the various legal requirements applicable to the matter, for which we have various mechanisms in place to ensure fulfilment, there are two internal standards that have been developed in the framework of diversity.

General Standards for contracting goods and services from social providers, whose purpose is to put in place mechanisms to foster the contracting of goods and services from social entities that work to foster the inclusion of individuals at risk of social exclusion in the labour market. This standard is applicable to all Telefónica companies managing their purchasing through Telefónica's Purchasing Model Manual, as established by Telefónica S.A.

With regard to the fulfilment of this Standard in 2010, there are 34 social providers (special employment centres) registered on Telefónica's purchasing systems in Spain, awarding the more than seven million euros for this period.

Corporate Standard for the Promotion of the labour integration of disabled individuals in the Telefónica Group, whose purpose is to describe and establish the general mechanisms and action guidelines for the promotion of the labour integration of disabled individuals across the Telefónica Group.

Indicators

Management Indicators

At the close of 2010, Telefónica employed 146,909 women, 51.5% of the total workforce, up 1.4% on the previous year. Similarly, women constituted 16.8% of Company management (compared to 15.6% the previous year).

The number of employees with disability in 2010 stood at 1,610, 13.3% more than in 2009, due mainly to a significant increase in Brazil.

Global Reporting Initiative Indicators

LA13: Composition of the Corporate Governance and Workforce bodies, broken down by gender and age group

Indicator measured at Telefónica	Measurement unit	2009	2010
Women	Percentage	50.1	51.5
Women in management	Percentage	20.7	16.8
Number of disabled people	Employees	1,420	1,610

HR4: Total number of discrimination complaints

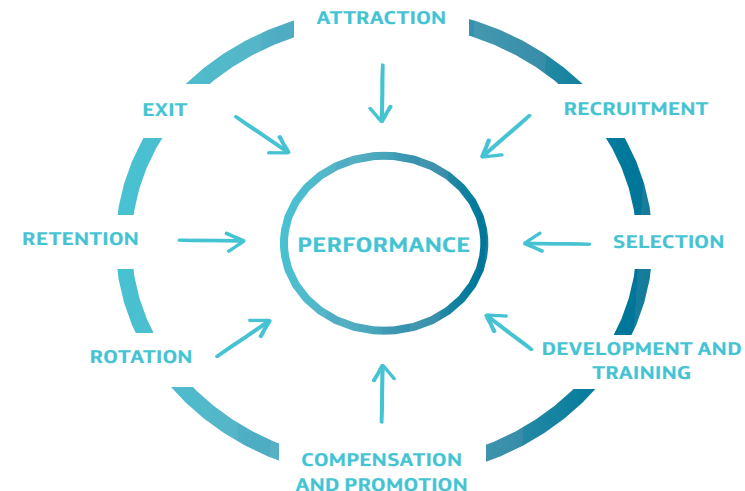
Indicator measured at Telefónica	Measurement unit	2009	2010
Number of discrimination complaints investigated by the Business Principles Office	Units	0	0

Lines of Action 2010

The global diversity project presented in the final quarter of 2010 within the framework of the Business Principles Office is responsible for integrating diversity in every area in the Company. The Office uses the Diversity 360° concept in the understanding that it is an issue that affects every area in the company from an internal point of view and that it also has an important external impact in direct response to the specific demands of our customers.

Our customers require us, as suppliers, to comply with behaviour standards in diversity and equality. We are working together in the commercial area in order to identify demands and adapt our internal processes to them.

The ultimate goal of the project is, therefore, to guarantee and make sure that there are internal procedures and mechanisms that promote the diversity required by the market. This objective is achieved through the inclusion of diversity in the **Employee Life Cycle** as follows:



Attraction, recruitment and selection: At Telefónica, we have been working for years to be the employer of choice for candidates from various origins, races, genders and ages etc. Great Place to Work increasingly positions Telefónica as one of the best places to work in the countries in which we operate (add "Great Place to Work 2010 Prizes" table from page 15 of the printed version). The aim is to have a varied supply in Recruitment in order to make a diverse and balanced selection to ensure that the employees joining the company are one of the tools that help attain a diverse workforce capable of understanding and responding to the needs of customers from various origins, races, genders and ages.

We also offer all our staff the chance to access all information concerning vacant positions via the intranet, thus ensuring that selection processes are even more transparent.

Great Place to Work

Ever more countries are choosing Telefónica as one of the best places to work.



Region/Company	Place in the GPTW 2010 league table
Latin America	
Telefónica Venezuela	1
Telefónica Ecuador	2
TM Colombia	2
Movistar Mexico	2
TM Argentina	3
Telecom	6
Telefónica Central America	8
Telefónica Chile	9
TM Peru	13
Terra Mexico	15
TSC	17
Terra Chile	18
TGestiona Peru S.A.C.	35
VIVO	Among the "100 best companies to work for in Brazil"
	17th among the "70 Best IT and Telecom Companies to work for"
Terra Brazil	41st among the "70 Best IT and Telecom Companies to work for"
Telesp	42nd among the "70 Best IT and Telecom Companies to work for"
ATENTO	
Atento Central America	2
Atento Argentina	4
Atento Mexico	4
Atento Peru	27
Europe	
Telefonica O2 Ireland	6
TISA (Headquarters)	7
Telefónica O2 Germany	The Best list Deutschlands Beste Arbeitgeber 2010

Performance, Development, Training: at Telefónica, the performance appraisal is applied to an individual development plan with the appropriate training content for each case. The development plan is a basic element for our professionals to grow and remain at Telefónica. Similarly, permanence - 'retention' - is a main element for ensuring that the diversity achieved in the selection is maintained throughout the subsequent stages of the cycle.

Compensation and Promotion: the compensation and promotion policies in place at Telefónica are governed by the process of development under the principle of "same work, same salary". The ultimate goal is remuneration in keeping with the market on the one hand and, on the other, the application of internal equality criteria. Accordingly, the long-term incentives programmes seek to retain the best regardless of their race, age or gender, etc., and the action programmes such as the *Performance Share Plan 2009-12* for executives allocate the number of shares taking into account, among other variables, talent assessment to ensure that there are no salary imbalances under equal conditions.

Rotation: at Telefónica, we operate in 27 countries and we are aware of the opportunity said diversity represents with regard to professionals as management elements.

Through our International Appointment Management Programme we promote the mobility of talent as a key factor in the personal development of our staff, as well as best ensuring a transfer of knowledge and good working practices and cultures between company bodies and countries.

Retention: We have the best professionals thanks to the fact that we have an outstanding position on the market. We are convinced that our success as a company depends on our people and this understanding must be reflected in the policies that affect their satisfaction as employees. Accordingly, special mention must be made of the work carried out by the company in favour of professional flexibility, adapting working conditions to the needs of each employee, as provided in the development of the policy on New Ways of Working.

Some data on international mobility at Telefónica

International movements

Long term
(>1 year)
2010

138

Short-term
(<1 year)
2010

90

With our international partners
Short-term (<1 year)

TELECOM
ITALIA

China
unicom 中国联通

docomo

20
(2008-2010)

15
(2008-2009)

4
annually
(since 2003)

International movements by nationality (top 4)



Spain
44.9%



United Kingdom
12.3%



Brazil
11.5%



Argentina
9.4%

The mobility of talent among Telefónica companies

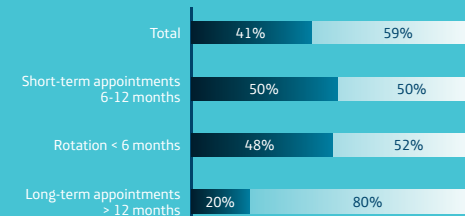
Since 2008 Telefónica has had an International Appointment Management Programme in place, designed to promote the mobility of talent as a key factor in the personal development of our staff, as well as best ensuring a transfer of knowledge and good working practices between company bodies and countries.

In 2010 we continued the trend established over previous years, with long-term moves (over 1 year) becoming more frequent, closely followed by our rotation programmes (up to 6 months) and, finally, least frequently, the short-term international appointments (up to 12 months).

In 2010 there was a total of 297 such appointments. Of all these new appointments in 2010, 59% corresponded to men and 41% to women. This means there is a greater balance than in 2009, where the split was 65%-35% respectively. This is due to the fact that in 2010 the number of women thus appointed increased by 23% in comparison with 2009, whilst the number of men remained stable.

If we look at the type of appointment, the gender distribution was:

Distribution based on appointment and gender type



■ % New appointments 2010 - Women
■ % New appointments 2010 - Men

2010 HIGHLIGHTS

- In the final quarter of 2010, Human Resources and Sustainability at Telefónica presented the Diversity Project at the Business Principles office as an integral project that identified structural, internal and external objectives.
- Start-up of a global working party for the development of the corporate minimums policy and subsequent local deployment.

2011 CHALLENGES

- Preparation and adoption of Telefónica's Global Diversity Policy.
- Local review of the inclusion of the Global Policy - i.e. the perspective of Diversity, in each stage of the Employee Life Cycle, with the consequent planning for the necessary action plans.

Leaving: our concern for the professionals at Telefónica is not limited to the individuals working at the Company at the present time. Indeed, our ex-employees are group with which we work. One of these lines of work is regulated through the collaboration agreement with the Association of the Group of Elders of Telefónica.

Training Programmes in Diversity

Telefónica invites its employees to experience what it means to be responsible for their own development, making the challenges we offer them an opportunity for personal growth.

- Through our e-learning platform we are seeking to raise awareness among our staff regarding the importance of diversity to a company with over 285,000 employees in 25 countries speaking eight different languages. Among the training courses aimed at our employees is "Cultural Diversity Management", the main aim of which is to ensure that employees learn to accept our multicultural reality and adapt to it within their workplace.
- In the United Kingdom we are continuing with our modular on-line training programme for our employees - now in its second year - focusing on diversity and inclusion. By the end of the year 96.53% of our employees had successfully completed it, exceeding our 2010 target of 95%.



Health and Safety

The aim of the centre for health and safety skills is to homogenise indicators and coordinate best practices

We offer
a safe
working
environment

Introduction

According to Telefónica's Business Principles, "we offer our employees a safe place to work. In order to achieve this, we establish the systems required to avoid accidents, injury and industrial diseases associated with our activities by complying fully with all current regulations, implementing safe working practices and training and preventative actions to avoid health risks at work".

To reach this aim, the 'effective' integration of occupational health and safety is necessary not only in all the company's activities and decisions', but also in the various Business Units and Regions in which Telefónica operates, homogenising policies, procedures and actions in occupational health and safety to improve the (physical, mental and social) well-being and life quality of our workers.

Said integration is achieved through the implantation of a Health and Safety Management System in enterprise, supported by Senior Management and based on the principle of "continuous improvement" for prevention activities.

Project objective

To have a common prevention policy in all the companies in the Telefónica Group. The project covers the basic lines for establishing a general occupational health and safety management programme. It is based on three lines of action, depending on the situation in each region.

- Latin America: To provide Latin America with the Management System model.
- Europe: To contrast the integration of prevention at Telefónica Europe in relation to the model.
- Spain: To keep the Management System up-to-date.

Management Body

The Management of the Joint Occupational Hazards Prevention Service (located in the Human Resources Department of Telefónica Spain), was appointed as the Telefónica Group's Skills Centre to coordinate the global actions in occupational safety and prevention, in coordination with the areas responsible for health and safety at Telefónica.

The Skills Centre is responsible for guaranteeing pro-active consultancy services in Occupational Hazards Prevention for the various regions in which Telefónica operates.

Accordingly, it promotes and coordinates the deployment and implantation of the "Health, Safety and Well-Being" Project and, among other issues, it fosters the observance and fulfilment of international standards in said matters.

Enforcement Policy

Occupational Health and Safety involves various legal requirements in each country, which must be fulfilled and which are complied with at Telefónica.

However, the aim of this project on a global scale is to have applicable minimums that are common to every country, based on the most tried and tested international standard, which is the OHSAS (Occupational Health and Safety Assessment Series).

Define whether or not there are applicable standards or regulations, albeit in Spain, regarding minimum management requirements. Section 6.2 summarises the Legal Audit and OHSAS.

Indicators

Global GRIs 2010

IR	0.91
ODR	0.32
IDR	27.78
AR	5,562.11

- **Accident rate (IR):** the number of accidents in relation to the total time worked by the whole of the workforce during the reporting period.

$$IR = \frac{\text{Total no. of accidents}}{\text{Total hours worked}} \times 200,000$$

Note: The accident rate should include mortal victims.

- **Occupational disease rate (ODR):** the number of cases of occupational illnesses in relation to the total time worked by the whole of the workforce during the reporting period.

$$ODR = \frac{\text{Total no. of occupational illnesses}}{\text{Total hours worked}} \times 200,000$$

- **Days lost rate (IDR)** the impact of occupational illnesses and accidents as reflected in the number of days not worked by the employees affected. This is calculated as the total number of days missed compared to the total number of hours work planned for the whole workforce during the reporting period.

$$IDR = \frac{\text{Total no. of days lost}}{\text{Total hours worked}} \times 200,000$$

- **Absenteeism rate (AR):** the actual number of days missed due to absenteeism expressed as a percentage of the total number of days work planned for the workforce as a whole during the reporting period.

$$ODR = \frac{\text{Total no. of days lost (due to absence) during the period}}{\text{Total no. of days worked by the workforce during the same period}} \times 200,000$$

* *Note: The factor 200,000 is the result of 50 working weeks of 40 hours per 100 employees. By using this factor, the resulting rate is linked to the number of workers, not the number of hours.*

Lines of Action 2010

In 2010, at Telefónica, we have progressed in the company's ever-present commitment to health and safety and we have achieved many of the targets we set ourselves, in order to improve our professionals' working conditions.

Accordingly, the following milestones have been achieved:

Actions of the "Centre for International Competence in Health, Safety and Well-Being"

One of the main motivations behind our Skills Centre is the homogenisation of procedures and instructions in Health, Safety and Well-Being, as well as the promotion and dissemination of "good practices" in the various regions in which Telefónica operates.

In order to progress along these lines, the International Skills Centre has drafted a "Self-Diagnosis Questionnaire", which is sent to the countries and to Telefónica's companies. Said questionnaire is based on four progressive levels (beginners, intermediate, advanced and excellence), through which we diagnose the level of Health, Safety and Well-being in each company. Based on these results, progress is made in keeping with Telefónica's Health and Safety targets.

It is important to point out that, in 2011, all our companies are to reach an "advanced" level in the integration and management of Occupational Health and Safety.

"Health and Safety Management System" Audit

During 2010 in Spain, 100% of the companies attached to the Joint Workplace Risk Prevention Service were awarded the Certificate of Audit in the process of external Legal Audits of Workplace Health and Safety, required by Spanish law as an instrument that aims to reflect and evaluate the status and effectiveness of the system of Workplace Risk Prevention in the companies that have their own prevention service.

Similarly, last year, at Telefónica Spain, we certified the Health and Safety Management System of our corporate offices, located in Distrito C, as compliant with the international OHSAS (Occupational Health and Safety Assessment Series) standard. Said standard confirms that the aforementioned system fosters healthy and safe working environments by providing a framework that allows the organisation to identify and coherently control its health and safety hazards, reduce potential accidents, support fulfilment of legislation and improve performance levels in general.

"Good practices" in Occupational Health, Safety and Well-Being

In 2010, Telefónica companies in **Europe**, led by the United Kingdom (with the collaboration of the Spain Region) have taken an active part in the "Good Work=Good Health" project fostered by ETNO (European Telecommunications Network Operators), through which the best practices have been shared within the sector regarding the management of mental health and well-being at the workplace. Said project has been drawn up with a representative number of European companies from the telecommunications sector, chosen to cover different geographical areas and sizes of companies.

The conclusions drawn from the project show that, in particular, at Telefónica people can report on mental malaise in different ways, including medical services, prevention services or visiting direct supervisors. When making a report, different solutions may be suggested by the various sources of assistance. This includes using the intranet to obtain information on stress management, but also the use of other sources of help at the company, including psychological counselling. Advice is also available for problems unrelated to work (for example, emotional issues, financial or legal problems) through the employee assistance programme. If people are able to keep working, the company will make the appropriate adjustments and the team leader is able to change the work programme. Trade unions cooperate fully with the company when

these problems require a change of position. If there is a problem with a group of people or a specific direct supervisor, this will be forwarded to the most senior manager in the department where the problem occurred.

The aforementioned project culminated with a conference in Brussels in October 2010, the information and documentation from which can be found at www.gwgh.eu.

Assessment of risks and activities for the "Preparation of Emergencies"

In Latin America, in 2010, special mention must be made of **Telefónica de Argentina**, where we performed the General Reassessment of Occupational Hazards (GROH) in accordance with current legislation, selecting the most critical buildings (approximately 110 buildings) from the point of view of occupational hazards to which staff are exposed.

Accordingly, based on the aforementioned GROH, "Fire Load Studies and the Assessment of Escape Means" were performed and the deviations were identified, followed by the drafting of a work plan to regularise the fire fighting systems.

Furthermore, work was carried out on the human factor, training our professionals in evacuation drills in preparation for an emergency. Overall, more than 150 drills took place over the year across the country, affecting a total population of 11,000 people.

At **Telefónica Chile** (owing to the fact that it is a region known for seismic activity and after the dramatic experience of the country in February 2010), we have carried out a number of activities designed to improve preparations for emergencies.

These include:

- Information talks at the various Telefónica buildings on recommendations on how to proceed in the event of new seismic events at work or home, the identification of evacuation routes and safety areas etc.
- Evacuation drills at the facilities.
- Specific training given in: Emergency measures at the facilities, the use of extinguishers and first aid etc.
- "Post-Earthquake Trauma Intervention Workshop", led by specialised psychologists, with the aim of helping and attending workers and relatives affected by the earthquake.

Representation of the employees on health and safety equality committees

Finally, a notable feature in all the Telefónica regions is the high level of representation and employee participation in committees and/or Workplace Health and Safety Commissions (approximately 200 committees worldwide) in which the actions of each company on these matters are discussed regularly and periodically.

Measures include: accident investigation, evaluation and assessment of workplace risks, the provision of protective equipment and work clothes, information and training on workplace hazards, "work safe" operational procedures or periodic reviews and inspections of facilities and activities, all form part of the issues discussed in these peer forums, at which the employees of Telefónica are represented at the highest level, promoting improved working conditions and the safeguarding of their physical, mental and social well-being.

Accident rate

In 2010, as in previous years, at Telefónica we have continued the "continuous improvement" process for compiling information on labour accidents on a global scale, focusing on the details of indicators that will enable comparisons between regions and the companies that belong to the Telefónica Group.

The indicators we have collected in the various regions in 2010 are as follows:

Spain

Total workplace accident rate indicators

		2010	2009	% var.
Incident rate (IR)	(N° AT's / Total N° Workers) x 1000	7.78	9.06	-14.12%
Severity ratio (SR)	(N° Days AT / Total Workers) x 1000	199.43	208.75	-4.46%
Average Duration Rate (ADR)	N°. Days AT / Total AT	25.60	23.02	+11.20%

Latin America

Total workplace accident rate indicators

		2010	2009	% var.
Incident rate (IR)	(N° AT's / Total N° Workers) x 1000	12.23	8.16	+49.87%
Severity ratio (SR)	(N° AT's / Total N° Workers) x 1000	420.02	137.75	+204.91%
Average Duration Rate (ADR)	N° Days AT / N° Total ATs	34.33	16.87	+103.49%

* The increases in this region in 2010, corresponding to the incorporation of countries/companies in previous years were not included in the CSR Report, such as Argentina, Chile and VIVO Brazil, which together account for more than 55% of workers in the region.

Europe

Total workplace accident rate indicators

		2010	2009	% var.
Incident rate (IR)	(N° AT's / Total N° Workers) x 1000	4.09	5.21	-21.49%
Severity ratio (SR)	(N° Days AT / Total Workers) x 1000	79.63	89.39	-10.91%
Average Duration Rate (ADR)	N°. Days AT / Total AT	19.43	17.12	+13.49%

The results obtained this year (without considering the countries/companies indicated in *) suggest that Telefónica can be very optimistic as regards continuing its work to overcome the challenge set in 2008 for reducing the accident rate by 4% over the next three years (2009-2011 period).

2010 HIGHLIGHTS

- Obtaining the Audit Certificate for the external Legal Audit on the Prevention of Occupational Hazards at companies in the Spain Region.
- Health and Safety Management System Certificate for Distrito C, in the international OHSAS standard.

2011 CHALLENGES

- To reduce the Group's work accident rate.
- To share "best practices" between the various regions to take advantage of the synergies created.
- To position the Health, Safety and Well-Being Management System of the various companies and regions at the "advanced" level in accordance with the "Health, Safety and Well-Being Self-Diagnosis Check" prepared by the Joint Occupational Hazards Prevention Service Department.

Integrity

In 2010, various in-class training initiatives took place with regard to our code of ethics, together with on-line training for around 74,000 employees

We maintain
our commitment to
transparent, integral
management through
our Business Principles

Introduction

At Telefónica, we maintain our commitment to integral and transparent management through our Business Principles, a code of ethics that inspires and defines the way in which we carry out our activities and relations with all our stakeholders.

They form the basic standard that gives rise to the specific standards and policies for fulfilment in the development of our daily activities.

Target

Since their approval in 2006, the **Business Principles** have allowed us to respond to the growing concern of matters related to integrity and transparency before official bodies and institutions, and to compete on socially responsible investment indexes such as the *Dow Jones Sustainability Index* and the *FTSE4Good*, among others.

From an internal point of view, the Business Principles have represented a "guide" which assists us in our day-to-day activities, as well as reinforcing the sense of belonging to a large, ethical and responsible organisation, contributing to a better workplace.

Accordingly, we highlight the progress made since 2006 in the indicator included in the Working Climate Study¹, which is carried out annually on all employees and which shows that we are considered as a company that acts ethically and responsibly by most of our professionals.

Evolution of indicator

Year	Result
2010	78.13%
2009	69.85%
2008	64.04%

Management Body

Telefónica uses its **Business Principles Office** in order to ensure the implementation and observance of its ethical code, identify and develop regulations and support its staff by responding to their concerns, queries and allegations.

The Office, which reports to the Management Board through the HR, Corporate Reputation and Responsibility and Reputation Committee, is composed of the corporate areas of Human Resources, Internal Audit, General and Legal Secretariat, and Telefónica's Technical Secretariat to the Chairman. In addition, there is a representative from each of the regions in which the Group operates: Spain, Latin America and Europe.

Alongside this Office and seeking to support the implantation of these principles, there are a number of "Local Offices" throughout Latin America, in Argentina, Brazil, Chile, Colombia, Ecuador, El Salvador, Mexico, Panama, Peru,

¹ The question "Do you consider that Telefónica acts in an ethical and responsible manner?" is included in the Working Climate Study undertaken in Spain and Latin America.

Uruguay and Venezuela, which have the same structure as the Corporate Business Principles Office. In Europe, we have the Compliance Officer for all the operations of Telefónica Europe where said figure is responsible for guaranteeing the fulfilment of the Principles in each country.

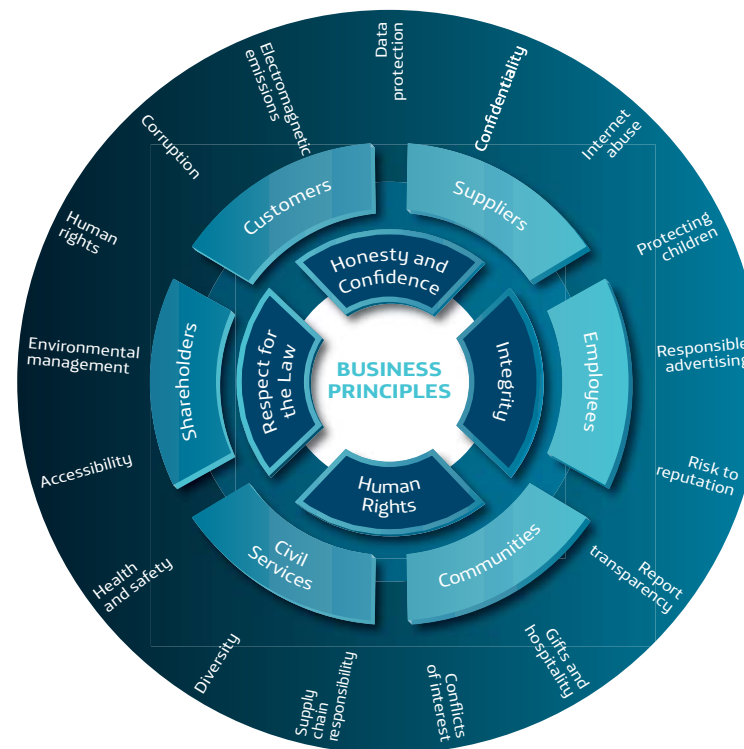
In 2010, the Office changed its operating regulations to include new functions and define a new working framework for the Corporate Office and those of the country.

Its functions include:

- Day-to-day management of the Code of Ethics through training, communication and resolution of the communications received through the confidential channels.
- Identification and assessment of risks associated with the Business Principles, including the Global Risk Management Model.
- Definition of the action plans for the main areas of risk identified through the Projects Unit, created in 2009 at the Business Principles Office. Besides structuring the appropriate internal actions (standards, procedures, etc.), the Group's position in these matters will also be defined (statement or policy).

Accordingly, work was carried out in 2010 on the definition of a commitment and policy for the main areas that were identified: adult content, integrity, supply chain, human rights, health and safety, diversity, privacy, responsible marketing, electromagnetic emissions and environmental management. Special mention must be made of our new policy and commitment to our supply chain (available at www.rcysostenibilidad.telefonica.com), which replaces the one published in 2008.

In terms of its operations, the Office held three meetings during 2010 which were attended by the representatives from all areas identified as risk areas, as well as regional representatives. At the meetings, attendees monitored the status of training, the main complaints and questions asked by employees, the ratification of standards arising from the Business Principles and the targets set for each identified area of risk.



Employees trained in Business Principles

	March 08 ¹	December 09	December 10
Telefónica Spain	30.4%	34.3%	34.88%
Telefónica Europe	77.3%	80.1%	89.58%
Telefónica Latin America	50.3%	67.2%	69.32%
Other Business	13.5%	14.6%	18.57%

* Employees trained as of December 2010. Does not include telephone service staff.

¹ The 2008 Telefónica Corporate Responsibility Report reports the percentage of employees receiving Business Principles training as of 1 March 2008.

Applicable policies and standards

The office is governed by the operating standards of the Business Principles Offices, which describes the functions and *modus operandi* of the Corporate Office and the other local offices.

Furthermore, there are procedures that describe the more operative forms of work, such as dealing with queries or complaints arising from the Business Principles.

Development of Key Actions 2010

In 2010, we have worked on the review of our Business Principles, adapting them to the new architecture of the Telefónica brand not only in terms of image, but also regarding language and the tone of voice used.

In this review and in order to respond to our stakeholders' demands, as well as public agendas, a specific text was included on privacy and data protection as part of the Main Principle of Honesty and trust.

Training on Business Principles

In 2010, Telefónica continued to make its staff aware of its Business Principles through on-line training. This training, of an obligatory nature, seeks to make all staff aware of the Company's Code of Ethics and reflect upon the importance of the Group having a set of ethical standards which assist in the undertaking of day-to-day activities.

As of December 2010, 74,000 employees had received training, representing 60% of the total Telefónica Group workforce.

Furthermore, our Business Principles were included in the programmes for welcoming new staff to the company. Also in 2010, we developed in-class training programmes to strengthen knowledge of our code of ethics for stakeholders (e.g. suppliers) and specific areas in our company.

Confidential Hotline

At Telefónica, all employees may, either personally or anonymously, ask questions, seek advice and make suggestions regarding compliance with the Company's Business Principles and associated policies, through confidential help channels available on the Principles website. Suppliers and other interested parties can also access these confidential channels through websites set up to accommodate Telefónica stakeholders.

In 2010, these channels dealt with a total of 121 cases, either anonymously or in person. Of these, 84 were queries relating to the application and implementation of our principles and associated policies, whilst the rest related to possible breaches.

Communication regarding possible breaches of the Business Principles

Human Resources	37.9%
Processes	5.4%
Inappropriate Actions	27%
Fraud	5.4%
Others	8.1%
Test	13.5%
Conflict of interests	2.7%

In-class training at Telefónica in Colombia



At the end of 2009, at the local Business Principles Office of Columbia, the launch of a plan to strengthen in-class training for 100% of direct and services employees was approved. The aim is to strengthen knowledge of the Business Principles acquired through the virtual course, available via the e-learning A+ tool, emphasising the application of the Code of Ethics through practical cases.

For this training, a methodology that had been tested with various workbenches was used to guarantee that said workshop was sufficiently easy to understand and adaptable to the different circumstances provided in the Business Principles. Accordingly, the Business Principles Office in Colombia, through the training of trainers, trained a team of 34 people, including members of the Human Resources Department and the Business Principles Office, to start the process with the other employees.

As of December 2010, 60% of our employees in Colombia have received in-class training on Business Principles.

Disciplinary actions for possible breaches of Business Principles

Dismissals	58.3%
Warnings	33.3%
Board	8.3%

Integrity and Transparency

At Telefónica, we have developed a number of organisational, regulatory and monitoring bodies that make up an appropriate control environment that is completely unyielding as far as corruption is concerned.

Our Business Principles consider the principles of conflict of interest, corruption, non-acceptance of gifts and bribes, and the principle of political neutrality. With regard to the latter, having analysed the payments database, there are no records of party political donations in 2010.

Some countries have developed specific policies to enable the application of the general principles provided in the Code of Ethics. Accordingly, in 2010, Ecuador published a policy conflicts of interests, joining countries that now have such a policy, including Telefónica Europe and Colombia.

Within Telefónica's corporate structure we have shareholdings in companies domiciled in territories regarded as tax havens; these are in no way related Telefónica seeking to reduce its tax liabilities. In 2010, 21.4% revenues were used for tax payments in all the countries in which we operate.

On occasions, these structures respond to either the development of the Group's own activities, such as the case of Panama, or to structures inherited from third-party acquisitions, such as the cases of Hong Kong after the purchase of O2, and, in others, they have been sold (in 2010, Manx Telecom Ltd.).

**2010 HIGHLIGHTS**

- In 2010, we continued the mandatory on-line training course. Training was given in Business Principles to almost 74,000 employees, representing 60% of staff.
- In 2010, we worked on the identification of improvements to the risk process associated with the Business Principles on an internal scale, sharing experiences with other companies.

2011 CHALLENGES

- PdA Office: In 2011, work will be carried out on the development of new mandatory training in Business Principles for every employee and it will be implemented throughout 2012.
- Preparation and implementation of a process for the identification and evaluation of risks associated with Business Principles, within the corporate risk management framework.

Name	Activity	Country
Terra Panamá	Internet Portal	Panama
T. Móviles Panama	Mobile telephony services	Panama
O2 Assurance Ltd	Inactive insurance company	Isle of Man
Kilmaine Ltd	Holding company with no voting rights.	Isle of Man
O2 Isle of Man	Registered name	Isle of Man
O2 Online Hong Kong	Stopped activities in 2007	Hong Kong
Atento Panamá	Call Centre services	Panama

Protection of personal data and privacy

Beyond compliance with regulations

A
fundamental
right of our
customers

Introduction

In order to provide services to their customers, telecommunications companies need certain personal data, i.e. those that identify them as individuals (names and surnames, postal and e-mail addresses, bank account numbers etc.). The protection of such data is a fundamental right of the individuals which Telefónica protects in all its operations.

Target

Data Protection - beyond local legislation, we implement measures that guarantee a minimum level of protection for personal data at the companies in the group, regardless of the country in which they carry out their activities.

1. Design and approval of minimum criteria/ standards for data protection.
2. Process for implementation at the companies in the group: incorporation of standards and deployment of control tools.

3. Modifying the general terms and conditions of Company contracts to ensure that customers are aware of their rights and duties in relation to privacy and data protection.

Privacy, at the same time, work is being carried out on a privacy project to generate trust in the information society through control mechanisms for digital identities and the identification of actions at Interne, with support from the group's infrastructures, that violate our customers' privacy. And the definition of the appropriate response actions depending on the cause.

Legislation

Beyond the fulfilment of local legislation and in order to set up a coherent framework for all of Telefónica's operations, there has been a corporate policy on the protection of personal data in place since 2008 and its aim is to achieve an appropriate and consistent level of personal data protection across the organisation.

The Group's data protection policy sets forth a set of binding minimum rules that ensure a consistent level of security is maintained at all the companies in the group with respect to personal data.

Total number of incidents for breach of legislation related to marketing and promotion activities

38

Total number of incidents for breach of legislation related to privacy and data protection

358¹

Monetary value of the penalties and fines arising from matters related to privacy and data protection

2,132,321 €

¹ The total for fines relates to data protection and privacy in Spain, Germany, Colombia and the Czech Republic.

Its implantation has required details, complex work for its adaptation and preparation, including the identification of files; the implantation of control systems and the application of security measures.

Telefónica has also begun to set up compulsory contractual mechanisms to ensure that the Group's sub-contractors and suppliers are compliant with data protection regulations.

Action Lines 2010

In 2010, the companies in the Telefónica Group have continued to work on the improved development and implementation of the Project on the Corporate Policy for Personal Data Protection, adopted in 2008. In general, we can consider the target of achieving an appropriate and consistent level of personal data protection at all the companies in the Group as achieved, regardless of the country in which the company carries out its activities.

A series of other initiatives were pursued in 2010 aimed at ensuring compliance with the Corporate Regulations on Personal Data Protection, focusing on Company employees and customers. These included the following:

- On-line and in-situ training on data protection for Company employees.
- Publication of the rules on privacy, information security and data protection through Company intranets and circulars to ensure all staff are aware of them.
- Requiring Company employees to sign agreements whereby they undertake to observe corporate regulations.
- Modifying the general terms and conditions of Company contracts to ensure that customers are aware of their rights and duties in relation to privacy and data protection.

At the same time, Telefónica has continued to work on the Group's Privacy Project. The aim of the project is to generate trust in the information society through control mechanisms for digital identities, fostering transparency from the design, use of technology to guarantee the protection of children on the net, the responsible use of new technologies and, in general, to contribute to improving privacy on the net.

Lastly, in 2010, continuing the work it began in 2009, Telefónica also established compulsory contractual mechanisms to ensure the Group's outsourcers and suppliers comply with the data protection regulations.

Suppliers' duties

Contracts between any of the companies in the Telefónica Group and an external supplier must include data protection clauses requiring the supplier to:

1. Use any personal data received exclusively for the purposes of discharging their obligations under the contract.
2. Duty to professional secrecy concerning the data accessed by virtue of the contract.
3. Ensure that any of their employees who have access to personal data obtained from any company in the Telefónica Group are aware of their employer's obligations in relation to data protection.
4. Return/destroy any personal data to which they have had access for the purposes of the contract immediately upon completion of the service provided under the contract that prompted the transfer of the data.
5. Accept as many inspections of the files containing personal data communicated for the purposes of the contract as the Telefónica Group company responsible for such files deems necessary.

2010 HIGHLIGHTS

- Consolidated an appropriate and consistent level of personal data protection at all the companies in the group, regardless of the country in which they carry out their activities.
- Activities in the field of communication and training in data protection.
- Modifying the general terms and conditions of Company contracts to ensure that customers are aware of their rights and duties in relation to privacy and data protection.

2011 CHALLENGES

- Audits of critical aspects of privacy and data protection, establishing action plans for each business line.

Responsibility in the supply chain

More than 1,100 audits of suppliers involving risks related to social, labour and environmental issues

We integrate
ethical
criteria along
the entire
purchasing
chain

Introduction

Telefónica has mechanisms for preventing and offsetting risks in our supply chain, which is based on evaluating the potential level of risk of providers and defining actions in accordance with the risk and the country.

The base of the strategy is therefore to integrate ethical and sustainability criteria in the Purchasing process, from the time of planning until the product/service is delivered by our suppliers and/or the termination of the contract.

Target

The Company's commitment in this area seeks to guarantee the provision of products and services by our suppliers in accordance with the provisions of our Business Principles.

Similarly, the Company has a purchasing management model that guarantees relations with suppliers based on [trust and transparency](#).

Applicable Legislation

At Telefónica, through our [Supply Chain Responsibility Policy](#), we inform our providers of the sustainability criteria and standards we expect of them, encouraging them to spread such standards throughout their supply chains.

The suppliers that wish to form part of the catalogue must also accept the provisions of the Business Principles, as well as the Supply Chain Responsibility Policy, assuming the general clause provided in the general terms and conditions of the registration process via the [supplier's portal](#). Accordingly, the supplier declares and guarantees, as a sine qua non requirement for consideration as a Company supplier, minimum sustainability requirements.

All these mechanisms are provided internally in the Extension to the Business Principles for the Supply Chain, where we provide the internal tools and processes for fostering and ensuring compliance with the minimum requirements in place for suppliers.

Lines of Action 2010

In 2010, efforts in this area focused on the following action lines:

Monitoring the level of compliance

For the third consecutive year, our on-site audits were a key tool for ensuring compliance with our minimum requirements. In 2010, Telefónica performed 1,163 providers audits, which, as in previous years, were mostly related to local and regional criteria.

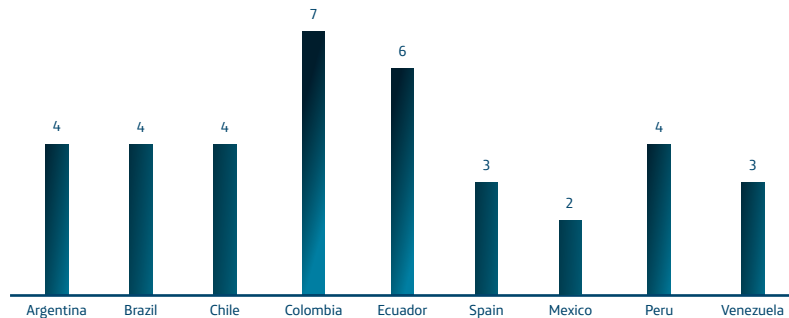
Indicators

Indicator measured at Telefónica	Measurement unit	2009	2010
Total number of audits performed on at-risk providers	Number	840	1,163

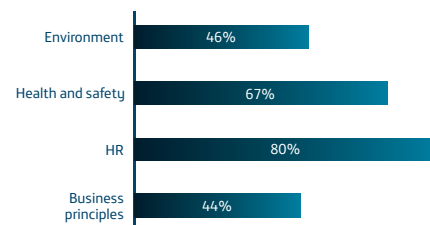
Furthermore we continued working on one of the challenges we set ourselves for 2010, the definition of a standardised audit check list. We have been working over the last year to improve

this, with 37 new at-risk providers being audited based on the standard model. As a result, over 150 providers have been audited over recent years using comparable criteria.

Number of high risk suppliers audited by country (2010)



Compliance by our suppliers in the departments evaluated



The audits performed in 2010 found that, despite the efforts made, the two points to continue monitoring are: (i) promoting CR in providers (in accordance with our Business Principles); (ii) stricter control of environmental management.

Sustainability training and awareness raising

Through our participation in initiatives such as the Global e-Sustainability Initiative, Forum Empresa and the Itri Tin Supply Chain Initiative, we are contributing to spreading and raising awareness of sustainability.

In 2010 we helped to train our providers so that they would be aware of our responsible supply chain management strategy, and would learn how to strengthen their own CR culture.

Examples of this include:

- The 1st Corporate Responsibility workshop "A new business point of view", for small and medium-sized enterprises that supply the Company in El Salvador. The event involved 25 companies, which were given training in CR, including subjects such as the code of conduct, community relations, responsible marketing, and the environment, among others.

The suppliers showed their satisfaction at having been able to take part in this initiative, which also gave rise to a number of CR proposals and actions to be taken in conjunction with the company.

- Meeting titled "Transforming to create benefits with the value chain", where good business practices, such as ethics and transparency in business, were some of the subjects analysed with our suppliers in Ecuador.

More than 100 of the Company's suppliers took part in the event, which included presentations focused on sharing our Business Principles and Supply Chain Responsibility Policy with them. The conference focused on the key factors that define and inspire the way in which we carry out our activities to provide services for our Movistar customers in the country. Explanations were therefore given on how corporate responsibility and sustainable development are important bases and they were encouraged to apply said concepts in the running of their day-to-day business.

Leading the GeSi Working Party

Since 2004, as founding members of GeSi (Global e-Sustainability Initiative), we have collaborated with this sector initiative to promote improvements to ethical standards, labour rights, health and safety and environmental issues with suppliers in the information and communications technology sector (ICT).

One of the lines of activity of GeSi, through its Supply Chain working party, focuses on developing tools that allow businesses to assess the exposure of their suppliers to corporate responsibility risks. These tools include the self-assessment tool *E-TASC*.

At Telefónica, in 2010, we worked on the process for incorporating this tool in 40 of our main suppliers, considering their level of risk on the basis of the nature of the product and/or service they provide. Through the information provided by suppliers in this self-assessment process, we will be able to identify the potential risk areas and monitor the level of compliance with corporate responsibility criteria of each one throughout 2011.

A second line of activity followed by the Working Party focused on social, environmental and humanitarian problems associated with the mining of certain metals (tantalum, tin, tungsten and gold) used in equipment parts. Efforts during the last year focused on improving transparency and increasing the traceability of these materials throughout the supply chain.

Accordingly, Telefónica Europa published its "*Positioning Statements: Conflict Metals*" last August. In this positioning we stress that we share the concern of the ICT sector of how the supply of certain metals, used to manufacture some electronic consumer articles, is contributing to the violation of human rights caused by armed groups in the region of conflict located to the east of the Democratic Republic of the Congo (DRC). We do not directly acquire this kind of material at the Company, while some of the end products we acquire may contain small amounts of them. By means of our strategy in the supply chain, we encourage responsible action over the mining of these minerals and we do not support the use of metals from mines located in areas of conflict, such as the DRC, by our providers.

Fulfilling the commitments we have assumed

At Telefónica, we work to improve the processing of invoices in order to meet the commitments we have assumed.

Accordingly and in keeping with the requirements of Law 15/2010, the Financial Report includes the following information on payment deferrals to Spanish company suppliers: At 31 December 2010, the invoices corresponding to the Spanish companies in the group by virtue of agreements signed after the coming-into-effect of Law 15/2010 which exceed the maximum term provided in said Law total 82 million euros, equivalent to 2% of the total commercial payables as of said date.

In order to adapt to the provisions of Law 15/2010, the Spanish companies in the Telefónica Group have adapted their processes and proceeded with the payment of these outstanding amounts at the beginning of 2011.

2010 HIGHLIGHTS

To promote socially responsible management in the supply chain, focusing on labour-intensive suppliers in Latin America and on manufacturers in Europe.

- Telefónica performed 1,160 HR and Health and Safety audits in Latin America on "high risk" suppliers, including the definition of improvement plans.
- Inclusion of sustainability criteria in procurement processes in Europe (product code related to merchandising activity).

2011 CHALLENGES

- To continue to consolidate activities regarding high-risk suppliers while taking each region's situation into account.
- To take advantage of our involvement in organisations and initiatives to promote dialogue and education among suppliers.

Best practices

Telefónica's commitment to responsible supply chain management is based on the joint work of all the regions which, besides incorporating corporate processes, develop initiatives that respond to local needs in accordance with the risk that is identified.

Focus points



Services and Works



Market Products
Merchandising
Infrastructure

Ensuring working conditions and safety in Latin America

In line with the target set in 2009, at Telefónica we are working on the consolidation of the Integrated Model of the "Aliados" ("Allies") programme throughout the Latin American region, based primarily on a model of excellence, with three pillars.

The "Aliados" programme is aimed at partner companies, through which the Company generates indirect employment for more than 205,000 employees, of which 83% have direct contact with customers, hence its importance in the customer satisfaction index.

In this regard, through this initiative we are working again this year on improving our compliance with social and labour standards, promoting the business development of our partners and ensuring excellence in our customer service. To this end, minimum standards were included in the contract, with continuous monitoring being carried out, even using on-site audits to ensure compliance with them.

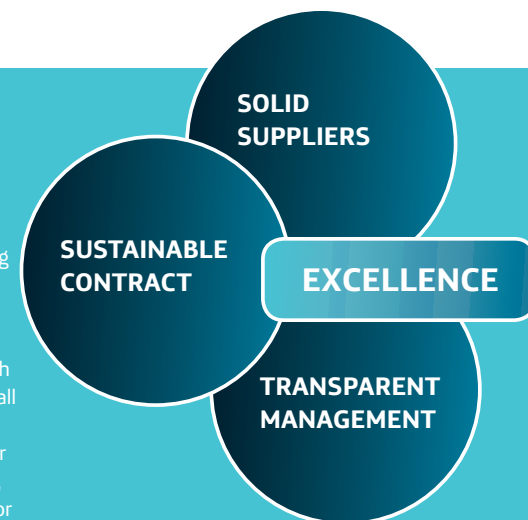
The direct relationship with the customer generated the need to work on communication plans and inclusion in the business plans of the Aliados Community, with the first meeting taking place with some of the heads of the partner companies for the presentation of the "bravo!" programme (programme for transformation of the company).

The lines of action identified at the meeting led us to focus our efforts during 2010 on:

- Assessment and identification of areas for improvement in the relationship with partner companies, setting up the overall process of comprehensive audits.
- Improvement in the selection of partner companies in the procurement process, including all specifications of products or services, issues regarding working practices (labour rights, health and safety).
- Identification, evaluation and improvement plan of the full map of Aliados at country level. Deployment of the Aliados Integral Management Model through the development of tools aimed at complying with the policy of minimum levels.
- Identification of the critical variables of activities for their proper management. Continuation of the development of the balanced scorecard and risk map by operator.

All these efforts were led by the different Third Party Committees, which are in each of the 13 countries, and gave the following results:

- ICampus, the exclusive platform for business partners, has exceeded 18,000 participants as at early 2011 (300% larger than in 2009, when there were 6,000 participants).



- During 2010, over 10,000 people in partner companies were certified in Estela (the Technical School in Latin America).
- More than 1,160 audits were carried out, which allowed monitoring and the establishment of the necessary improvement plans in the event of non-compliances.
- The quarterly evaluation of loop providers was formalised, which now included sustainability criteria, provision of information to penalise or reward the companies according to their performance.

Thus, during 2011, Telefónica will continue to advance in the improvement plans by country and will work to facilitate the required training to the Aliados to ensure better customer service.

Ensuring merchandising activity in Europe

In the case of Europe, one of the main focuses in our strategy of accountability in the supply chain is the activity of merchandising.

This activity, framed within the internal product line of Marketing and Advertising, is considered to be risky mainly because of its nature and place of production.

Our goal in this region was to ensure, through the Procurement process, the supplier contractor for this product code fulfilled some minimum requirements of sustainability. To do so the procurement process was launched, in which, besides the usual criteria, consideration of issues related to sustainability were included as a key element, both in the nature of the products supplied and the vendor's approach regarding the management of its own supply chain.

The successful supplier in the process would need to meet criteria such as:

- Provide a list of the countries in which it operates and provide a map of its supply chain for each of the products offered.

- Provide a description of its procurement process, in particular on the sustainability criteria when selecting their suppliers.
- Provide a description of the approach which applies to the management of their supply chain (management systems, policies or supplier code of conduct, monitoring of suppliers etc.).
- Detail any ethical or environmental problems related to their supply chain that they are trying to solve and that relates to their product offerings.
- Sustainable use of resources (energy, water etc.) through efficient consumption and the generation of the minimum possible volume of waste.

Among the suppliers that submitted bids, in the end Interwerbung was the supplier selected. Since this award, we have been working with them from a cooperative approach, urging them to integrate aspects of sustainability into their processes when purchasing their products.



Electromagnetic fields

Our Project Global Electromagnetic Fields (EMF) aims to coordinate all the internal actions within this area and share best practices within the group

Here at Telefónica we are fully aware of social concern regarding antennas and mobile phones

Introduction

At Telefónica we have always recognised the importance of safety in the fields of electromagnetic energy with which we work, following closely the work of the various agencies that oversee the safety of everyone (ICNIRP, CENELEC, Recommendations of the European Council, World Health Organization).

Since its inception, Telefónica has historically been subject to strict control of the design of its networks, the security of its facilities and the quality of its service. There has never, from a radioelectric standpoint, been a lack of control or arbitrariness. The deployment has always been subject to the existing regulations in each country and the international technological standards of reference for equipment, network design etc. The company has followed the entire process, establishing internal standards (within its ISO 14001 environmental management system) which were consistent with the regulatory developments that were taking place.

While proper planning has always prevailed in the development of mobile phone base stations in order to conform to safe levels of exposure to electromagnetic fields, one of the main risks

faced by different mobile operators is the social perception of the electromagnetic fields (EMF) in mobile devices and base stations.

Telefónica is a company which is committed to the future and innovation in new technologies, which means it has always been necessary to deploy new networks that are increasingly faced with more difficulties. Of particular relevance is the application of municipal ordinances and moratoriums that a large number of municipalities have implemented to address the social alarm created around the potential effects of electromagnetic fields on health. Furthermore, in some countries where networks are deployed there is a huge disparity and heterogeneity in the existing regulations, since virtually every Town or City Council adopts its own specific regulations in this regard. This problem has been compounded by court decisions in these countries which promote the implementation of more restrictive measures regarding the deployment of networks by these City Councils. The pressure of public anxiety is also reflected in the increase of administrative burdens, delays in the granting of municipal approvals, duplication of paperwork and reporting requirements to which operators are subjected in deploying their mobile telecommunications infrastructure.

To minimise this impact, Telefónica is carrying out a project involving the coordinating of all operators called the EMC Global Project, which is managed within the Business Principles Office of Telefónica SA.

Target

The main objective of the EMC Global Project is firstly to share best practices within the group and maximise the results of the resources currently working on this issue within the operators. The difficulties in deploying the wireless network have been numerous in the area of regulation, administrative and social development in all countries. The experience gained over time in European countries has allowed it to establish institutional patterns that can be a good example for the rest of the countries located in other continents where we operate, such as Latin America.

Secondly, and also very closely connected to the previous point, the EMC Global Project aims to coordinate all the activities framed within this issue of radio frequencies internally, setting up global policies and processes that allow us to

position ourselves as a group within all those international institutions involved in mobile telephony, participating more actively in all these groups that represent the sector.

Indicators

- Compliance with the EMC Global Policy.
- Percentages of base station measures compared to ICNIRP levels as laid down in the EMS.

Lines of Action

The EMC Global Project consists of several stages designed to be implemented over an initial period of one year depending on the elements that are found in the diagnostic stage.

1. **Diagnostic Stage:** Evaluation of the different scenarios in the various areas in which each operator finds itself:
 - **Regulatory:** In most of the countries in which Telefónica operates, national legislation includes the ICNIRP exposure levels.
 - **Social:** The alarm generated by radio frequencies has been managed in very different ways in the different countries in which we operate.
 - **Institutional:** The sectorial relationship plays a key role in the management of these kinds of risks.
2. **The Establishment of Common Policy Stage:** In which minimum commitments are established for the company such as always working below the levels prescribed by the ICNIRP, whether or not legislation exists in the country in which it is operating. This policy must be established and agreed by all for its global application.
3. **Stage of development of action plans:**
 - **Vertical:** This stage will involve different working groups in each country to overcome the barriers that are found to be in place. The problems are affected by the idiosyncrasies of each country.

- **Operational:** The main impact has been the increasing difficulties for deployment of the mobile network in all Telefónica's regions.
- **Judicial:** In recent years some operators have been forced to go to court to contest most of the Ordinances that have involved excesses by some municipalities.
- **Research:** Several research projects have focused on clarifying the possible relationship between mobile telephony and health risks. Some of the operators in the group are collaborating with the scientific agendas.
- **Environmental Aspects:** There is a global commitment by Telefonica to implement an environmental management system that includes control of radio frequencies.
- **Horizontal:** In a parallel manner, communication channels will be implemented for the whole group. This will allow the exchange of relevant processes and documentation.

2011 CHALLENGES

- Development of a comprehensive policy for all operators in the Telefonica Group.
- Establishment of indicators for monitoring of Electromagnetic Fields Global Project (EMF).

Best Practices

Telefónica UK, together with the other mobile network operators in the United Kingdom and through the Mobile Operators Association (MOA), meets regularly with officials from the UK Department of Health to discuss health and safety policies related to radio frequencies (RF), advice and scientific research. In addition to these meetings, regular informal discussions are held on issues of mutual interest. The Mobile Operators Association (MOA), also meets regularly with the Health Protection Agency (HPA), which is responsible for providing advice and guidance on RF-related health and safety for the government, industry and the public.

Telefónica Spain

Telefónica Spain participates actively through Redtel (the Spanish Association of Telecommunications Operators) on actions relating to the deployment of telecommunications infrastructure. In collaboration with the FEMP (Spanish Federation of Municipalities and Provinces) it supports and disseminates the application of the

Code of Good Practice for the installation of mobile telephone infrastructures and the use of the Municipal Ordinance Model, which regulates the installation and operation of radio infrastructure.

It also collaborates with the SETSI (Spanish Secretariat for Telecommunications and the Development of Information Society) of the Ministry of Industry, Tourism and Trade that provides support on actions that encourage the deployment of radio infrastructures, in particular including the management of National Plan for Control of the Level of Radio Emissions. It also cooperates with the GSMA (GSM Association) on issues relating to telecommunications technologies.

Lastly, Telefónica Spain makes a web page available to the public containing information on exposure to electromagnetic fields which is regularly updated, as well as an intranet for its employees with a variety of documents on this issue.

Protection of children

Proper regulation regarding the provision of services for adults

Promotion of suitable use of ICTs by children and adolescents

Introduction

Information and Communication Technologies (ICTs) are an essential part of our daily lives. In particular, they are essential elements in education, relations, leisure and, in short, development as a whole during childhood and adolescence. It is therefore important to try to promote an environment in which children can use them safely. The aim is for them to make the most of the possibilities offered by digital life while avoiding the associated risks.

To contribute to this end, at Telefónica we have a project focused on the protection of children which is based on four pillars. All of this is underpinned by a strong network of organisations, agencies and institutions on the international scene, with which Telefónica has signed cooperation agreements in order to achieve the objectives of the project.

Project objective

To establish the appropriate framework to encourage children and teens to make responsible use of information and communication technologies. Telefónica carries out this task through self-regulation, education

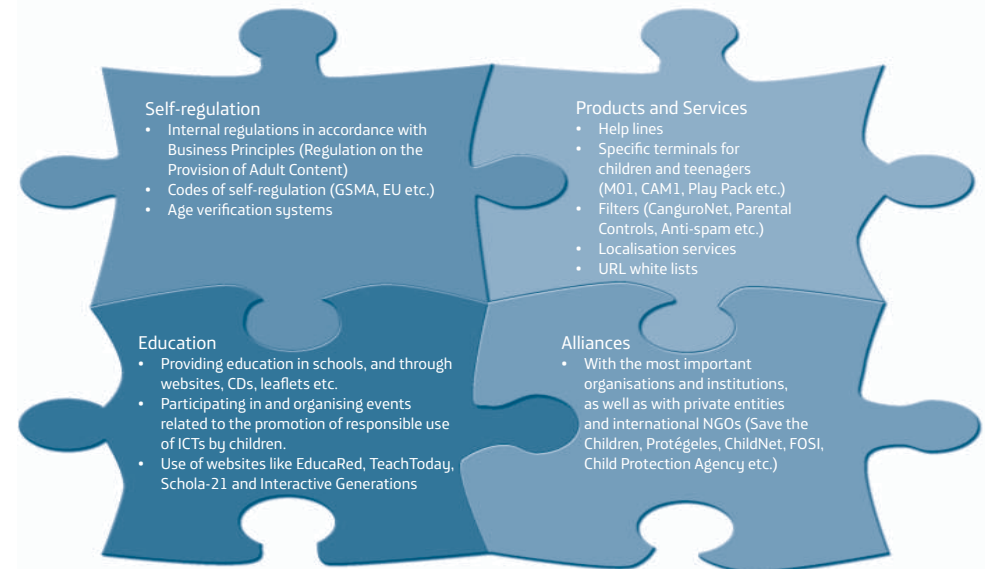
and specific products, all backed by a network of alliances that are the backbone of this project.

Enforcement Policy

In order to prevent access to content which is unsuitable for children, there is an internal

regulation for the provision of adult content, the scope of which covers all group operations, and is applied internally, as well as extending it to its content providers.

This legislation is currently under revision in order to be adapted to advances in technology and new forms of access, and this review will be made public in 2011.



Development of Key Actions 2010

Alliances

To develop an environment which is favourable for the proper use of the internet and mobile phones by children, Telefónica considers it essential to develop partnerships with other government agencies, NGOs, industries etc. These partnerships have resulted in, among other things, the signing of sectoral agreements or collaboration between Telefonica and civil society.

It is worth noting that Telefónica in Europe is working with awareness nodes and the Inhope and Insafe network hotlines in each of the countries where they operate. These bodies come under the umbrella of the European Commission and are framed within the *Safer Internet Program*.

Self-regulation

We maintain self-regulatory agreements such as the "Alliance of mobile operators to counter images of child sexual abuse" to block this type of content from being posted on Telefónica's networks, using lists provided by the Internet Watch Foundation or the national Codes of Conduct, sponsored by the European Commission through the Framework Agreement in February 2007 under which mobile operators

pledged to promote appropriate use of mobiles by children by implementing a series of collaborative and educational measures.

In March 2010, the European Commission itself published a draft directive on child pornography, with which it intended to set new rules that Member States will need to implement in order to combat child sexual abuse, exploitation and pornography. This would repeal the legislation in force since 2004, which does not take into account the new situations that have been generated in recent years.

Approval is expected before the end of Bulgaria's EU presidency. From that point on, the proposal allows two years for its corresponding transposition into different national legislations.

Passage of this legislation would establish a legal basis upon which to sustain action in this area and enhance the performance and collaboration that mobile operators have always been developing as a result of commitments made within the Code of Conduct on Self-regulation of Mobile Operators and the Mobile Alliance.

Products and Services

In order to assist parents in the task of teaching their children to take maximum advantage of the internet, it is necessary to provide them with the tools to prevent access to content which is inappropriate for the age group of the children.

In Latin America the "**Speedy Security Zone**" package is offered, providing customers with a range of tools for the protection of children when they are browsing on the internet. Antivirus, AntiPhishing, Firewall and Parental Control software is offered in one single package.

The tool allows the configuration of the following:

- Content ratings, which restrict the web sites and content that the user can see.
- Time limits on internet use, specifying the period and the duration of a user's access to the internet.
- Restriction of access to specific sites, and allowing or blocking of access based on age groups and associated keywords.
- Knowledge of the behaviour of children on the internet via a record of sites visited, blocked and allowed.

In Europe there are also several tools that offer both to control access to on-line content, such as systems requiring age verification for access, as is the case in the UK and Ireland for blocking underage users by default from accessing content for adults.

In Spain and Germany, all prepay mobile phones have access to adult content blocked by

2010 HIGHLIGHTS

- Speedy Security Zone in Latin America.
- Development of educational websites.

2011 CHALLENGES

- To implement opt-in tools for access to adult content for pre-paid and own websites on the internet; and an opt-out clause in the contract.

default; customers must identify themselves by presenting an official identification document to activate access to this type of content.

With regard to the television services offered by Telefónica, there is an option activated allowing restriction of content using a PIN code. Furthermore, by default, all adult content is offered only on demand.

Education

We are continuing to promote the dissemination of good practices and awareness-raising through conferences, forums and events, whose central theme is children, adolescents and new technologies.

In this regard, together with FOSI (Family Online Safety Institute) on 27th May in Madrid, we organised an event titled "Joining Forces for the Development of the Security Agenda on the Internet" at our headquarters in Madrid, which was attended by 248 people on the different panels made up of more than 40 international experts, most notably the Child Protection Agency of Madrid, the Director of the Spanish Agency for Data Protection, the presidents of Inhope and Childnet, representatives of the European Commission, the ICMEC and a video from the Secretary-General of the ITU, who could not personally attend the ceremony. The opening ceremony was led by the CEO of Telefónica, Julio Linares, and the closing ceremony by the Secretary of State for Telecommunications, Francisco Ros.

On International Internet Day, celebrated every year on 17th May, several countries took part in the various activities that were organised:

- In **Ecuador**, a day conference was held at a school which was also followed in real time by other schools in the country. Various activities were developed on the safe use of the internet, digital literacy and workshops on safety.
- In **El Salvador**, there was a presentation of the keynote address "Interactive Generations: Children and their screens" by Alfonso Escalante, the Corporate Relations Manager

for El Salvador; the event was attended by over 100 people including businessmen, government officials, CEOs of private companies and some media organisations.

- In **Peru**, Telefónica promoted a talk entitled "Peru without limits: Peruvians connected to the internet", at which there was a discussion of the future of new technologies, the benefits they will generate and the power of collaboration they offer. This event was attended by some 500 people including specialists, academics, media agencies, bloggers, Twitterers and people close to the digital environment. A mini site was set up on Terra which registered 2,325 unique users and 7,633 page views. Also, 2,055 people were connected to the event via a live video-streaming transmission.

Educational websites

To complement the training activities, we have specific websites in various countries and languages containing advice and recommendations to make the most of ICTs, while learning to avoid risks and misuses. On the Corporate Responsibility website a special section has been created, including a blog featuring posts on the latest trends written by internationally renowned experts on these matters.

Interactive Generations Forum in 2010

Telefónica, together with the University of Navarra and the Inter-American University Organisation, founded the Interactive Generations Forum in 2008. Since its inception, the Forum's activities have continued to multiply and spread to other countries. In 2010 two additional countries in Latin America were included: Ecuador and Guatemala.

Since its inception, more than **170,000 children from 2,000** schools have participated in the survey, with the schools receiving the corresponding reports.

In 2010 in **Ecuador** 10,768 students were surveyed in 23 of the 24 provinces in the country. This milestone meant that the annual target was comfortably passed regarding the number of students it was planned to survey at public and private educational units.

As part of the activities of the Forum, a highlight was the training provided on the proper use of Information and Communication Technologies. In 2010 around 47,000 people, including children, parents, teachers and volunteers were trained in making the most of ICTs while being taught to identify risks and prevent misuse of these tools.

In addition to these training activities, the Forum published two books in its Educar-Divulgar (Educate-Promote) collection: "**Educar hijos**

interactivos" ("Educating Interactive Children") adapted for Argentina, Chile, Colombia, Mexico, Peru and Venezuela, and "**Internet en la vida de nuestros hijos - ¿Cómo transformar los riesgos en oportunidades?**" ("Internet in the Lives of our Children. How Can We Transform Risks into Opportunities?"), which reflect the common characteristics of a generation of adolescents linked to new technologies, specifically internet use, and how the impact of the internet affects their development.

They also reached an agreement with the NGO Pantallas Amigas to launch the website www.cuidadoconlawebcam.com, where advice is given in a playful and fun way on how to use a webcam responsibly to maintain one's own privacy and that of individuals.

In addition to these figures from the Interactive Generations Forum, Telefónica, in collaboration with Cibervoluntarios Foundation, created the "**Internet en Familia**" ("Internet in the Family") project in 2009, to provide education to children and families in the proper use of ICTs, through talks in schools and a special meeting in the municipalities requesting one, in which a volunteer answers questions, such as the one which took place in the Las Rozas Town Council. During 2010, over 1,000 people (students, teachers and parents) were given training in 19 schools.

Environmental Management

Environmental Management plays a key role in the prevention of environmental impacts

Committed to sustainable development

Introduction

For Telefónica, environmental management is an internal management challenge, because beyond legal compliance, environmental management and control of the use of resources needs to result in an improvement of our operational efficiency.

The Business Principles of Telefónica, approved in 2006, contain a specific commitment: "We are committed to sustainable development, the protection of the environment and the reduction of any negative impacts on the environment arising from our operations". For further information see

[Telefónica Environmental Policy Link](#)

Aim of the Project

The Global Environmental Management System (henceforth EMS) pursues the proper management and control of different environmental aspects within the Company and lays down the minimum requirements for all Group companies, regardless of their geographical location or activity. Its aim is continuous improvement based on a commitment to comply with current legislation and control of Telefónica's environmental footprint. The Business Principles Office is the body that oversees the implementation of, and compliance with, this System.

Enforcement Policy

In 2008, the Company designed a Global EMS in accordance with ISO 14001, which lays down the common guidelines to be followed by all Group companies. This common and global focus seeks to establish the best possible environmental practices which on occasion go further than existing environmental legislation, as well as achieving synergies which, as well as improving Telefónica's environmental practices as a whole, contribute to more efficient management.

The documents that make up the Global EMS are as follows: Environmental Policy, Basic Standards, new Specific Environmental Management Standards and the Environmental

	Measurement unit	2010	2009	2008	% change from previous year
Eco-efficiency					
Total consumption of White Paper (including bills)	tonnes	14,444	16,972	16,281	-14.9
Total consumption of Recycled Paper	tonnes	530	651	683	-18.6
Water consumption	Cubic metres	4,010,588	4,470,468	4,871,780	-10.3
Electrical and electronic equipment waste	tonnes	2,485	1,978	2,071	25.6
Battery waste	tonnes	1,870	2,681	2,110	-30.2
Electrical and electronic equipment waste (Customers)	tonnes	1,614	1,811	1,632	-10.9
Total volume of waste which is recycled	tonnes	4,155	3,478	n.d	-19.5
Oil waste	thousands of litres	458	466	112	-1.7
Reuse of electrical and electronic equipment	Units	1,825,754	1,337,403	1,512,892	36.5
Volume of fuel spilt	Cubic metres	43	76	5	-43.4

	Measurement unit	2010	2009	2008	% change from previous year
Network rollout					
Expenses on environmental impact studies for network deployment	Thousands of euros	204	451	761	-54.8
Shared infrastructure base stations	Units	26,781	25,205	17,594	6.3
Investment on visual impact improvements	Thousands of euros	975	3,030	3,008	-67.8
Measurements of electromagnetic fields	Units	14,502	16,884	5,865	-14.1
Costs and investment in measurement of electromagnetic fields	Thousands of euros	982	822	2,209	19.5
Investment on noise impact improvements	Thousands of euros	630	1,245	3,070	-49.4
Spending and investment on the environment	Thousands of euros	17,030	24,035	20,089	-29.1
Investments on adaptations for compliance with environmental laws	Euros	3,758,444.8	2,323,250.0	n.d.	16.1

Behaviour Index. In this way, the new model covers and extends the guidelines laid down by the Minimal Environmental Requirements Standard in force since 2005.

For the development of these standards, we identified the environmental issues associated with the activities of the Company, the processes that take place in the Responsible Deployment of Networks and the routine maintenance of facilities, in order to identify specific best practices in environmental management for each of these aspects.

These standards establish the minimum performance requirements on environmental issues, on which the legislation applicable in each of the countries where we operate always prevails.

More information about the Environmental Management Policy at Telefónica can be found at http://www.rcysostenibilidad.telefonica.com/es/medio_salud/

Lines of Action 2010

Environmental Management

Environmental management plays an important role in the control and management of risks where we establish minimums which guarantee the protection of the environment from the possible impacts arising from our activities.

In 2010 we increased our infrastructure sharing by 6.2%, being a key tool for minimising the environmental impact of our facilities.

We have continued working on the implementation of the company's Global Management System, guaranteeing compliance with certain common standards applicable to the management of all our companies' operations. The implementation process will be extended until the end of 2012. This global EMS, designed in accordance with the international ISO 14001

standard, sets the common directives applicable in all our companies.

Currently, over 65% of our companies hold certification which confirms that their EMS complies with the provisions of the regulation, and all possible efforts are being made to ensure ongoing improvement in environmental matters.

This year the Colombian fixed line operation was certified under ISO 14001, the first integrated business that has managed to implement an environmental management system in fixed networks. This achievement has been achieved through the creation of a working group of "environmental managers" in the various regions of Colombia performing timely identification of the environmental risks of this operation. More interest was paid to environmental management by our suppliers, where about 400 audits were conducted in 2010. ISO 14001 certification was obtained in the last quarter of 2010.

Network Rollout

The environmental issues associated with Telefónica's activities are concentrated on the network and for this reason there is an environmental control at different stages throughout the useful life of the network, during network planning, construction, operation, maintenance and decommissioning.

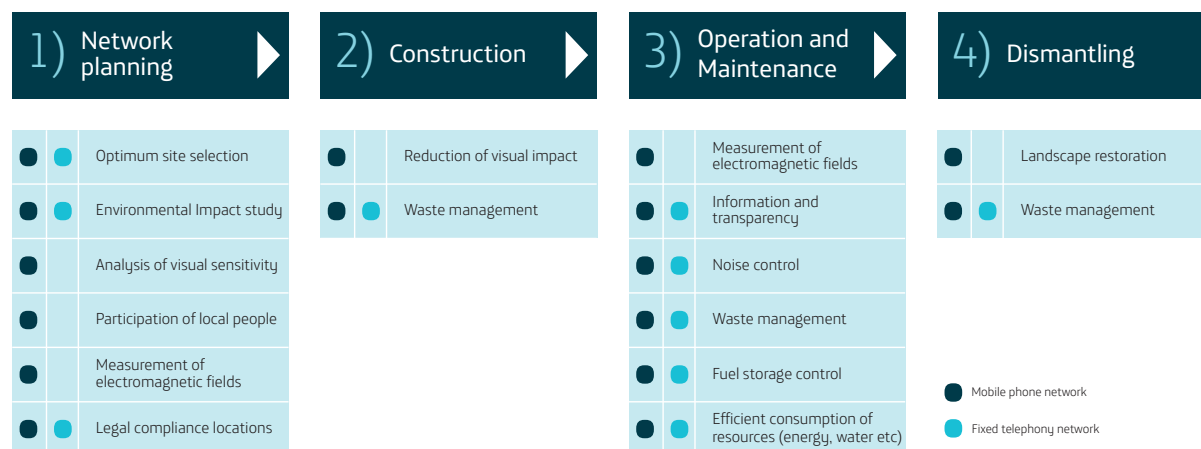
Telefónica's biggest asset is its network, which is growing in every country in which we operate, especially in mobile networks.

This deployment ensures coverage and quality in the service we give to our customers. Mobile accesses rose by 8.9% in 2010, which meant the construction of a new infrastructure.

In mobile networks, our environmental management system recognises the fact that the most important environmental issue in our deployment is its visual impact. Investment in environmental adjustments in 2010 amounted to €975,000, through measures to integrate the infrastructure within the environment, and secondly we should stress the increase of 6.3% in sharing of infrastructure with other operators, a practice which is increasingly being used in the deployment of networks.

Likewise, in the maintenance phase of the network control of other environmental aspects is contemplated such as measurement of electromagnetic fields, which involves an investment of €982,000 and control of the noise impact, in which €630,000 was invested to minimise the noise impact of our facilities.

Environmental practices in network deployment



Eco-efficiency

The management of environmental aspects is marked by an efficient use of resources, that is, to generate more profit using fewer resources and generating less waste.

- Water.** Water consumption at Telefónica is controlled in the offices since it is a resource that we do not use on the network. In 2010, there was a 10.3% reduction in consumption mainly due to the development of money saving activities and campaigns to raise public awareness with employees.

- Efficiency in the management of paper consumption.** In 2010, the company's offices used 14,444 tonnes of white paper and 530 tonnes of recycled paper.

At Telefónica we implement practices aimed at reducing consumption and promoting the use of recycled paper which year after year are being spread throughout the group, extending the model of the "paperless office". At the same time, we are seeking to promote electronic invoicing of our customers, further reducing paper consumption.

- Waste management efficiency.** The generation of waste is one of the most significant environmental issues relating to our activities. Types of waste are varied, and

they are all managed separately based on the danger they represent, being handled by authorised companies.

The most important types are those which come from electrical and electronic equipment on the network and from offices (2,485 tonnes), and dangerous waste, in our case mainly from batteries (1,870 tonnes). Of the total waste generated, Telefónica recycled more than 4,155 tonnes. In addition, in most operations we offer our customers the possibility of depositing their unused telephones in dedicated recycling points.

- Internal energy efficiency and reduction in CO₂.** Energy efficiency within Telefónica is seen as an opportunity for reducing

2010 HIGHLIGHTS

- EMS implemented in 80% of our operations.

2011 CHALLENGES

- Implementation of EMS in 90% of Group operations.
- Development of regional models of Waste Management.

operational costs. In 2010 we therefore optimised the process of quantification of consumption and energy costs, as well as greenhouse gases (GHG).

We developed a specialised verification process of power consumption and CO₂ generation and we established processes and methodologies for the collection of energy and mobility information on a global level. The objective of this activity was to align our process for quantification of emissions with the ISO 14064-1 regulation.

This table shows our inventory of direct and indirect emissions set out in detail. In 2010 two companies joined the group: Vivo, our Brazilian mobile operator, and TWIS, the Group company in charge of submarine cables worldwide. This introduction represents a 29% increase in our global energy consumption compared to 2010.

07

MANAGEMENT OF OPPORTUNITIES

Social Innovation

A social investment strategy aligned with the business strategy of Telefónica

New ideas
that meet
social needs
with business
opportunities

Introduction

Telefónica's commitment to promote the economic, social and cultural development of the communities we serve has always been present in our mission and our existence as a company. At Telefónica, we are committed to ensuring that society as a whole can enjoy the benefits of information and communication technologies. Our goal is to break the barriers that can block access to ICTs - be they economic, geographic, or the result of a disability. As an example of our social commitment, Telefónica in 2010 invested about €270 million to promote "social inclusion".

Today, the challenge for Telefónica is to move away from what we call "social inclusion", which consists of the donation of money or technology to social and digital inclusion projects, and towards the creation of a new concept that

takes advantage of the distinctive strengths of Telefónica's business: its business experience, its broad territorial presence, its extensive employee base and its technological capacity. In short, a social investment strategy in line with Telefónica's business to maximise its impact through the creation of value for the business. We call this new concept social innovation.

Innovative thinking and collaboration to create new solutions have proven essential in addressing some of the biggest problems in society, such as the increase in the digital divide. Telefónica views social innovation as new ideas (products, services and models) that simultaneously satisfy social needs while creating new business opportunities. In short, to apply business solutions to the social challenges present in society in areas as diverse as health, safety or education, agriculture or internet access in rural areas.



Our areas of performance with regard to social innovation are focused on two fields:

- Social innovation as a common concept that allows us to “stitch together” all our social impact projects, not just those which lie outside the business, but also those which are most closely associated with it.
- To add value to and maximise the social programmes of Telefonica through their alignment with the business to become tools of added value for our lines of business.

The future success of social innovation requires greater openness and collaboration from all the actors in society to provide a solution for the major social challenges that we are facing. The aim is to foster and promote the spirit of innovation - both within Telefónica, in harnessing the talent and abilities of our employees, and in society in general. New models of innovation, new partnerships and new business approaches will be required. Changes in public policies and the participation of consumers as the driving forces of new social markets will be needed. Telefónica is focused on identifying new ways to create value and generate positive results for our business and our various stakeholders. We invite you to join Telefónica on this journey.

Target

The aim is the generation of ICT projects and solutions for the entire company, in five policy areas, focusing each of them into segments with identified special needs: elderly people, disabled people and base of the pyramid:

Areas of action:

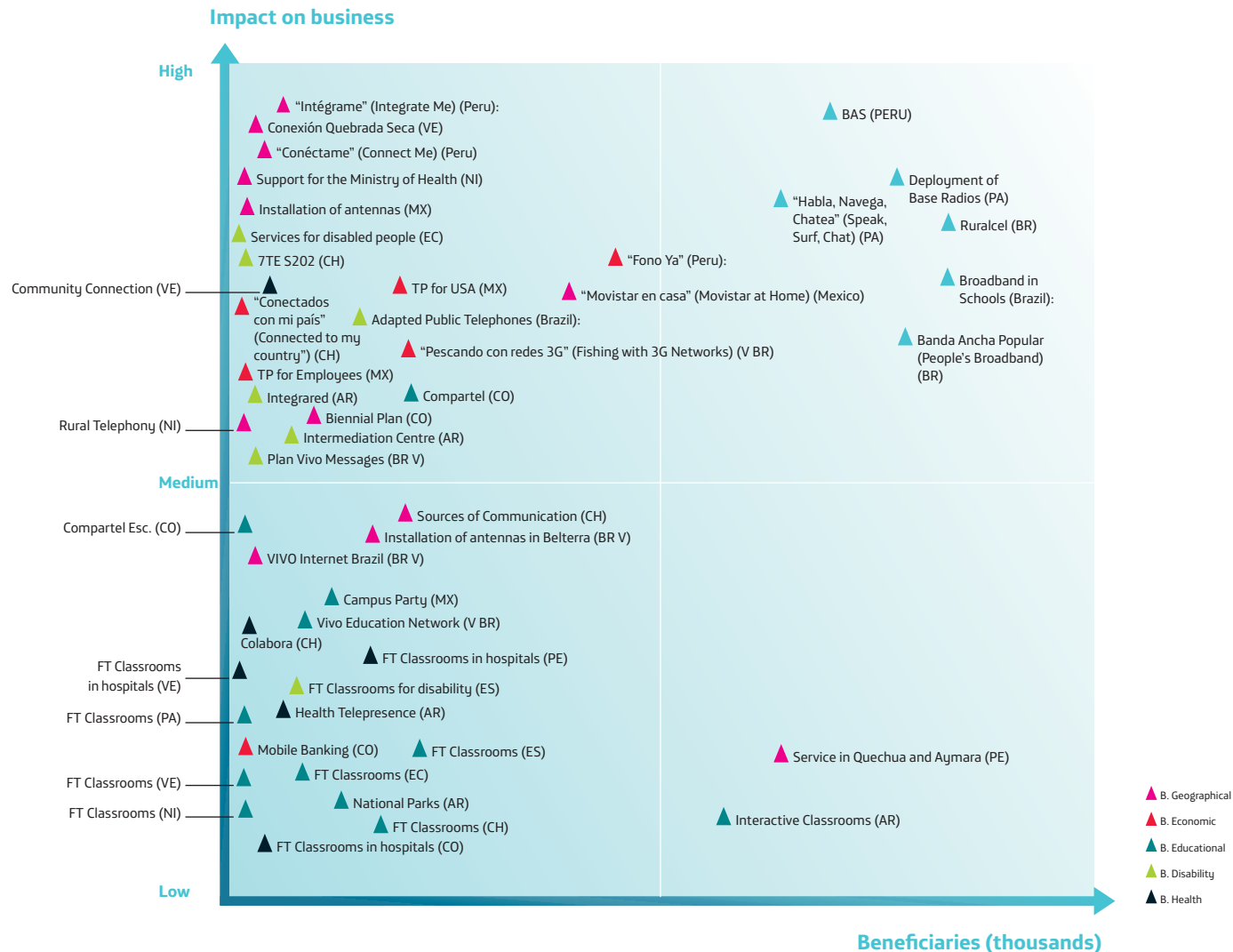
- Geographical: Extension of telecommunications services in rural areas with high rates of poverty, mainly in Latin America.
- Finances: Providing ICT solutions through mobiles to enable new methods for accessing funds or checking accounts to promote financial inclusion in Latin America.
- Education: to develop programs to improve the technological skills of groups such as children, students, seniors and low income earners in Spain, Europe and Latin America.
- Health: ICT solutions and services within the health sector, to help disabled or elderly people who require special attention to enhance their safety and confidence in their lives.
- Disability: Accessible ICT solutions and services tailored to the needs of disabled people in European countries.

Lines of Action 2010

During 2010, Telefónica developed initiatives in five areas of action (Geographic, Economic, Education, Disability and Health) for the three segments identified as elderly, disabled and base of the pyramid.

In 2010 Telefónica invested around €432 million in social innovation, of which €130 million went directly to social action activities, €51 million to promote digital inclusion and 251 million to promote the universal service.





Geographical

In 2010, Telefónica continued working to expand telecommunications in rural areas with high rates of poverty in Latin America. The most significant advances were recorded in Brazil through the "RuralCel" programme with an increase of more than 180,000 accesses (2009: 12,150; 2010: 200,000), the deployment of new network in Panama allowed mobile services to be offered to 2 million new customers and an increase of 1.1 percentage points in mobile coverage in Ecuador as a result of the "Coverage 2009" extension plan.

We can highlight projects in Peru such as the public-private partnership between local governments and Telefónica in Peru called "Intégrame" ("Integrate Me") which reached and benefited 84,479 people, the call service centre in "Quechua and Aymara" which managed to serve 1.4 million mobile customers in their native language, and Satellite Broadband, which reached 1.7 million beneficiaries.

Economic

In 2010, Telefónica focused its efforts on developing a "joint venture" with MasterCard that will allow Telefónica customers in Latin America to use their phones as a means of payment, to transfer money to other people, pay bills, top-up calling time and make purchases at shops, among other services. The services offered by the Telefónica-MasterCard joint venture will in particular promote financial inclusion among a high

percentage of people and will be a key opportunity to provide affordable financial services to millions of people in Latin America who have never before been able to enjoy the benefits of electronic means of payment.

Regarding the base of the pyramid segment, Telefónica continued offering products that were adapted to their economic needs. In Brazil, Telefónica offers "People's Broadband", aimed at a low-income population with no monthly fee and no telephone line rental, with more than 200,000 customers. And in Peru, Telefónica offers the "Fono Ya" fixed line service with wireless access which has around 470,000 customers in the lower socioeconomic segments.

Regarding small businesses and freelancers, Telefonica in Spain expanded its "Assistance Plan for Employment Creation 2010" with subsidies, bonuses, devices and applications for existing businesses to create new jobs.

Regarding senior citizens, O2 Czech Republic sold the package "Xmass for the elderly" in which elderly people were offered a terminal with a dedicated button for quick help with a special reduced rate and a guide called "Internet School for Seniors" with the aim of helping older people to surf the Internet quickly and easily.

Educational

In 2010, Telefónica carried out numerous initiatives to try and teach people how to use new technologies so they can benefit from the advantages on offer. In 2010 more than 23 million people benefited from training programmes.

Regarding the base of the pyramid segment, Telefónica continued with the opening of new Fundación Telefónica Classrooms as part of the Proniño programme, reaching a total of 432, for the inclusion of ICTs to improve educational quality in Proniño schools.

Regarding children, Telefónica launched its on-line portal in the UK called "O2 Learn" with 8,000 registered users, in which teachers share their best lessons over the internet with high school students.

With regard to senior citizens, Fundación Telefónica signed a collaboration agreement with the Association of Telefónica Senior Citizens (AGMT to use its Spanish acronym) which aims to expand its activities in the area of corporate volunteering to help senior citizens with training, creating groups by province, management of socially aware projects and the promotion of activities proposed by the volunteers. Meanwhile, O2 Czech Republic, in collaboration with Microsoft and Elpida Plus, published "Internet School for Seniors", a booklet that acts as a guide to help seniors to become more comfortable with the internet. This brochure is part of the Xmass Pack, coming together with a mobile phone.

Disability

Through the program "Telefónica Accesible", Telefónica meets the needs of disabled people in their capacity as employees, customers, suppliers and society in general, both in internal and external processes and from a business perspective to ensure the sustainability of the process by integrating the interests of end users with those of the business.

In Spain, Telefónica returned to agreements with the principal disabled people's associations: CERMI, FIAPAS, FEAPS, ASPAYM Granada, ONCE and CNSE. It is also a founding member of the National Centre for Technology Access (CENTAC) aimed at promoting the development of accessibility technologies at company, industrial and service level in order to facilitate access to them and improve the quality of life of elderly people, disabled people and their families.

Regarding accessible products and services, Telefónica continued to work on the promotion and development of products and services to promote access to ICTs by these groups. In order to deliver these products and services more easily, most of them have special rates. Some examples are:

- In Spain, Telefónica had several fixed telephone offers in its catalogue such as the Teclón fixed phone and the Telefónica-SPC Telecom 7601 wireless phone designed for elderly people and/or the hearing- or vision-impaired or those with reduced mobility or cognitive problems. Several mobile terminals were

also marketed, such as the C5-00 phone with Bluetooth induction loop and the LGA 133 easy phone, aimed at people with cognitive disabilities.

- In Europe, O2 UK worked on the programme "Access for All" in order to encourage and assist people with disabilities through ICT products and services. Meanwhile, O2 Germany, in collaboration with VerbaVoice, developed a transcription service for people with hearing impairment which involves the conversion of oral speech into text, while, lastly, O2 Ireland marketed the "Grace" iPhone application with the goal of helping children with autism to communicate. In 2010 360 downloads were made in O2 Czech Republic.
- Latin America also worked in 2010 to meet the needs of people with disabilities. In Brazil more than 12,000 people benefited from adapted public telephones. Movistar Chile was the first company in the sector to work on the 1st Round Table on Disability set up by the Chilean Government where the public and private sector and civil society exchange practices and establish alliances in order to integrate people with disabilities in the workplace. Movistar Ecuador increased the total number of beneficiaries up to 36.5% of customers with disabilities through their SMS service with a subsidy of 64%.

In terms of social awareness campaigns, after its successful launch in Ireland, Telefónica launched the “Telefónica Ability Awards” in Spain to publicly recognise entities that integrate disability within their value creation chain and their business model. Backed by a Board with representation from the entire Spanish business community and relevant institutions in the field of disability, nine entities out of nearly 300 candidates received their award from Sofia, Queen of Spain, at a gala event held at the Telefónica headquarters in Madrid.

In 2010, Telefonica signed an agreement with Kanchi, the non-profit organization chaired by Caroline Casey, with the aim of supporting the integration of people with disabilities through innovative solutions, institutions and companies.

e-Health

The health sector is undergoing a process of transformation, characterised by an ageing population, increased prevalence of chronic disease, the shortage of health professionals and the increasing costs of health care. Telefónica, through its Global eHealth Unit, aims to become a benchmark and a major player in the healthcare of the future by creating quality products and services based on ICTs that will contribute to a new model for more sustainable and efficient health care, with the patient as the central focus of the whole system.

In this regard and in order to bring health to those who need it the most in an innovative and comprehensive manner using telemedicine, Telefónica has developed several programs in 2010, of which the most significant are:

The Belterra Conexão Project in Brazil

The “Belterra Conexão Project” in Brazil, led by the operator Vivo, Ericsson and NGO Projeto Saúde & Alegria, provides voice, broadband and mobile Internet access, as well as eHealth services, to 30,000 people in 175 villages in the heart of the Amazon in Brazil.

Medical telepresence in Argentina and Chile

In Argentina and Chile, Telefónica and Cisco have established a partnership to offer solutions in the field of telemedicine. Specifically, through medical telepresence patients can receive the personalised service and specialists that the local health system does not offer.

In Argentina, the Castro Rendón Hospital (Neuquen) is connected to the Dr. Juan P. Garrahan National Pediatric Hospital (Buenos Aires), receiving support and remote specialist diagnoses on paediatric and infectious treatments. The telemedicine program of hospital in Buenos Aires supports a network of 10 paediatric hospitals and 83 general hospitals

1st Telefónica Ability Awards in Spain

Telefónica ability awards



On 17th January, Her Majesty Queen Sofía chaired the Telefónica Ability Awards ceremony, a series of awards organised by Telefónica in recognition of the companies and organisations who have best integrated the area of disability into their business model. The event, which took place at Distrito C, Telefónica's head offices in Madrid, was attended by over 400 guests.

The Organising Committee had previously selected 48 companies as finalists from the 273 who had initially entered. The whole process, which began in April 2010, was supervised and supported by PwC Spain.

The first Telefónica Ability Awards went to the following companies and organisations:

- Best Large Private Company: Repsol.
- Best SME: Hotel Entremares.
- Best Public Institution: Aena.

- Senior management commitment and employee leadership: Grupo Siro.
- Recruitment and selection: MRW.
- Accessibility: Sanitas.
- Customer orientation: Ávila City Council.
- Training and professional development: Grupo Siro.
- Accident prevention and retention: Capgemini.

Telefónica's role was to act as a facilitator and integrator, assisting the Panel in its duties, the real driving force behind changing perceptions towards disability. Over the coming years, the Company is committed to extending the Ability Awards to other markets in which it operates, both in Europe and Latin America.

For further information visit:
www.telefonicaabilityawards.com

throughout the country, having treated about 18,000 cases remotely in 11 years.

In Chile, after the earthquake that devastated the country in February 2010, this telemedicine system was introduced in 3 hospitals in the earthquake zone: Hospital Las Higueras (Talcahuano), Hospital de Linares, Hospital de San Carlos. The programme includes remote cardiovascular telecare and is successfully reducing the waiting list in neurology, ENT, Nephrology, Critical Care, Infectious Disease and Psychiatry. Its operation is as simple as "push a button, or click to Connect", allowing equal access to the best health care available.

Remote diagnostics in Spain and the UK

Telefónica together with the Hospital del Mar in Barcelona has launched a teledermatology service called "Colabora-Telederma" which through a platform for remote support and monitoring of patients (at home), allows a close relationship to be maintained between the family doctor and the dermatologist. In turn, thanks to Colabora the early detection of skin diseases has been made easier and the waiting list has been reduced, which in dermatology services is very long.

In the UK, O2 Health markets a version of the same product called Side by Side. NHS Western Isles, responsible for primary and specialised care in this region of Scotland, is using it to reduce travel between the islands and improve access to health care, which is particularly difficult in this area.

Furthermore, Telefónica, in order to prevent health risks facing the elderly and disabled people and improve their safety and well-being, in 2010 developed a number of telemedicine projects, of which the most significant are:

Telefónica O2 Czech Republic launched the telecare service called "O2 Tís ová pé e" (O2 Emergency Care) in collaboration with the local authorities of District 10 in Prague to assist some 1,000 senior citizens in the initial phase of the project.

People in need, facing any situation of emergency, can contact the patient service centre at any time from within their homes or while on the move. Another advantage is that service users receive regular follow-up calls. These helps them improve their security and to alleviate their loneliness since they are in contact with their caregivers, thus improving their quality of life and independence.

In the NHS Hospitals in Portsmouth (UK), there are more than 600,000 outpatient visits each year. However, many of these consultations need to be rescheduled one or more times because patients do not attend them on the correct date, resulting in increased costs and time of care. O2 Health has created a system of text messaging to remind patients of the date, time and location of their appointments. This reminder service was launched in May 2010. By August, the number of people who missed their appointments had fallen by almost 40%. With this improvement, it is possible to carry out an extra 1,776 appointments a year.

Health professionals have so far devoted a very high proportion of their time to administrative tasks which are necessary for proper patient care. In NHS Rotherham (UK), thanks to the introduction of O2 Health digital pens, nurses can create digital and paper records at the same time, with the information being stored in the healthcare information systems, thereby saving time and improving the quality of care provided to patients.



Green ICT

Reduction of costs through a reduction of energy consumption and the opening up of new business opportunities

“Green Services” for efficiency and growth

Introduction

ICTs are taking on ever greater relevance as a strategic sector in the reduction of energy consumption and CO₂ emissions, thus helping to reduce the impact of climate change.

The sector has specific possibilities of reducing emissions equivalent to five times those generated by the sector, up to 7.8 GTn of CO₂, or 15% of the emissions predicted for 2020, representing potential savings of 600,000 million euros.

For the majority of Industry analysts, sustainability in the ICT sector comprises two variables which are intrinsically bound together: on the one hand efficiency and on the other, growth.

As far as efficiency is concerned, Gartner predicts that savings in energy expenditure could represent between 2.3 and 8.7% of total OPEX for the whole of the telecommunications sector worldwide, a significant amount, above all in these times when cost reduction and an efficient use of resources are two priorities for all telecom companies and other sectors.

According to Datamonitor, providers of “green” IT solutions have seen a notable increase in sales over the past 2 years.

In the opinion of these analysts, Green ICTs have in recent years become a “hot topic” for the industry:

- 2007 marked a turning point with the incorporation of the “Green ICT” concept.
- The debate picked up momentum in 2008, as did innovation and an exploration as to how IT might play a relevant role in the fight against climate change.
- In 2009 and 2010, driven by the worldwide economic recession, a clear opportunity arose to reduce corporate expenditure, establishing the issue as a HOT TOPIC for the industry.

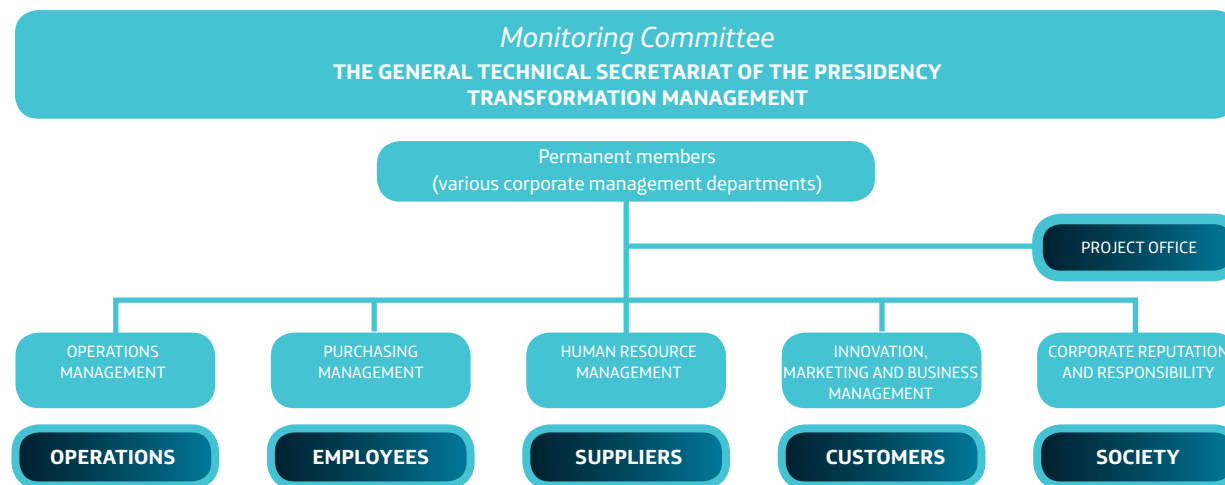
There is ample room available for innovation in the efficient use of resources assisted by technology, with a large number of the solutions to climate-related issues and environmental sustainability necessarily requiring large-scale technological innovation from our sector. Telefónica is a recognised leader and we are firmly committed to ensuring these goals are met.

Target

For Telefónica, energy efficiency and climate change are based on two simple premises; on the one hand reducing costs through lower internal energy consumption whilst on the other attracting income through new business opportunities. This requires a comprehensive, business-oriented overview of the Group.

There is a three-fold objective:

- Reduce energy consumption in our operations: 30% of electricity consumption in networks and 10% in company offices by 2015. This will result in a reduction in energy expenditure and greenhouse gas emissions (GGI) in worldwide Group operations.
- Create greater income through sales and evaluating products and services that encourage energy efficiency in other sectors.
- The positioning of Telefónica as a ICT leader on a world level in terms of energy efficiency.



Management Body

In 2008, Telefónica created its Climate Change and Energy Efficiency Office, with the aim of bringing together all projects related to energy and climate change under one roof, ensuring an integrated, comprehensive vision.

This office, which reports to the Transformation Department and the General Secretary to the Chairman, plays a key role in the areas of innovation and business lines. It has 5 work areas and permanent projects office which guarantees the model of corporate governance and its effective management.

Lines of Action 2010

Areas of work within the Climate Change and Energy Efficiency Office.

Operations

Answerable to the Department of Technology, the objective is to reduce Kwh/equivalent access in our networks by 30%, and electrical consumption in our buildings by 10% by 2015.

Main lines of action:

- **The development of energy efficiency programmes in networks and systems.** Today there are 101 measures dedicated to reducing and optimising energy consumption

in our networks. In 2010 we found ourselves half-way to meeting our objective of reducing the consumption of electricity.

- **Energy efficiency in Data Processing Centres and in the workplace:** In these operations Telefónica is working on a series of energy efficiency plans as well as signing up to the European Data Centre Energy Efficiency Code of Conduct, due to be implemented next year.
- **Strategy covering the generation and use of renewable energy.** Mobile network roll-out project for Latin America in conjunction with the GSM Association (100 base stations in 2011 - 2012).

We continue working towards achieving the overall global goals of reducing electricity consumption on networks and in company offices. By the close of 2010, we had already reached half of the objective of 30% electric power consumption on networks for equivalent access. This has been achieved thanks to the energy leaders in the countries. The best practices of energy efficiency were shared in the **First Global Energy Efficiency Workshop** which took place in September 2010. Each of the operations presented its best practices on reducing energy consumption. There were also Partners like Alcatel Lucent, NSN, Huawei, Andrew-Comscope, among others.

Throughout 2010 we carried out 44 energy efficiency projects globally on the network, achieving a reduction of more than 83,000 MWh and a reduction in the energy consumption of the group of more than 7 million euros.

During the workshop, we gave a prize to the best energy efficiency practice in the group: Free Cooling in Uruguay and to the best corporate governing model "Energy Manager" in the United Kingdom. The best renewable energy project "Telefónica's Distrito C" and special acknowledgement to the Brazilian team for the development of a kwh methodology/equivalent access. Energy Managers – Telefónica Group.

This workshop marked a milestone within Telefónica's corporative governing and strategy based on sharing best practices and promoting the use of the best technology available on a global basis for energy efficiency in our networks.

The Purchasing Axis

Responsible to the Purchasing Department, the aim here is firstly to incorporate energy efficiency criteria applicable in the purchasing of network and systems equipment, and secondly to translate the experience to customer equipment.

Main lines of action:

- **The incorporation of and request for energy efficiency requirements in the TCO of network products.** Analysis of these requirements has led us to take the decision to incorporate the energy efficiency variable within the Total Cost of Ownership (TCO).
- **Standardisation of prices and criteria in the decisions concerning energy purchasing** on the electricity market.
- **Energy efficiency criteria in the standardisation of network equipment.** One of the challenges is to translate these criteria to customer equipment.

The Employee Axis

Responsible to Human Resources Management in order to promote a reduction in energy consumption in offices and achieve the 10% reduction per employee objective by 2015.

Main lines of action:

- **Worldwide awareness-raising campaigns (ECO Effect)** in resource savings and specifically in the area of energy.

- **Encourage the use of technological tools within the company in order to avoid unnecessary employee travel.** For example teleworking and virtual meetings (video conferencing, web conferences and tele-presence). Throughout the Group's premises there are 17 tele-presence rooms, with an average of 11 daily meetings. Carrying out Mobility Surveys at Grupo Telefónica.

- **Climate Change and ICT** training at the Universitas Telefónica School of Excellence.

The Customer Axis

Answerable to Customer Management and the International New Services Unit, the objective here is to identify and develop innovative solutions which promote energy efficiency in other business sectors and society in general, taking into consideration the various customer segments.

The distinctive Green Technology brand has been created, with all environmentally-friendly services carrying the logo.



Main lines of action:

- **Implementation of the Green Customer Experience 2011 Model** for the residential sector in 5 countries within the group. Spanish Launch in 2010. Agreement with Nokia for the launch phase.

Green Customer Experience (GCEX)

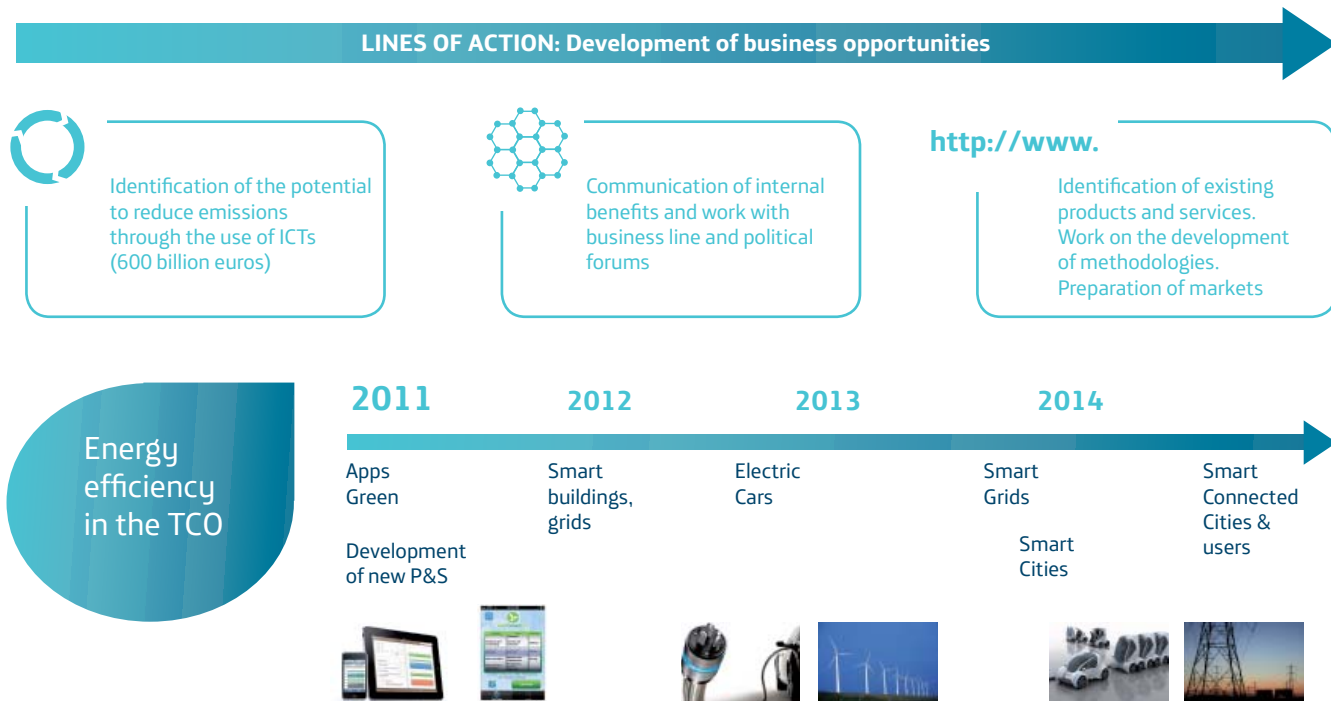


- **Assessment of the impact of service energy efficiency:** Tele-presence, Automation, Cloud Computing.
- **The development and presentation of a roadmap for energy efficiency product and service innovation in line with the European Digital Agenda** and impact measurement methodologies.

Virtual Hosting - The first green step towards "the cloud"

Telefónica provides its customers with the virtualisation service. We have designed an infrastructure that takes account of a technology that automatically regulates energy consumption with an intelligent performance adapted to the information load. This provision of services includes the valuation of an energy consumption reduction in the customer's facilities, within the global offer for the customer. A 40% reduction in the TCO (total cost of ownership) of the solution is expected for three years, compared to standard hosting. In order to deliver this service more efficiently, Telefónica implements a lower capacity of servers with the subsequent energy saving.

In addition, we signed the European Code of Conduct for Energy Efficiency in Data Processing Centres. The aim of this code is to avoid the use of obsolete designs that lead to an inefficient energy consumption.



Proposed climate change reduction model: Smart City Santander

Telefónica R+D has begun the roll-out of the first 150 sensors that will make Santander become one of the very first intelligent cities in the new European network of intelligent cities, and the largest laboratory in the world in which the future network can be tested (the so-called Internet of Things). Smart Santander is a project that is co-funded by the European Union, in which various international companies take part, led by Telefónica R+D.

In 2011, the number of these devices in operation will increase, with a total of over 12,000 to be installed in the city over the three years that the project is set to last.

The first 150 sensors installed in 2010 will be used to detect the occupation of parking spaces and those assigned to people with reduced mobility. They will also be used to measure air temperature and quality and the presence of CO2 (meteorological sensors). As the number of devices increases, the aspects measured will diversify. In reality, Santander is set to become the world's largest M2M service laboratory. A laboratory in which the scientific community will be able to test the Future Internet, the so-called Internet of Things.

The M2M technology provided by Telefónica will result in a testing ground which can be used to validate future value added services for end users or companies.

The Transparency and Positioning Axis

Responsible to the Department of Corporate Reputation and Responsibility; here the objective is to position Telefónica within the debate concerning energy efficiency as a leader and force for change.

Main lines of action:

- **The active leadership and participation of Telefónica on forums and in strategic work groups:**

- Study Group 5 – ITU-T for the development of methodologies. Collaboration agreement with UIT-T.
- Leadership of the GESIClimate Change group.
- The ICT4EE Programme Forum. Leadership of the products and services energy efficiency group.
- The Greentouch Programme - energy efficiency in networks.
- GSMA and Green Power for Development. Alliance for the development of projects.
- European Roundtable of Industrials (ERT). Climate Change Work Group.

- **Response to Industry Analysts through Knowledge Network Management**, through the establishment of industry ranking and assessment. Recently, Green ICT has been declared a “hot topic” by these analysts.
- **Transparency:** A response to investment indexes such as the Dow Jones Sustainability Index, DJSI, (focusing on attributes of internal energy efficiency and new energy-efficient product innovation) and the Carbon Disclosure Project Index. Both indexes have classified Telefónica as **Nº1 in 2010 within the telecommunications sector**.



2010 Highlights

- Telefónica leadership in group n° 2 of the ICT4EE.
- Compliance with the aim of reducing electrical consumption by 50%.
- Development of methodology to measure energy efficiency in the ICT sector with GSMA.
- The signing of the European Code of Conduct for Energy Efficiency in Data Processing Centres and broadband equipment.
- 1st Annual Telefónica Energy and Climate Change workshop. Indu Analysts.
- Development and implementation of the Green Customer initiative in 1 country.

CHALLENGES FOR 2011

- Direct contribution of Telefónica methodology in measuring the internal footprint through GESI and ICT4EE to the EU (Nov 2011).
- Standardisation of methodology via ITU.
- Signing of the agreement with ITU.
- Measurement of efficient services.
- Launching of Green Customer in 5 countries.
- Smart Cities Task Force.

Global Reporting Initiative Indicators

EN01 Materials used, by weight or volume.

EN03 Direct energy consumption by primary source.

EN04 Indirect energy consumption by primary source.

EN08 Total water withdrawal by source.

EN16 Total direct and indirect greenhouse gas emissions by weight.

EN22 Total weight of waste by type and disposal method.

EN23 Total number and volume of significant accidental spills.

EN27 Percentage of products sold, and their packaging materials, which are recovered at the end of their useful life, by category.

EN29 Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations.

EN30 Total environmental protection expenditure and investments by type.

Indicator measured in Telefónica	Measurement unit	2009	2010
Energy and CO₂¹			
Scope 1			
Fleet fuel consumption (diesel and petrol)	Thousand litres	24,911	35,248
Consumption of natural gas in operations	Cubic metres	444,283	420,866
Consumption of natural gas in offices	Cubic metres	6,237,141	6,261,916
Consumption of diesel on operations	Thousand litres	13,140	17,372
Consumption of diesel in offices	Thousand litres	1,195	1,191
Direct emissions	t CO ₂ eq ²	114,839	149,761
Scope 2			
Energy consumption of office buildings	MWh	775,764	821,581
Energy consumption of operating buildings	MWh	4,296,489	5,546,827
Indirect emissions	t CO ₂ eq ²	1,674,531	1,776,944
Scope 3			
Work travel by plane	Units	111,231	125,927
Work travel by train	Units	55,851	75,779
Work travel by car	Units	18,570	33,444
Other indirect emissions	t CO ₂ eq ²	61,877	63,368
Avoided emissions ³	t CO ₂ eq ²	222,879	245,238
Total emissions	t CO ₂ eq ²	1,851,247	1,990,072

¹ 2009 energy data verified in 2010 by Aenor. 2010 energy and emissions data being verified; includes data from Vivo and TWIS.

² The inventory for both years includes t CO₂eq, CO₂, CH₄ and N₂O.

³ Emissions avoided through generation and purchase of renewable energy.

08

STAKEHOLDER ENGAGEMENT

Creating value through trust

Links to our interest groups can be seen in the courses of action that build sustainable, long-lasting relationships

Introduction

For a company such as Telefónica, with over 85 years on the market, dialogue with interest groups is fundamental. Strengthening this area is also a key objective of our global transformation programme *bravo!* which seeks to build sustainable long-term relationships with interest groups in order to increase trust, and through this trust, create greater value for Telefónica and its stakeholders.

Thus, in 2010 the normal dialogue of our day to day, and the traditional dialogue panels that we prepare based on the CR Report were joined by *stakeholder engagement* initiatives (links to our interest groups). These courses of actions take into account the following points:

- **Risks and opportunities:** as a cornerstone of our CR and sustainability strategy, stakeholder engagement serves to support risk and opportunity identification and management, the other two fundamental areas of this strategy.

- **Co-creation:** to develop specific initiatives, products and services that have a social impact – an ICT application for people with disabilities for example - co-creation with other agents is needed. It is these who enrich the company's vision, bring it closer to the real needs of its beneficiaries and, if appropriate, offer solutions.
- **Global focus:** we are well aware that there are numerous areas that we cannot tackle alone but rather require a dialogue process either driven by a public-private alliance, or in which the whole sector takes part, or which admits various stakeholders (governmental bodies, NGOs, consumers, academics, scientists etc.).
- **Materiality:** analysis of materiality allows us to focus on subject areas that are of real interest to our stakeholders and which are also relevant to Company strategy.
- **Public agenda:** the ICT sector is a part of the solution to various public agenda matters, areas which concern society as a whole, such as education, health, productivity, e-government, energy efficiency and climate change.

- **2.0 Channels:** social networks have opened up great opportunities that allow us to get ever closer to our interest groups, listen to their needs and expectations and enter into dialogue with them.

In 2010 we worked on three lines of dialogue:

1. Material dialogue
2. Dialogue and co-creation
3. Dialogue 2.0

Material dialogue

The following are a few examples of the dialogue between Telefónica and our stakeholders concerning a series of relevant matters last year.

Supply chain

Within the framework of our responsible purchasing initiative, in 2010 Telefónica **Colombia** undertook 3 open dialogues with 81 suppliers on a national level (Cali, Barranquilla and Bogotá). Having informed them as to the current state of the Company's management on all fronts (customer, staff, shareholder and supplier management), we sought to find out how our relationship with them stood and how it could be improved.

Based on these dialogues, a proposal was made to undertake a permanent accompaniment plan in 2011 focusing on a group of suppliers in order to support them in the most strategic part of their business – vision, mission, values, codes of conduct – and in tactical areas – measurements of the organisational climate, trainer training sessions etc.

In **Ecuador** we have also tackled this area in a special manner through a meeting in Quito with 150 representatives of suppliers, authorised distributors, CR organisations and universities. The meeting allowed us to share best practices and encourage suppliers to draw up a code of conduct for its organisations, as well as incorporating Global Compact Principles and the GRI guide.

The young and the use of ICTs

In **Spain** in May in association with FOSI (the Family Online Safety Institute) we organised the event "Joining forces in the development of a safety-based agenda for the web".

At this session, attended by 248 people, a range of issues were examined, including control over personal data in social networks, the supervision of children on the web, the role of telecommunications companies, collaboration with the Police etc. More than 40 international experts attended the forum, including the Director of the Spanish Data Protection Agency, the presidents of Inhope and Childnet, representatives of the European Commission, ICMEC etc.

In countries such as Germany we set up *focus groups* with both customers and non-customers to study digital trust, an essential area that allows children and adults to take full advantage of new technologies.

Customers: transparency, prices and quality of service

The large number of people presenting claims and complaints to the service regulator in **Brazil** (Anatel) without having first contacted our customer-care centres led us to launch a dialogue project that allows us to better understand the reasons behind such a state of affairs, which revealed a certain lack of trust in the company.

In the meetings we held with three customer groups, the telecom services provided in Brazil in general were criticised. In addition to the actual incidents, it was felt that there was a lack of interest in resolving problems. The most common problems were a failure to meet agreed deadlines, an unstable broadband service, a series of question regarding bills, unavailability of products and services and inadequate repairs.

In **Spain**, Movistar carried out 309,600 customer telephone surveys regarding their experience with the company at different moments: when we attend to them (in shops, through call centres or via the web), when there is a fault on the line or a complaint etc. The aim was to identify points of improvement in order to increase customer satisfaction.

Accessibility

2010 saw the first "Telefónica Ability Awards" held in Spain, a series of awards which seek to publically recognise those companies and institutions that employ sustainable business models that include disability within their value chain in the form of employees, suppliers and/or customers and clients.

The awards have seen a whole ecosystem of dialogue formed by the Public Administration, representatives of companies, universities, trade unions and associations linked to the world of disability (see image showing the ecosystem components).

Both this ecosystem and the awards themselves have allowed us to identify best practices in matters of accessibility in Spain and the challenges we face and opportunities that exist to move forward. In 2011 we seek to continue to take advantage of this ecosystem and the new Club Ability, consisting of the "Ability Companies" - 48 businesses and organisations that best integrate disability within their business model, in order to further dialogue on matters of accessibility and disability in general. For more information, visit [this website](#).

Dialogue and co-creation

In 2010, Telefónica developed two new projects **Dialogue 4.0**, multistakeholder dialogue processes, with the participation of more than 100 experts, in order to promote the contribution of ICTs to regional competitiveness.

These processes are driven by public-private partnerships between the Public Administration of a country or region and Telefónica, focusing on matter on the public agenda: education, health, productivity and energy efficiency.

Dialogue 4.0 is a face-to-face process and is further complemented by conversations on *social media* channels (blogs and Twitter). It should also be pointed out that Dialogue 4.0 focuses on creating a solid *engagement*: a dialogue which provides real solutions that give tangible results and allow the conversation to continue unhindered.

Aragon 4.0: Promoted by Telefónica and the Department of Health of the Regional Government of Aragon, Aragon 4.0 has brought together 80 prominent experts to promote the use of ICT in the Aragon healthcare system with the aim of improving sustainability and efficiency. For more information, visit [this website](#).

eCLM 2012 arose as the result of the public-private alliance between the Castilla-La Mancha regional government and Telefónica in order to identify strategic lines in the contribution that ICTs make to competitiveness in Castilla-La Mancha in the fields of education, health, productivity and energy efficiency. For more information, visit [this website](#).

These 4.0 initiatives have allowed us reinforce *engagement* with both the Public Administration and agents linked to various fields. For example, in the case of education, the dialogue process has made it possible to strengthen links and create more stable relations with those in publishing, the academic world (professors, administration, academies etc.), families (parents associations), opinion leaders and well-known bloggers covering the world of education.

The various processes also seamlessly link commercial and institutional areas and allow a process of trust building to take place, creating the optimum conditions in order to create new long-term business. 4.0 initiatives therefore facilitate co-creation, in other words, the development of a series of business initiatives that have a social impact, benefiting both the company and its partners (in this case the Public Administration) and society in general.

Dialogue 2.0

As of March 2011, Telefónica had 215 on-line social channels (see map). Through these channels, we can use our Telefónica, Movistar, O2 and Vivo brands to enter into dialogue with different audiences. In order to make good use of *social media*, we have a recommendations guide drawn up by Corporate Communication Management for the benefit of all our employees.

From all these channels, 31% use Twitter, 28% use Facebook, 17% use YouTube and the rest other popular platforms, which in Spain includes Tuenti in Spain 24%.

Telefónica has 50% more followers on its various Twitter channels and has three times more "likes" on its Facebook page than its leading European competitors, according to the Global Social Media Check-Up Study undertaken by Burson-Marsteller. Similarly, in a report by SMI (Social Media Influence) we figure as the leading telecommunications company in terms of social media on a world scale.

Telefónica's objectives in establishing dialogue with our interest groups through the 2.0 net in 2010 were principally to ensure greater awareness of their expectations and opinions, keeping them informed of company initiatives in the most personalised and accessible fashion, encouraging closeness, conversation and the building of emotional bonds with these groups.

The interest groups to which we paid most attention with regard to these on-line dialogue processes were our customers, employees and everybody connected to social networks in general. The areas given priority were: new products and services, service quality, customer care, use of Information and Communication Technologies (ICTs) in education, Corporate Responsibility (CR) reports and other environmental matters, energy efficiency and climate change.

As far as the coming year is concerned, we expect to increase 2.0 dialogue with our interest groups regarding matters such as good Internet, mobile phone and social network use by children, social innovation and energy efficiency, among others. For more information, visit [this website](#).

In general, the results from dialogue or the most significant input from interest groups through these channels is moved on to Telefónica Business Areas, occasionally provoking internal debate which results in improvement initiatives. Some of these actions originated in an intense dialogue promoted by our by our directives.



Spain

Customer care in real time on social networks

In May 2010, Telefónica introduced Movistar as a new commercial brand for all its business lines with a single idea: "A shared life is a richer life"

As a result, In Spain Movistar created a Movistar profile on the Facebook, Tuenti and Twitter social networks. Our profiles have continued to gain followers becoming a new media through which we can listen to our customers, answering their questions and incidents in the most direct, immediate manner possible. Their response encourages us to continue our commitment to these channels and keep improving.

The following are a series of statistics that show the growing importance of Movistar on social networks (close of 2010):

- Tuenti (tuenti.com/movistar): 442,941 followers.

- Facebook (facebook.com/movistar.es): 45,207 fans.

- Twitter (twitter.com/movistar_es): 21,427 followers.

- Forums (comunidad.movistar.es): 11,000 registered users.

In early 2011 we also extended the **Movistar forum** in order to include all the products and services we offer. The good results we have had from this forum which began as a pilot initiative in April 2009, focusing on Imagenio, the Spanish pay-TV channel, further demonstrate the value of this extension.

As far as the rest of the year is concerned, the challenge is to continue improving satisfaction levels as new customers join these forms of customer attention.



nachobruyel Mi cuarto #FF para @movistar_es porque ahora me caen mejor desde que me hablan de tú a tú y rápido en Twitter

12:00 PM May 14th via web



raulsanchez #ff a @movistar_es por la ayuda prestada durante esta semana con un problema que llevaba meses sin solución por parte de distribuidor!

11:34 AM May 14th via TweetDeck



AntonioGalian Cómo se lo curran los de @movistar_es en Twitter! Hay que decirlo...

12:01 PM May 15th via web

Responder Retweetear

Chile

@movistarchile raises customer satisfaction

Movistar Chile began its Twitter activities in April 2009 at a time when there were 10 millions Chileans participating on social networks. Our aim was to create open, positive, trust-based relations with our customers through this new channel.

Through @movistarchile we keep the followers of our new products and services up to date, as well as informing them of new developments at Movistar's customer loyalty programme, and, above all, facilitate the resolution of

incidents. Speed is one of the aspects that is most valued by our *followers* and which has seen customer satisfaction 20% higher than via traditional channels.

At the close of 2010 @movistarchile had close to 37,000 followers which by April 25 2011 had increased to 50,703, 40% more than Entel (30,565 followers) and 88% more than Claro (6,235 followers).

For 2011 the challenge is to generate more value for our social network customers, through new information and the interconnection of systems.



cristian_alonso

@movistarchile los técnicos ya arreglaron el desperfecto. Gracias, de verdad se pasaron, muy rápido el servicio.



fsabat

Hay que decirlo... Muy buena atención la de @movistarchile en Twitter. Gracias por la gestión, ya tengo mi nuevo iphone 3GS...

about 16 hour ago via UberTwitter



Spo0ks

@movistarchile Amigos les envié el MD con mis datos, muchas gracias por la atención ;)

about 3 hours ago via HootSuite

Brazil

Transparency 2.0

When, in 2009, the authorities prohibited the sale of Speedy, Telefónica's broadband product in Brazil, we launched the "Telefónica en Acción" improvement programme, seeing that we needed 2.0 channels in order to explain to customers and society in general what the programme sought to achieve.

To this end we created a *hot site*, a space on the net that allows us to respond to complaints and claims which appeared on social networks and publicise all the measures we are taking to improve Speedy.

In the midst of a recession, the majority of comments were negative. After an effective response, the positive or neutral posts on social networks exceeded the unfavourable mentions. This was the basis for our firm commitment

to these channels through information, customer care, prize draws, cultural competitions, videos, music etc, taking advantage of the experience we have gained in creating our profile on a number of networks: BLIP.fm, Facebook, Twitter, Twitpic, Flickr, YouTube (over 26,000 hits since its creation in September 2009), Vimeo and orkut. This initiative was first implemented in late 2009 and was consolidated in 2010 through the company telefonicanaweb. We also set up a specific channel on Twitter for consultations and incidents: @telefonicaajuda. The result has been closer links to consumers, who were full of praise for the way in which we seek to clear up doubts and solve problems.

The objective for 2011 is to extend the relationship with internet users and increase @telefonicanaweb followers through the positive posting of information on the cultural marketing of services and action via Twitter and Facebook.



Ecuador

Happy Geeks ☺

Movistar Ecuador is doubling its commitment to 2.0 channels in 2010 in order to reach new sectors of the public and attend to internet users in the most personalised manner possible through innovative ideas and a unifying message that creates an emotional bond with them.

To this end, throughout last year we strengthened our Facebook presence, passing from 13,000 to 83,000 fans in twelve months, and began to use Twitter (6,000 followers has made this a real channel of customer service), Flickr (106 photos and 6,000 views), YouTube (30 videos seen 23,000 times) and Scribb (84 files with 41,000 readers), all in a country with a population of just 14 million people and internet penetration at 18%.

The challenge for 2011 is to keep innovating and reach a larger public, exploring new platforms and further strengthening relationships, including more business areas within the sphere of social media. All of this means a coordinated approach featuring the areas Marketing, Customer Care, Communications and Institutional Relations in order to ensure Happy Geeks ☺, in other words, keeping the on-line community content and well attended to.

United Kingdom

The net as a tool to reduce the generation gap

Sabian Muhammad (@therealsabian), a 22-year-old Londoner sick of so many negative stereotypes regarding young people, was the inspiration behind the Telefónica O2 UK Why Do? project in October and November 2010.

Through a website managed by the new generations, adults asked young people about a number of matters in order to get to know them better and played an interactive game with them in which the user could calculate his or her "street age" and live the life of an adolescent.

The website got over 80,000 hits asking more than 1,200 questions on subjects as varied as sexual health or drinking alcohol to excess. During the campaign, more than 250,000 people interacted via Facebook and the web.

The project formed a part of the Telefónica O2 UK social programme "Think Big for Young People", the aim of which is to help young people make a real difference within their local community.

2.0 Tools for our professionals

Telefónica employees can now use 2.0 tools that have been created with a view to encourage participation and collaboration.

Comunica 2.0

The Comunica 2.0 project was launched in November 2009 in Latin America, beginning with an initial phase with **Wiki**, Telefónica's internal encyclopaedia, in order to compile the knowledge within the Company. Through this channel our employees can consult and publish information regarding products and services, projects, departments and the profiles of the company's collaborators. By the close of 2010, Telefónica had 3,600 registered users and over 2,700 entries. After the success of the first year it has been extended for 2011 as a best practice in Spain and Europe.

In the second phase, the initiative foresees the emergence of a **Blog Ecosystem**, with three types envisaged: corporate, departmental and personal, in order to best offer our employees an environment that favours debate and ensure greater work efficiency and an exchange of best practices. To date, the following blogs have been launched in Latin America: The Weekly, the Online Channel, Digital Leaders, Quality, Project Caribou and Ecuador Project Leaders.

A final phase envisage for 2011 foresees the creation of an **internal social network** that brings together all the Company's staff.

Among the benefits offered by Comunica 2.0 are the detection and channelling of talent within the organisation, the consolidation of a sense of belonging and the aligning of business objectives.

The **eKISS platform** continues to facilitate the transfer of best practices among Telefónica staff in all the countries in which the company operates. eKISS, with over 200,000 shared documents, bulletins and regular conferences, registering over 250,000 visits in 2010.

Sustainability Channels

In order to increase transparency and strengthen dialogue with our interest groups regarding Corporate Responsibility (CR) and Sustainability, in 2010 Telefónica set up a series of 2.0 Channels: a website (www.rcysostenibilidad.telefonica.com), a blog (www.rcysostenibilidad.telefonica.com/blogs) featuring 200 posts published in 2010, a Twitter account (www.twitter.com/rcysost) and channels on YouTube (www.youtube.com/rcysostenibilidad) and Flickr (www.flickr.com/rcysostenibilidad).

These channels were created within the Corporate Reputation and Sustainability Management Department in order to enter into dialogue on matters that are relevant both for us and our interest groups (material matters): energy efficiency, social innovation and childhood and new technologies and in 2011, stakeholder engagement, linking up with these groups in order to construct a stable relationship. Other matters related to the concept of CR and sustainability and its value are also being covered.



A **blog** is another participative channel that includes posts written by Telefónica professionals and other experts. This content allows us to promote conversation which mainly takes place on Twitter. The blog thus acts as a platform for news, trend analysis, surveys, practical advice etc.

Twitter allows us to listen, connecting us, informing and permitting dialogue. @RCySost, on behalf of the Twitter channel which we use to talk to our on-line audience, has become a point of reference within its environment, reaching over a million hits in March 2011 (@RCySost tweets appear over one million times on the *timelines*).

With a view to the future, the challenge we face is that of extending these channels to Telefónica operations within the various countries in order to encourage dialogue with local interest groups and keep building an ecosystem that takes advantage of the benefits and synergies offered by on-line and offline media.

Dialogue Ecosystem



09

BUILDING RELATIONSHIPS
BASED ON TRUST WITH
THE STAKEHOLDERS

With our professionals

In 2010 a Global Transformation project, bravo!, was launched. The aim of this project is to make Telefónica the best global communications company in the digital world

People are
the key to
Telefónica's
success

A single team

With this aim in mind, as a key leverage factor in the strategy, the Bravo People program has been developed in order to have "a team that is enthusiastic and committed, customer-oriented and aligned with business targets". These are the persons who have the ability and will to transform reality into something better; Telefónica is committed to making its employees experience this transformation with a common and shared view.

During 2010 and as part of its new brand strategy, Telefónica has reserved its role as "hiring brand" of all of its employees, regardless of the commercial name or geographical area where they carry out their work.

The Telefónica brand and the values that identify it (vision, talent, strength and commitment) are the unifying factors for over 285,000 employees in 25 countries, speaking 8 different languages. For this reason, work has been carried out during this year on a coordinated global initiative with all regions that meant to provide a unique and better experience to all of its employees.



The "Live the Experience" program was launched in 2010, with a personalised letter written by the Company's CEO, César Alierta, to all the employees, inviting them to participate in Telefónica's unique and different way of living and doing, experiencing behaviours that allow understanding ourselves and building relationships with each other to continue proving that we are a single team.

Our actions, in line with our values, constitutes the framework that defines the common behaviour of our professionals and determines the focus of HR management within the Bravo People program.



09 | 1

BUILDING RELATIONSHIPS BASED
ON TRUST WITH THE STAKEHOLDERS

With our professionals

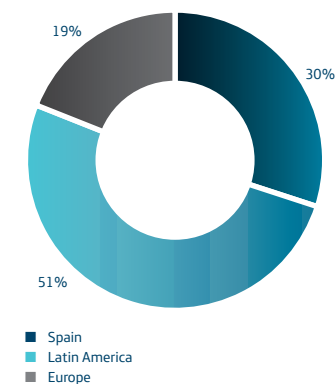
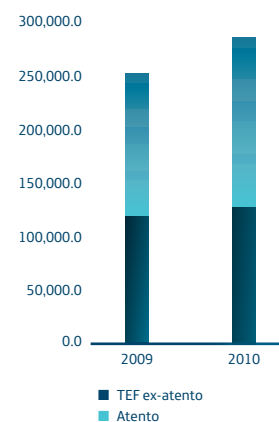


Our Professionals in Numbers

Staff evolution in 2010

	2009	2010	% var.
TEF ex-atento	125,170	133,210	6.4%
Atento	132,256	151,896	14.8%
Total workforce	257,426	285,106	10.8%

Distribution of Telefónica employees by geographical area



	2009	2010	Total variation	% var.
Spain	52,060	54,879	2,819	5.4%
Latin America	175,350	201,074	25,724	14.7%
Europe	27,964	27,171	-793	-2.8%
Other	2,052	1,982	-70	-3.4%

At the end of 2010, Telefónica had a total staff of 285,106 professionals. This means that, in a particularly complex year in the global macroeconomic climate, Telefónica was able to create a 10.8% increase in net jobs.

Excluding professionals of Atento -whose activity is substantially different from Telefónica's core business and therefore cannot be consolidated in the same way from a strategic point of view with the rest of the telecommunications services business of the company, in addition to being an asset whose partial disinvestment has been notified- the staff of professionals of Telefónica also increased with respect to the previous year by +6.4%.

This net job creation has occurred in most of its markets, most notably with a two-digit growth in Latin America, in line with the strong impulse that the company is experimenting in this region, both in capturing new customers and in revenue. It is also noteworthy that the business in Spain, where the macroeconomic situation has had worse consequences regarding job destruction, the year has ended with a staff increase of more than 5%, despite the fall in revenue.

Telefónica's staff distribution has evolved in line with the evolution of the business. Thus, Latin America, which is now the geographical area where Telefónica has the most customers and revenue, already contributes 51% of the telecommunications business staff (a percentage that increases to 70% if Atento is included).



Argentina
24,322

Brazil
101,920

Chile
10,301

Colombia
7,412

Ecuador
1,160

USA
284

El Salvador
243

Guatemala
4,870

Mexico
22,547

Nicaragua
353

Panama
432

Peru
17,401

Puerto Rico
544

Uruguay
799

Venezuela
8,486

Morocco
1,982

Slovakia
408

Spain
54,879

Czech Rep
8,316

Germany
5,297

Ireland
1,185

United Kingdom
11,845

Rest
120

Employee turnover

	2009	2010
Spain	1.59	1.42
Europe	15.71	18.04
Latin America	22.85	20.83
Total Telefónica	16.59	16.22

Note 1: Figures are expressed as total leavers in the period / average workforce in the period.

Note 2: Due to the different business nature of Atento and in order to comply with the transparency objectives and allow comparison with other sector companies, the figures are given for Telefónica as a whole excepting Atento. The figure for Spain only considers the fixed and mobile telephone companies.

Mean employee turnover in absolute terms has fallen in Spain and Latin America with respect to the previous year, so that for the Company as a whole it has decreased by 0.37 basis points. The increase in Europe is due to the performance of leavers in the Czech Republic, as other countries (Ireland, Germany and United Kingdom) have fewer leavers in 2010 than those in 2009.

Attracting and Retaining talent

The improved management and development of our professional's talents is one of the most important challenges for the Company. In Telefónica we work alongside people, investing in the development of a satisfactory professional career. In this respect the company has a programme to identify talent at the various levels of the organisation; to develop key professional skills; and to generate a meeting point which facilitates a company-wide knowledge network.

In this respect, Telefónica is continuing to develop a Skills Model better suited to the needs of the company, with six skills for management levels:

- Leadership.
- Management of diversity.
- Customer focus.
- Business vision.
- Results and Effectiveness.
- Innovation.

In relation to this model, and as initiative to promote the professional careers of the company's managers, 360° evaluation questionnaires are created every two years. The last one was passed in 2009 (see [Corporate Responsibility Report 2009](#)) and in May 2011 the process for the new model is already underway. This questionnaire is the same in all countries in which we are present.

Also, Telefónica continues to work on the evaluation and development of its managers, recognising their importance for the results of the company. Through the company-wide publication of job vacancies, and encouraging transparency when it comes to new opportunities for professional development we identify the best professionals, thus fostering mobility. In 2010, Telefónica published 39 new managerial positions globally. 20% of these vacancies were filled by candidates from within our companies. 50% of these candidates were expatriates.

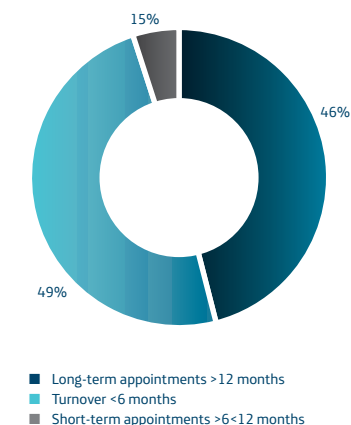
In Telefónica we have carried out several actions for making better use or developing the talent capitalised by our Company. Among the most notable of these are the talent mobility policy and the Mentoring program.

Talent mobility

Since 2008 Telefónica has had a Global International Appointment Management Programme in place, designed to promote the mobility of talent as a key factor in the personal development of our staff, as well as best ensuring a transfer of knowledge and good working practices between company bodies and countries.

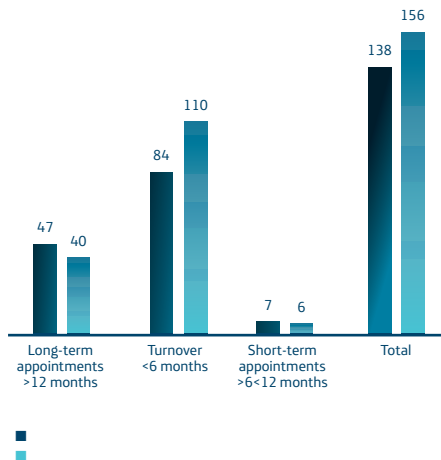
As shown in the following figure, in 2010 we continued the trend established over previous years, with long-term moves (over 1 year) becoming more frequent, closely followed by our rotation programmes (up to 6 months) and, finally, short-term international appointments (up to 12 months).

Number of assignees by appointment type in 2010



Therefore, in 2010 there was a total of 297 assignments. Of these, 52% are new appointments (156), representing a growth under than that of 2009 (54%). However, in 2010 rotations of up to 6 months experienced a considerable increase, as shown below:

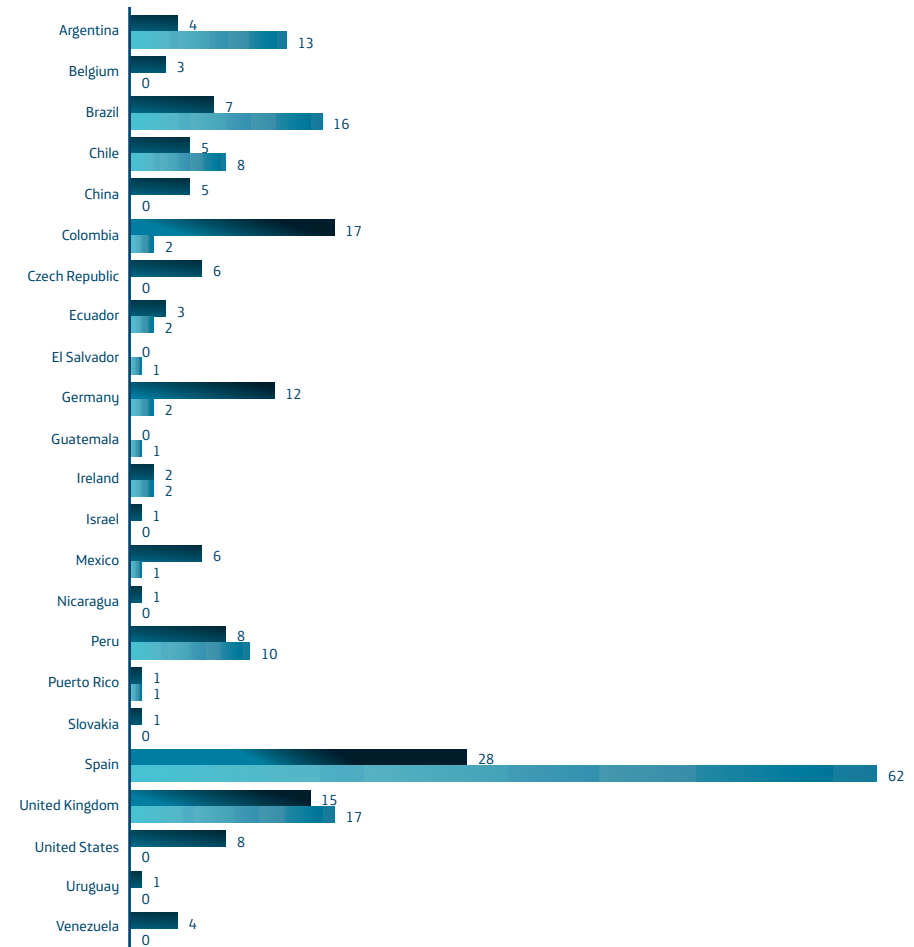
New appointments Comparison 2009-2010



Of all the new appointments in 2010, 59% corresponded to men and 41% to women. This means there is a greater balance than in 2009, where the split was 65%-35% respectively. This is due to the fact that in 2010 the number of women appointed increased by 23%, whilst the number of men remained stable.

As regards the country of origin and the destination of appointments in 2010, 45% of appointments originated from Spain, which in turn received 20% of the appointments. The UK and Brazil follow Spain at a distance as the countries of origin of appointees, with 12%, followed by Argentina with 9%. As regards the destination countries, after Spain, Colombia (12%) and the UK (11%) receive the most appointees, followed by Germany (9%).

Number of Long Term Appointments - Country



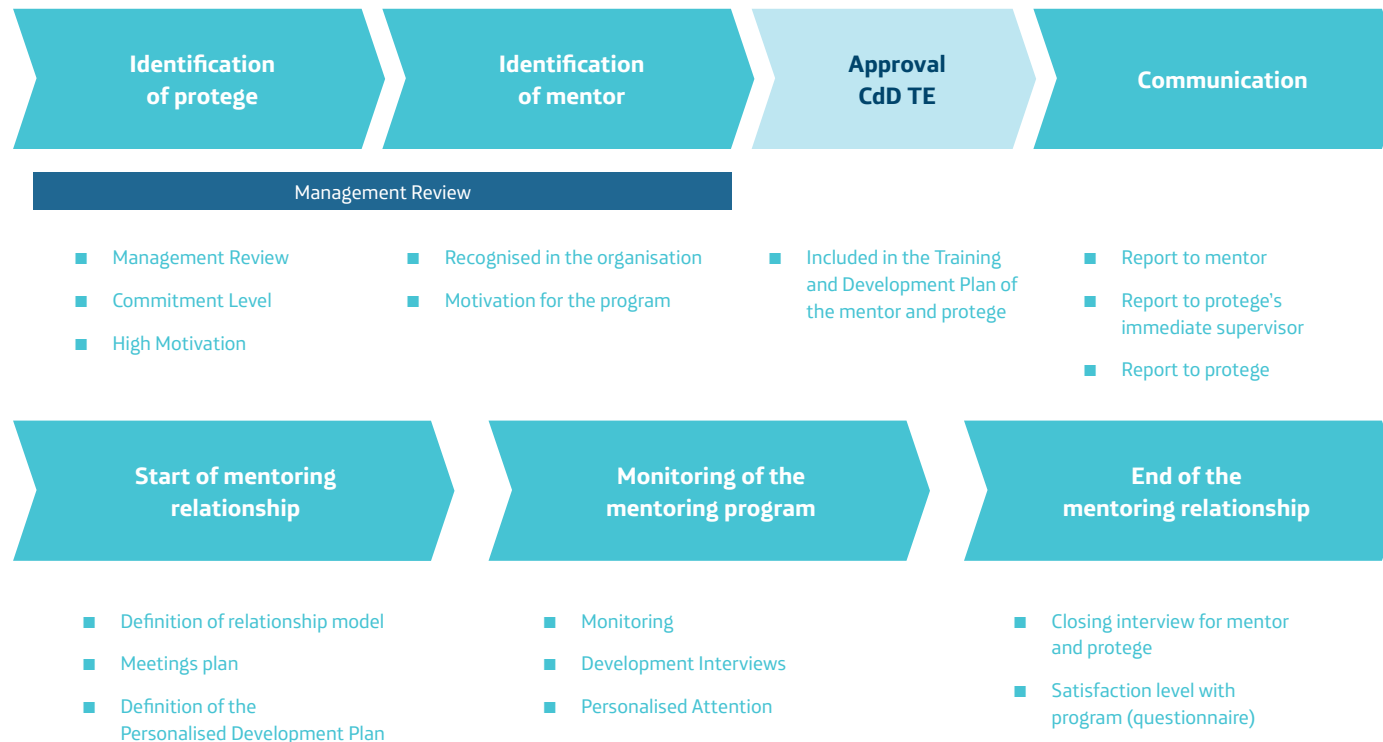
Mentoring program

Meant for professionals with a high contribution and potential, mainly in managerial and premanagerial levels, who are offered a chance to have an internal mentor who helps them obtain

a better global outlook, improve their management skills, manage their cultural adaptation, etc.

The mentor role is mainly played by Company managers.

This is a program that has proven its success since its implementation in Telefónica España (2002). It contributes to knowledge transmission within the company, promotes integration between areas, enhances alignment with Telefónica's strategy and increases motivation in both the mentor and the protege.

Mentoring process

Training and development

Telefónica invites its employees to experience what it means to be responsible for their own development, making the challenges we offer them their own and using them as an opportunity for personal growth. Our goal is to provide an ongoing training environment that helps our employees put their skills and abilities in practice, grow professionally and be ready for the short, medium and long-term challenges that must be faced to ensure Telefónica's sustainability.

The development cycle is based on a management based on skills that reflect the behaviour expected from employees and team leaders, in line with Telefónica's culture, values and challenges.

The value offer for employees is mainly focused on providing: presential training (courses, seminars, workshops, conferences, etc.) and eLearning; critical experiences (international assignments, project leadership, etc.); development opportunities in the same position; collaboration in projects; learning from others (mentoring, coaching etc.); and evaluation and self-assessment tools.

Learning efforts are oriented towards everyday work, in the belief that this is the most efficient and effective way to improve workers' performance and speed up their development, by facing challenges that imply leaving the comfort zone of each person and team.

We create a context and opportunities for extracting and applying the basic part of the training received by exposing persons to activities with a high contribution value.

Training: global figures

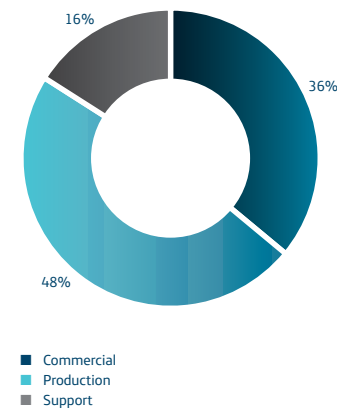
In 2010 we continued to train and develop the persons who form part of the company, in order to be prepared for present and future business challenges. The main figures describing the global training data in Telefónica for 2010 are shown below:

Training hours	Training expenses*
12,289,683	56.4

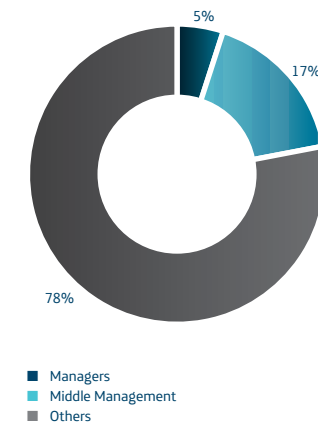
* Millions of euros.

During 2010, more than 12 million training hours were carried out, compared to over 10 million hours in 2009. This increase has been possible by a more efficient training management and the use of methods such as eLearning that allow offering quality training to a greater number of employees without increasing training expenses.

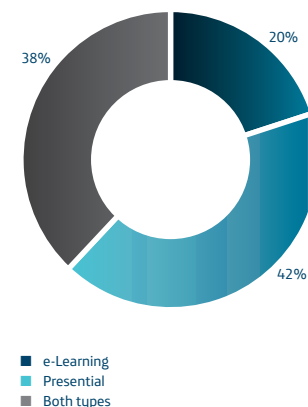
Distribution of Training Action Expenses FUNCTION



Distribution of Training Action Expenses LEVEL



Hours by Mode



E-learning

On-line training is increasingly important regarding both impact and cost, as these solutions are increasingly efficient and effective.

In this sense, e-learning contributes to transforming the company, offering all the company's employees quality content in line with the business needs, through collaborative learning that allows turning our employees and strategic partners into ambassadors of Telefónica and brings us increasingly closer to being an on-line company.

E-learning is also a vehicle for certifying all the external groups involved in Telefónica's operations (indirect channels, customer service, etc.). In 2010 we incorporated suppliers in contact with customers to e-learning through the e-Campus platform.

In 2010, we started implementing a school model driven by community managers, with open and regulated contents that form part of employee training programs. Noteworthy among these is the English language school, with a considerable impact on its target.

Number of users in 2010

Business	Staff in a+	Active Users	Penetration in total staff	Platform Hours of Use
Content	590	58	9.83%	316:40:37
Spain	35,335	20,020	56.66%	243163:42:34
Europe	7,923	2,275	28.71%	9485:09:00
Latam	54,158	24,886	45.95%	343777:14:59
Other Business	1,999	966	48.32%	4309:58:06
Tgestiona	6,484	3,506	54.07%	95276:54:27
Total	110,509	52,658	47.65%	714247:54:59

¹ Users not registered in the corporate e-learning platform of the UK and Czech Republic are not included.

International rotation program

With this program, Telefónica Latin America gives its employees a chance to spend a time working abroad, or even in a different functional area. Its main objectives are to: expand the vision of these professionals and promote their development by participation in critical experiences, as well as to transmit the knowledge, best practices and promote integration between the different companies of the region.

In 2010, Telefónica International has published 220 rotation projects, in which a total of 144 employees have enjoyed a 6-month or 1-year stay in another country.

Universitas Telefónica

Universitas Telefónica is an open space in which key members of the organisation experience the Company's culture and values, share skills and experiences, carry out conversations essential for solving everyday problems and building Telefónica's future, and establish links and relationships that make them feel part of the same team.

During 2010, the installations of Universitas Telefónica have housed 30 corporate meetings and reunions in which 2029 persons shared and discussed relevant and novel subjects in Telefónica. Among other events, this year saw the IV HR Global Reunion, the summit of the TOP 150 Managers of Telefónica, the 1st World CTO Forum, the Meeting of the Fiscal Management of the Group and the Head of Communications Meeting.

As a novelty, in 2010 China Unicom and Telefónica held their first joint training program in Universitas. Over 30 top executives of Telefónica (representing the corporate areas of all regions) and top executives of China Unicom participated in it. The initiative falls within the framework of the Synergies and Cooperation Program developed by these companies in order to develop mutual trust relationships and facilitate a better understanding between executives of the two companies.

In 2010, 15 global programs, 4 regional programs and 1 ad hoc language program were carried out. The offer is grouped about the six working areas of the Leadership Model: Customer and Market Focus; Innovation; Results and Effectiveness; Management of Diversity; Leadership; and Business Vision.

All the programs include theoretical and practical sessions and a participation approach. They are led by lecturers from world-renowned universities and business schools and by Company managers. Their purpose is to contribute towards the company's targets, share best practices and experiences, solve business problems and generate networking between participants.

In total, 1463 participants visited the campus in 2010. The distribution of participants by business and company is shown below:



Business Area	Participants
Atento	77
Europe	231
Telefonica Spain	260
Telefónica Latin America	456
Telefónica S.A.	393 ¹
Vivo	13
Iberbanda	15
China Unicom	17
NTT Docomo	1
Total	1,463

¹ Includes language program students.

09 1

BUILDING RELATIONSHIPS BASED ON TRUST WITH THE STAKEHOLDERS

With our professionals

Since its creation, Universitas has designed and carried out 36 training programs, in which over 5,500 professionals from all of the group's regions and areas have participated.

Universitas Telefónica contributes towards the Company's progress by the continuous development of our professionals, promoting a leadership style characteristic of Telefónica. In 2010, five Leadership programs were carried out: *Leading Self*, *Leading High Performing Teams*, *Negotiating Talent*, *CommunicAction* and *Executive Coaching*.

In Universitas Telefónica, Leadership is discussed in three levels: personal leadership, leadership of high-performance teams (*coaching* and facilitator skills) and Company leadership (complex organisations).

The professionals who participate in our campus are the future of the Company and the corporate university, the cultural transformation engine of Telefónica, where talent is shared and transformed into leadership.

One of the star programs of 2010 was "*Driving Profitable Growth through Customer Focus*". This is a hybrid consultancy and coaching program, meant to help managers make Telefónica customers become fans of the Company. By exchanging corporate success stories, general debates and workgroups on experiences, this program allows participants to accept their personal responsibility in the global strategy of Telefónica regarding the transition from transactional relationships to emotional relationships. In turn, this allows materialising the Company's vision and placing the customer at the center of the Telefónica's focus.

Universitas Telefónica constitutes a basic internal communication tool for the Group. With its programs, in addition to transmitting knowledge, it seeks to connect the company's professionals and establish a shared vision.

Universitas Telefónica uses the web 2.0 to track the training given in the campus and to establish a communication tool in the channels where is present thru blogs, groups in LinkedIn, Twitter, Facebook, YouTube, Delicious and slideshare.



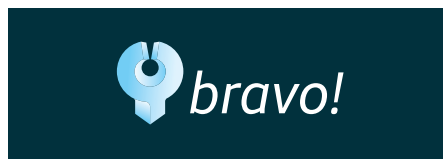
Recognition of the work by Telefónica's professionals

As part of its new global strategic programme, in 2010 Telefónica has launched the bravo! awards for all its employees. This is the first time that the company has undertaken an initiative to recognise the commitment, effort and good work of its employees internationally.

The candidacies presented in 2010, over 2,500, represent the recognition obtained among employees to an improved performance on both individual and team levels in Telefónica.

Spain has over 1,000 nominations, while Latin America and Europe each have more than 700.

In 2010 over 300 persons won a bravo!.



The bravo! recognition is the culmination of the different recognition programs present on a local and regional level in the different companies of the Telefónica group.

Employee satisfaction and commitment

Telefónica continues to support the satisfaction and commitment of its professionals. As part of its continuous improvement model, Telefónica is in constant communication with its employees, using internal channels to keep them promptly informed of agreements and organisational changes. In addition, Telefónica believes in bidirectional communication, and thus has created mechanisms not only to report to company professionals any aspects it considers of interest in the organisation, but also to obtain their views on the conditions of job execution, leadership style and general evaluation of the company by its employees. Noteworthy in this sense is the Climate and Commitment survey conducted annually among the entire staff, and the promotion of the confidential help channel available in the Company Principles of Action web site for reporting any incidents.

Labour climate

At Telefónica we are geared towards creating a working environment which enables personal and professional development of our employees, for which reason satisfaction surveys are conducted every year in all our companies.

The holding of an annual survey (Encuesta Anual de Clima y Compromiso - EACC), aimed at all of them, has as its goal the analysis of their satisfaction levels and commitment to the company. This survey records length of service in the company, a valuation of efforts and willingness to share their experiences in Telefónica with their workmates. The EACC is an on-line tool which enables the comprehensive management of the commitment: it measures its evolution, facilitates communication of results to the employees themselves and enables managers to monitor general and individual improvement plans.

The Employee Satisfaction Index (ICC) is drawn up on the basis of the annual survey, this being the average of favourable responses "I agree" and "I totally agree" to the 38 questions asked in it.

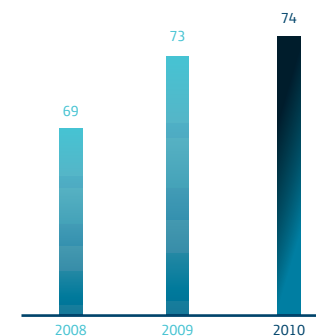
In 2010, and for the fourth year in a row, the same questionnaire was applied to all companies in the Telefónica Group, making it possible to measure their change and compare consolidated data for all regions.

A total of 94,866 employees participated in the survey, an increase of 1.6 per cent over the previous year, bringing participation to 75%.

Once again, the Company's continued commitment towards improving employee satisfaction and commitment is reflected in the result of the 2010 survey, in which the ICC increases for the third consecutive year and reaches 74%, 1 percentage point more than the ICC of 2009.

This follow up facilitates detecting strengths and weaknesses which turn into action plans to improve employee commitment. Up to now the results have been very satisfactory, as the levels of commitment of our employees have grown gradually in every country and globally.

Employee Climate and
Commitment Index (%)



Great Place to Work

The actions being carried out in all companies are not only reflected in the internal Climate and Commitment results, but are also being recognised externally.

Great Place to Work is currently one of the most prestigious rankings worldwide, analysing and auditing work environments in organisations. It has a history of over 20 years and is currently present in 45 countries.

It analyses the following aspects: credibility, respect, fairness, pride and camaraderie.

Great Place to Work

Ever more countries are choosing Telefónica as one of the best places to work.



Region/Company	Place in the GPTW 2010 league table
Latin America	
Telefónica Venezuela	1
Telefónica Ecuador	2
TM Colombia	2
Movistar Mexico	2
TM Argentina	3
Telecom	6
Telefónica Central America	8
Telefónica Chile	9
TM Peru	13
Terra Mexico	15
TSC	17
Terra Chile	18
TGestiona Peru S.A.C.	35
VIVO	Among the "100 best companies to work for in Brazil"
	17th among the "70 Best IT and Telecom Companies to work for"
Terra Brazil	41st among the "70 Best IT and Telecom Companies to work for"
Telesp	42nd among the "70 Best IT and Telecom Companies to work for"
ATENTO	
Atento Central America	2
Atento Argentina	4
Atento Mexico	4
Atento Peru	27
Europe	
Telefonica O2 Ireland	6
TISA (Headquarters)	7
Telefonica O2 Germany	The Best list Deutschlands Beste Arbeitgeber 2010

Conciliation and flexibility

At Telefónica we promote new forms of work which provide greater flexibility to our employees, making it easier to reconcile personal and professional lives.

We are also concerned with improving their well-being, from the point of view of both health and leisure; in many cases these advantages are extendable to their direct family setting.

Fair wages

The fixed compensation that Telefónica pays its employees is in all cases above local minimum wages. In many cases this fixed remuneration is complemented with a package of social benefits appropriate for the markets in which we operate.

The wage incentives and benefits of our professionals include: pensions plan, medical insurance, meal vouchers, financed advances, offers of Telefónica products and services, grants for studies, nursery services, gym, periods of leave from work, free days for volunteering, telework, guarantee to purchase a house, holiday plans, mobile telephones and smartphones, distribution of profits based on Telefónica results, payment of bonus by objectives and Telefónica share option programmes.

In 2010 the Global Plan for Employee Share Purchases was launched, which was approved on 23 June 2009 by the Ordinary General Shareholders' Meeting of Telefónica S.A. for a maximum amount of 50 million euros. Through this plan we offer the employees the possibility to purchase Telefónica, S.A. shares with the commitment by Telefónica of giving the participants a number of shares for free as long as they meet certain requirements. The registration of employees in the plan was totally voluntary. The registration period started on 26 May 2010; at the end, more than 40,000 Telefónica Group employees in 20 countries had signed up.

The company also has incentives plans for more than 1900 managers from the 25 countries where it operates. In 2010 the plan approved in 2006 by the General Shareholders' Meeting which was incorporated into the Telefónica wage policy in 2006 expired, in accordance with the practices of the large majority of international companies. This plan, with 750 million euros, had the aim of retaining talent and linking the remuneration of the manager to improved productivity and improved profitability for the shareholder.

Once the 2006 plan concluded, the company proposed at the General Shareholders' Meeting of 2011 the approval of a five-year plan split into three cycles and for an amount of 450 million euros. It is important to note that the amounts highlighted are maximum amounts and that the 1900 managers to whom they are aimed have their wages virtually frozen. To be able

to access this the company needs to comply with an aim several years ahead and this result needs to be equal or greater than that obtained by the remaining companies in the sector (Dow Jones Global 50 Titans Telecommunications Index).

Telefónica carries out market wages surveys periodically to maintain a competitive position both to retain and to attract talent.

Freedom of association and social dialogue

At the present time there are a number of international treaties which include (directly or indirectly) freedom of union rights. These include the 1948 Universal Declaration of Human Rights or the 87 International Labour Organisation Agreement, which is dedicated exclusively to this issue. Each and every one of these treaties recognises Principle 3 of the Global Compact as a fundamental workers' right.

Telefónica is working to ensure that all its workers - both direct and indirect - are able to form or join the union of their choice, without threat of reprisals or intimidation, in accordance with the local legislation of the countries in which they are operating. During 2010, at Telefónica we maintained and developed this undertaking with all our companies' employees regardless of the country in which they work, guaranteeing rights of association and worker rights.

Freedom of association

The Company is guided in this area by its Business Principles, and by the Social Protocols of International Agreements and the Code of Conduct it has agreed with the Union Network International (UNI).

At Telefónica we respect the privacy of choice of employees over union affiliation, for which reason we do not request data on this affiliation. As a sample of the dynamism of the company's union activity, we highlight that 157,849 employees voted in Telefónica union elections which meant more than 55% of the total workforce. All these selection processes took place with freedom and total guarantee.

Our labour relations policy in **Latin America** favours transparent communication with our employees. With this aim, we boost initiatives to guarantee the participation and welcome suggestions especially on training matters, opportunities for professional development, organisational changes and compliance with business principles.

The union relations in our Latin American companies are based on respect for legitimate representatives and compliance with international regulations. We guarantee permanent dialogue in the countries by establishing relationships based on trust. In 2010, the union relationships took place normally and with a low level of conflict. Over this period we made progress on union dialogue and perfecting of rules and policies regarding the relationship with contractor companies.

In all the countries in which Telefónica operates in **Europe** there is union representation on the workforce, except for Ireland. The role played in Ireland by People Forum in the consultations and information mechanisms necessary to carry out the restructuring of the organisation was notable. People Forum is an association created in 2009 which represents 100% of our employees in Ireland, with the aim of involving the company's employees in decision-making and improving dialogue methods and improving dialogue methods between the parties.

Collective bargaining

In 2010 the fact that the percentage of Telefónica employees with working conditions regulated by collective agreements increased by more than two percentage points, up to 75% of the workforce, was notable. Therefore, the number of workers who joined the Telefónica's collective agreements increased by 27,000 people.

Within the scope of Telefónica **España** we commenced three collective bargaining negotiations; first in Telefónica Soluciones, prevailing until December 2010, which ended successfully; a second in Telefónica Móviles España which meant the extension of the prior agreement; and a third in Telefónica de España in which, after three months of negotiation, it was not possible to reach an agreement to extend the prior agreement. In 2011 a new process of collective bargaining will open in which the company, with its best will to reach agreements, will make its proposals within the new labour framework which will enable us to maintain our competitive position on the market.

In April 2011, Telefónica told its investors about a plan to reduce costs and improve productivity. This plan considers, among other measures, suppression of 20% of the work stations of the Spanish subsidiary, mainly in the landline business. It is notable that the history of Telefónica Employment Regulation File demonstrates that workers signed up to it have always done so under the best possible conditions. In addition, Telefónica has always made staff adjustments with the complete agreement of the majority unions, respecting the principles of voluntary nature, universality and non-discrimination, in addition to, as is obvious, the approval of the Ministry of Labour.

It is in this framework of negotiation and social dialogue over the last few years, where Telefónica wishes to tackle the plan to reduce costs and improve productivity and it wants to do so, furthermore, with the highest level of consensus to ensure both the continuity of Telefónica España employees and its competitive position on the market and to reconcile the productive model.

It is worth recalling that in 2010 and in Spain, approximately 35,000 workers were directly linked to Telefónica's core business (28,000 in the landline business, 4,000 in the mobile business and approximately 3,000 in related businesses such as Telefónica stores, cabins,

etc.). The landline business manages 13.5 million telephone lines and 6 million ADSL lines while the mobile business serves more than 24 million lines. Therefore, compared to its direct competitors in Spain, Telefónica has more than twice the number of employees than the other land line, ADSL and mobile operators together.

Representation of the employees on health and safety joint committees

A notable aspect in the set of regions where we operate, is the high representativity and participation of workers on the workplace health and safety committees (approximately 200 committees globally). These committees periodically debate, consult and regulate the actions of each company on the aforementioned issue.

Some of the issues tackled in these joint committees are: the assessment of work-related risks; the provision of protective equipment and work clothes; information and training on occupational hazards; "safe work" operations and procedures and periodic reviews and inspections of facilities and activities.

By means of these joint forums, Telefónica employees are represented at the highest level, promoting the improvement of their working conditions and the safeguarding of their physical, mental and social well-being.

The Internal Communications model

The Internal Communications Model established in the Corporate Internal Communication Committee, fostered by the Technical General Secretariat of the Chairman's Office and by Human Resources, continues to lead the global communications strategy and the editorial line of corporate channels.

Telefónica has continued to promote the different internal communication media available to employees. Among these stand out the corporate magazine, SOMOS, and the electronic and audiovisual means, such as the Telefónica daily journal, the TV journal, the Corporate Intranet, the District C Portal, the Telefónica España portal, the Manager's Portal and SOMOS, the Global Knowledge Network "eKISS 2.0", the Information Security Awareness Program, the bravo! program, and several microsites for subjects of interest to employees, such as the VIII Investor Conference, the Volunteer's Day, "ATAM 35 years" and the II Quality Conference.



Personal Development Cycle in Latin America

In 2010, Telefónica Latin America agreed on the Personal Development Cycle that will be applied in all companies of the Latin America Region. This program establishes a common framework and language for planning, evaluating, providing feedback and establishing the individual development plans for each employee.

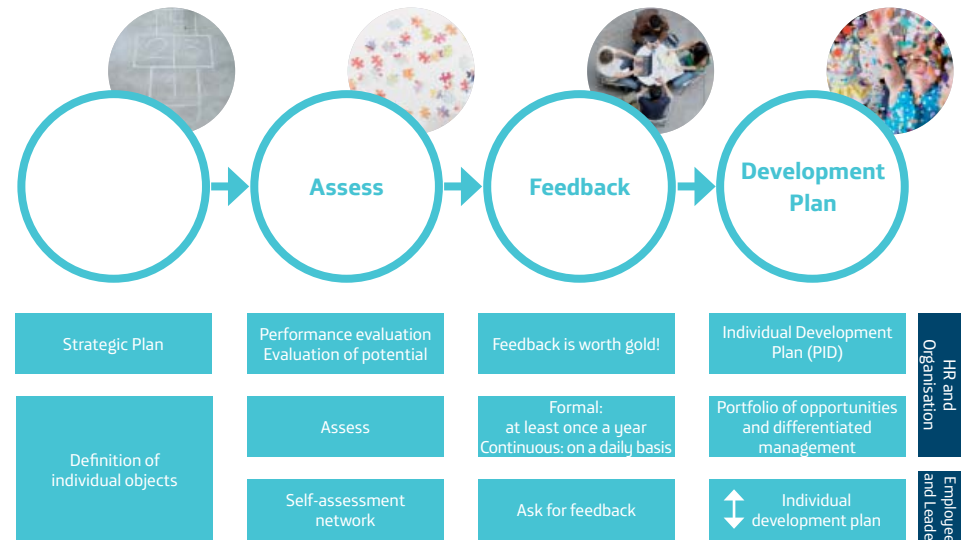
The Personal Development Cycle benefits over 50,000 people throughout the region, who will be invited to take a leading role in their development, taking advantage of the opportunities, challenges, tools and training provided by Telefónica to carry out their customised development plan.

Scheme of the Personal Development Cycle:

Personal Development Cycle...

A common framework for all Telefónica employees, in order to make global assessments and built personalised development plans.

Providing a continuous learning environment to help employees grow and be ready for future challenges.

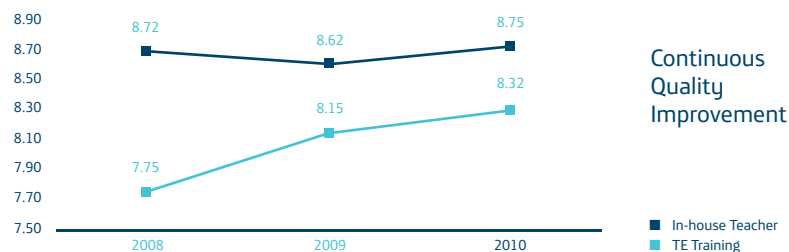


In-house Teacher in Telefónica España

One of the most important leverage factors for achieving the objectives of Telefónica's bravo! program in its four dimensions (Customer, Offer, Platform and Culture) is training. In this sense, Telefónica España has designed a differentiated training offer, focused on development and oriented towards the professionals of the future by means of a training model that evolves to adapt to the business needs.

In this model, one of the essential parts is the figure of the in-house teacher, who acts as a transformation agent for the business model and already covers 65% of the training given to our professionals. They collaborate as presential teachers, remote tutors, authors, script writers, energisers, etc. and in 2010 assisted over 3,000 professionals of Telefónica España, with a quality rating of 8.75, representing an increase of 1.5% with respect to 2009.

Evolution of quality index



The figure of the in-house teacher is essential for achieving the training goals of Telefónica España, so that the company maintains a policy of service and fidelisation of these teachers including prizes and awards, as well as debate sessions, personalised assistance and a 2.0 community in order to increase communication.

Some of the most relevant actions in the field of training with in-house teachers in 2010 were:

- Technical Excellence School

Excellence in the Technical Excellence school is achieved thanks to the in-house teachers

- Over 35,000 teaching hours
- Over 200 presential in-house teachers
- 30 tutors
- Objective: seeking Excellence in the Technical Knowledge Management in the organisation
- The Customer's Voice

In-house teachers realise the Commitment to our customers by means of this bravo! initiative.

- 115 workshops carried out
- 8 committed teachers
- 1,175 students for all areas of TE
- Objective: complete customer orientation

The training offer for 2011 follows the same plan, centered in continuous training, specific training by collaboration profiles, business-related training, training monitoring, ideas lab and conference cycle (with topics centered on communication, motivation, strategy, new technologies and commitment). In addition, local workshops were carried out each quarter in Barcelona, Valencia, Madrid, Sevilla, Las Palmas, A Coruña, Zaragoza and Bilbao.

With our customers

The number of Telefónica customers has been increasing year-on-year through acquisitions and organic growth

Our
customers
have
increased
by 87% in
five years

Customers at the heart of everything we do

Following the pilot projects carried out in Chile, the Czech Republic and Spain in the previous year, in 2010 we launched our Customer Experience Programme in every country in which Telefónica operates. The Corporate Centre was responsible for implementation of the programme, with local refinements for each market in order to build emotional links with all of customers through our local brands.

The objective of the programme is to share and transfer best practices relating to the points identified as priorities for increasing emotional ties with our customers. In order to achieve this, in 2010 we created our Best Practice Library of Customer Experience which is shared by all Telefónica operators. In addition, we also created our Collection of Stories, which is also available to the whole Group, where we document powerful experiences and anecdotes relating to improving Telefónica's customer experience.

In this context, we should also mention the success of the Quality Convention held in Madrid in 2010 which had over 3,000 participants in person in 64 halls in the 21 countries in which Telefónica has operations, including the headquarters of the Telefónica University in Barcelona. In Chile, 2 December was designated as "Quality Day" to coincide with the Convention.

As a further example of the commitment of Telefónica staff to focusing on our customers, the Quality Department received 9,249 responses to a survey of employees to find out their opinions about our company's customer focus. The answers we received from our employees gave Telefónica a very high score for important aspects of the company's engagement with its customers, such as: "have you noticed an increase in Telefónica's focus on customers?" (7.9 out of 10); "Do you believe that your managers take the customer into account in their decisions and communicate their importance?" (8.0 out of 10); and "Would you recommend Telefónica products and services to your friends and families?" (8.7 out of 10).



Our customers in figures

	2009	2010
Figures in thousands		
End Customer Accesses	260,510.2	282,994.9
Landline telephone accesses ¹	40,606.0	41,355.7
Internet and data accesses	15,082.5	18,611.4
Narrow band	1,427.5	1,314.1
Broadband ²	13,492.6	17,129.6
Other ³	162.4	167.8
Mobile accesses	202,332.5	220,240.5
Prepaid	142,806.6	151,273.9
Contract	59,525.9	68,966.6
Pay TV ⁴	2,489.2	2,787.4
Wholesale accesses	4,095.3	4,637.4
Rented loop	2,206.0	2,529.2
Shared loop	447.7	264.0
Disaggregated loop	1,758.3	2,265.3
Wholesale ADSL ⁵	463.4	687.4
Other ⁶	1,426.0	1,420.7
Total accesses	264,605.5	287,632.3

Notes:

- Year-on-year access growth is affected by the disconnection of customers in December 2009 and the second half of 2010, and because of the inclusion of some 2 million HanseNet accesses from March 2010 and the exclusion of Manx Telecom accesses from 1 July 2010.

¹ RTB (including TUP) x1; Basic Access ISDN x1; Primary Access ISDN Digital Access 2/6 x 30. Includes self-consumption. Includes all the "fixed wireless" accesses. Includes Voice on IP and Free ADSL.

² ADSL, satellite, fibre-optic, cable modem and broadband circuits.

³ Other non-broadband retail circuits.

⁴ Cable television accesses + IPTV television accesses + satellite television accesses (DTH).

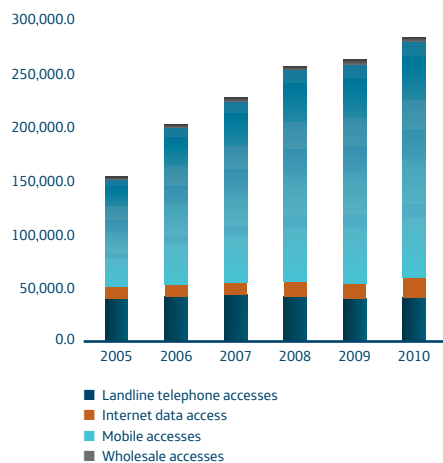
⁵ Includes loops rented by T. O2 Germany.

⁶ Circuits whose end customer is an operator. Includes Wholesale Line Rental (WLR) in Spain.

Our increased commercial activity in the year enabled us to achieve a total of in excess of 287 million accesses (+7.2% year-on-year in organic terms).

Total additions were up 13.3% on the year, whilst churn remained stable. Our commitment to expanding our customer base and increasing their value resulted in a robust increase in mobile broadband accesses, which now account for 10.1% of the Group's mobile accesses, up 63.9% year-on-year, together with retail landline broadband accesses (organic growth of 10.9%).

The increase in mobile accesses (+8.9% year-on-year organically) was driven by the positive performance of the contract segment (+15.9% year-on-year organically). As a result, 53% of the net increase in 2010 relates to the contract segment, which now accounts for 31% of total mobile accesses.



The total number of Telefónica customers is increasing every year, as a result of both acquisitions and organic growth: customer numbers have increased by over 87% over the last five years. A highlight of this growth is the ever increasing proportion of mobile customers in all markets: this increased from 64.5% in 2010 to 76.6% by the end of 2010, driven both by increased market penetration and by the better services offered by smartphones and M2M.

Customer satisfaction

Here at Telefónica, we are well aware that indices of perceived quality and customer satisfaction provide an advance indicator of the company's financial performance a few months later. This is why measuring customer satisfaction is built into the company's sustainability model.

In 2010, Telefónica's Customer Satisfaction Index (CSI) hit a historic high at an aggregate of 7.13, up 0.15 points on the end of 2009, confirming the upwards trend observed over recent quarters.

At the end of the year, Telefónica was the market leader in customer satisfaction, with a +0.06% advantage over its nearest rival. Likewise, another record was set regarding the percentage

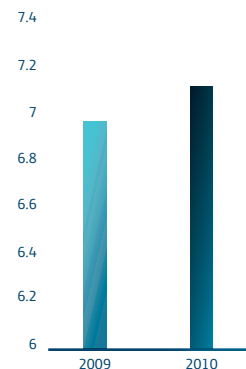
of unsatisfied customers, which at a year-to-year level decreased by -3.03 points, down to 10.29% at a global level, confirming the downward trend that has been noted during the whole year.

Spain was the region with the highest perceptual CSI growth (+3.8%), consolidating its advantage over its competitors, as the gap increased by +0.28 points. Our advertising's clarity and credibility were two of the key aspects that improved the most throughout 2010, as well as our commitment to rewarding customer loyalty, and the increased product value and promotional clarity. It is worth highlighting that this substantial improvement has been consolidated in a difficult economic environment which affects the consumption habits of individuals and families.

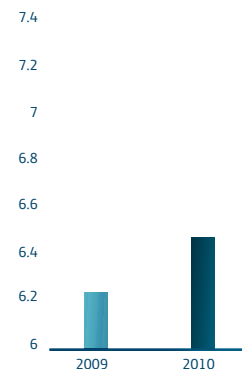
In the European region, Telefónica increased its CSI by 0.09, to reach 7.39 points, based mainly on strong performance by operations in the United Kingdom, Ireland and the Czech Republic. This excellent CSI performance took place in a more competitive environment, with margins over competitors squeezed in nearly all markets.

Although CSI was virtually flat compared to December 2009 in Latin America (7.54 in 2010 compared to 7.55 in 2009), the gap over our competitors increased by +0.11 points, with the landline business in Brazil reporting the largest increase on the previous year, recovering its leadership in the sector and increasing its CSI by +0.83 points.

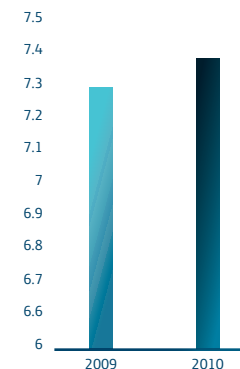
CSI Telefónica S.A.



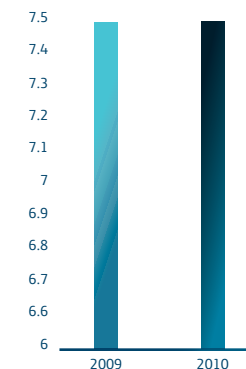
CSI Spain



CSI Europe



CSI Latin America



Dissatisfied customers

During 2010 we worked on the identification of the levers which can have an impact on the customer satisfaction of dissatisfied customers, designing and implementing actions plans at a segment level. As a result we have achieved a major reduction (2.7 percentage points), at an aggregate level, in our percentage of dissatisfied customers to 10.29%. This reduction took place in 3 geographic areas: Spain, Europe and Latin America.

The Customer Ombudsman Service and complaint management

In 2010 our Customer Ombudsman Service (COS) in **Spain** managed 6,407 cases, 25% more than in 2009; this increase in activity was slightly lower than in previous year, but continues the upward trend since the service was launched. It is important to highlight that 82% of these cases were resolved in favour of the customer.

The COS is an independent part of our business which gives our customers access to a higher authority to deal with their complaints and receive an objective solution, if they are not satisfied

with the response received from the business' customer service bodies. Telefónica is the only telecommunications operator in Spain to have voluntarily created a second body of this type.

In Spain in 2010, the COS boosted its mediating role in complaints by companies, acting as a channel for communication and understanding between the customer and Telefónica in order to promote positive relationships.

There was also an innovation in working procedures in 2010 with the creation of an urgent process to manage complaints related to customer privacy, establishing direct communication mechanisms with the areas involved so that the customer can receive a satisfactory response in the shortest possible period.

In addition to administering complaints from our customers, the COS produces improvement reports on sensitive processes relating to customer satisfaction, such as analysis of new products like those related to Mobile Broadband. In addition, it also sends these reports to the Board of Directors of Telefónica S.A.'s Quality and Customer Service Commission. We should also note the efforts made in 2010 to increase the transparency and clarity of information sent to our customers.

In **Brazil**, 11,323,498 complaints were dealt with in 2010. The Ouvidoria (previously known as the Ombudsman) resolved 86% of these within a maximum of 5 working days. It is worth highlighting that the trend over the year was positive, with December reporting the best performance in the year, with 87.7% of complaints resolved in less than 5 days.

In late 2010 we created a new "customer ombudsman" department in Venezuela, becoming the first and only telecommunications operator in the country to have proactively created such a unit. This new department provides an effective response to complaints and suggestions from customers, and so reinforces our other conventional channels.



Clarification of tariffs and billing

In 2010, Telefónica launched a number of new initiatives for our customers in order to provide increased clarity in billing and the tariffs contracted.

There were a number of initiatives in **Latin America**, including the sending of an SMS when mobile data consumption reached 5 mb and the unification of tariffs for ATIS customers in Argentina; the launch of filter and graphic services for our customers to enable them to manage and monitor their consumption by comparing this over the last 6 months in Brazil; the possibility to group bills and cycles in Chile; consumption control measures introduced in Colombia and Ecuador; the elimination of fractional rental in Peru; and an outbound initiative or "first bill call" in Mexico to clarify our new customers' doubts about information in their bills.

Another highlight was our initiative in Ecuador to train 754 executives as "Billing experts", in order to give our customers greater reliability.

In **Europe** in 2010, we undertook a range of actions to clarify our pricing and billing in all countries. In Germany, we automatically sent an SMS with information on spending and the day it would be charged; we connected our on-line bill to a FAQ section; and we eliminated 100% offset charges. In Ireland we implemented O2 Total

Transformation of our Customer Service Centre in Spain

Our Customer Service Centre in Spain (CAT after its Spanish acronym) deals with over one million calls per month, 24 hours per day and 365 days a year. The majority of the calls are related to advice on Internet usage and support in helping to configure ADSL-related equipment, together with value-added services such as free email accounts and security products marketed by Telefónica and Imagenio.

In 2010, we undertook a transformation of our CAT as part of our Customer Experience Programme. This transformation process was established as a priority for service and customer care quality; it is built around three focal points:

Customers: with the objective of contributing to increasing customer satisfaction and being our strongest sales point.

Companies: with the objective of being the most efficient and productive, and contributing to reducing operating costs to make us more competitive for the customer.

Markets: in a permanent search for new ways of generating revenues linked to improved customer satisfaction.

Some of the most important projects in this transformation process include:

Diagnostic tools in the front-line of customer service, which have increased the resolution of incidents during initial contact by 13 percentage points, to 74%.

Improving the warmth of contact, through identification of bad practices and improving vocabulary and handling and listening to the customer, resulting in a 1.3 percentage point increase in the perception of the friendliness of the tele-operator.

Proactive customer contact, through personal calls to the customer if they show any dissatisfaction in the on-line survey *and other proactive, automatic surveys*.

Appraisal of tele-operators with an impact on their variable compensation, with 70% of their variable compensation depending on the satisfaction of customer's dealt with.

Dynamic platform control, with the objective of ensuring the customer is routed to the best available agent with the minimum waiting time possible.

These measures have made a clear contribution to a continuing increase in the satisfaction felt by the customers of Telefónica España.

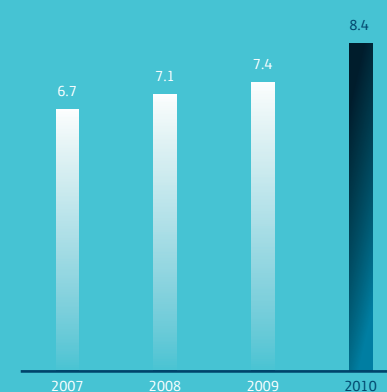
The increase in the perceived quality of customer service in Telefónica España was demonstrated in the results of the Third Customer Service Study in telecommunications by ADECES (the Pro-Civil, Economic and Social Rights Association), which

assessed both commercial and technical service. According to consumers, Telefónica offers the best customer service in the sector. In terms of the subjective perception of customer service, Telefónica is in first place (with Telecable) in terms of treatment, customer cooperation, the appraisal of tele-operators and service.

Telefónica has the most highly valued "Technical Assistance" service thanks to its after-sales service at home and free service from the ADSL CAT.

Telefónica also rated highly for its best practices in terms of transparency about the technical limitations in ADSL offerings (length of loop, etc.).

ADSL CAT



Business, which includes all landline and mobile charges in a single bill, and we launched a "one stop shop" which includes mobile and fixed-line services with a flat rate for the company sector. In May we launched a flat rate SIM-only system for our Pay&Go customers in the UK.

In January 2010, we reached an agreement with the Department for Work and Pension (DWP) in the UK under which people who contact the DWP Customer Service Department are not charged. The DWP mostly serves the most vulnerable people in the UK, such as the unemployed, the elderly, the disabled, etc.

In **Spain** in 2010 we launched a new billing system for our mobile business based on technological development, integration into the business model and functional evolution; we also launched our first flat-rate multi-device data plan which enables customers to use the Internet using the new iPad with an iPhone or other smartphones, at no extra cost.

We continued our policy of automatically improving services for our landline customers at no additional cost (free change of ADSL connection speeds, elimination of charges for keeping the same telephone line when changing address, and free changes to the owner of the telephone).

Other fresh initiatives in Spain also included our Central Cost Manager for our international customers, which gives rapid and intuitive access; displays information in intelligent reports and graphics; enables a range of parameters to be selected; provides summary information; exploration of trends; languages, etc.

Telefónica sees the electronic bill as a way of combining its commitment to clarity of information and the environment. Telefónica sees the electronic bill as a way of combining its commitment to clarity of information and the environment. As a result, we are progressively implementing our e-bill in all countries where this is permitted by current legislation. This now exists in Germany, Argentina, Brazil, Chile, Colombia, El Salvador, Spain, Guatemala, Ireland, Mexico, Nicaragua, Panama, the United Kingdom, the Czech Republic and Venezuela, serving 16.8 million customers, 8.3% of all customers in the countries in which it has been implemented.

Voluntary information codes for our products and services

Telefónica de España is a partner of Autocontrol, which means that it applies Autocontrol's Code of Advertising Conduct, which is based on the International Chamber of Commerce's Advertising Best Practices Code, in all of its communications. Autocontrol also certifies the Company's Social Responsibility in this area and the absence of any sanctions in relation to compliance with resolutions by Autocontrol's Advertising Jury.

New products and services launched

For a full list of all the products and services launched by Telefónica in each of its markets over the last year, [click here](#).

The Telefónica Ambassador in Peru

In July 2010, we launched our new "Telefónica Ambassador" channel in Peru with the objective that all of our staff in the country would become part of the solution to our customers' needs. To this end, we held induction workshops which were attended by 4,700 Telefónica employees in Lima and the provinces, at which we provided training in and promoted 7 business principles: we listen to the Customer without interrupting; we believe the Customer; we accept responsibility and offer apologies in the name of Telefónica; we do everything possible to solve the problem; we make sure that the solution becomes reality; we inform the Customer when the issue is resolved; and we thank the Customer for having communicated with us, as this has helped us to improve.

In addition, our project in Peru reinforced prevention through a number of actions: monitoring of messaging reports in the 10 districts with the highest rates of complaint; optimisation of distribution processes with geo-referencing of receipts; bringing forward the sending of digital invoices; etc. It is worth noting that the time for identifying incidents and taking corrective measures has been reduced, with a 37% reduction in the number of complaints lodged.

In the Company segment, we also implemented our Commitment Based Service (ABC after its Spanish acronym), which focuses on four areas: customer relations; internal coordination; management of collaborating companies; and management of indicators.

With our community

Telefónica is a driver of economic, technological and social growth in the countries in which we operate

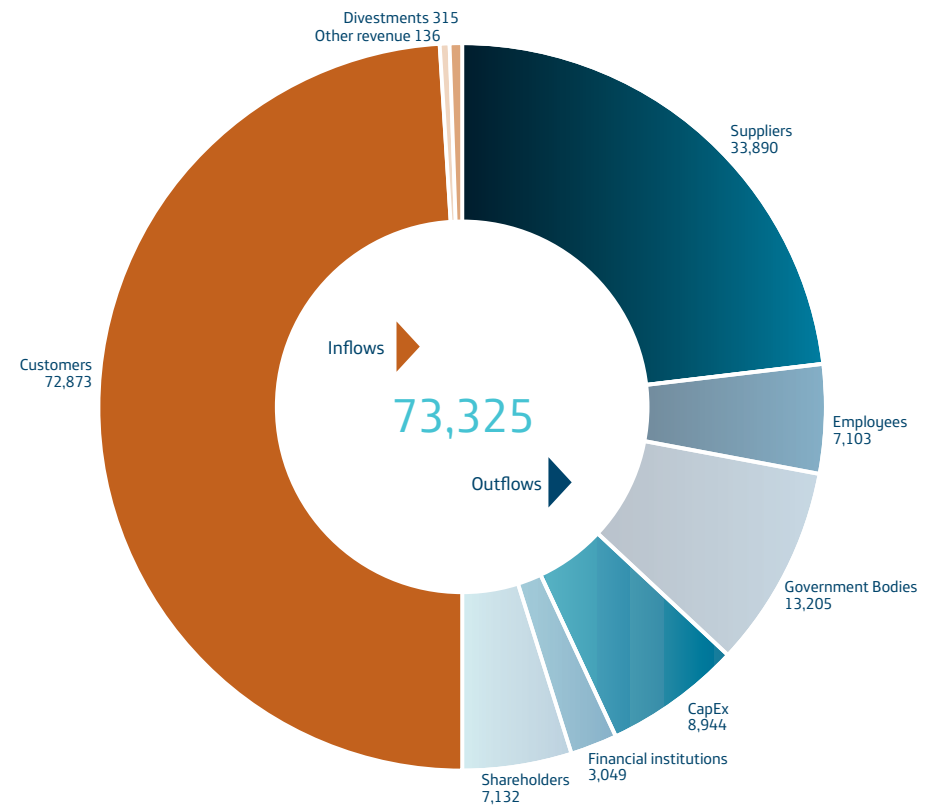
In 2010, the
Company created
wealth valued at
73,325 million euros

Progress driver

In 2010, Telefónica increased its role as a driver of progress in the societies in which it operates by increasing the size of its share in the global economy by 8.3%.

The increase on the previous year, both in terms of revenue from customers and from divestments and other concepts, enabled the Company to increase its remuneration to all its stakeholders: employees (+10%), shareholders (+23%), suppliers (+10%) and government bodies (+10%), and to invest more resources in guaranteeing the future of the Company (+18%). One highlight was the decrease in outflows to financial institutions (-41% compared to 2009) as a result, mainly, of improved performance of exchange rate differentials.

The increase in inflows in 2010 was due to the high degree of diversification in our commercial offering. There were particularly significant increases in Latin America and Europe, with a strong improvement in revenues from mobile data services in all markets.



Notes:

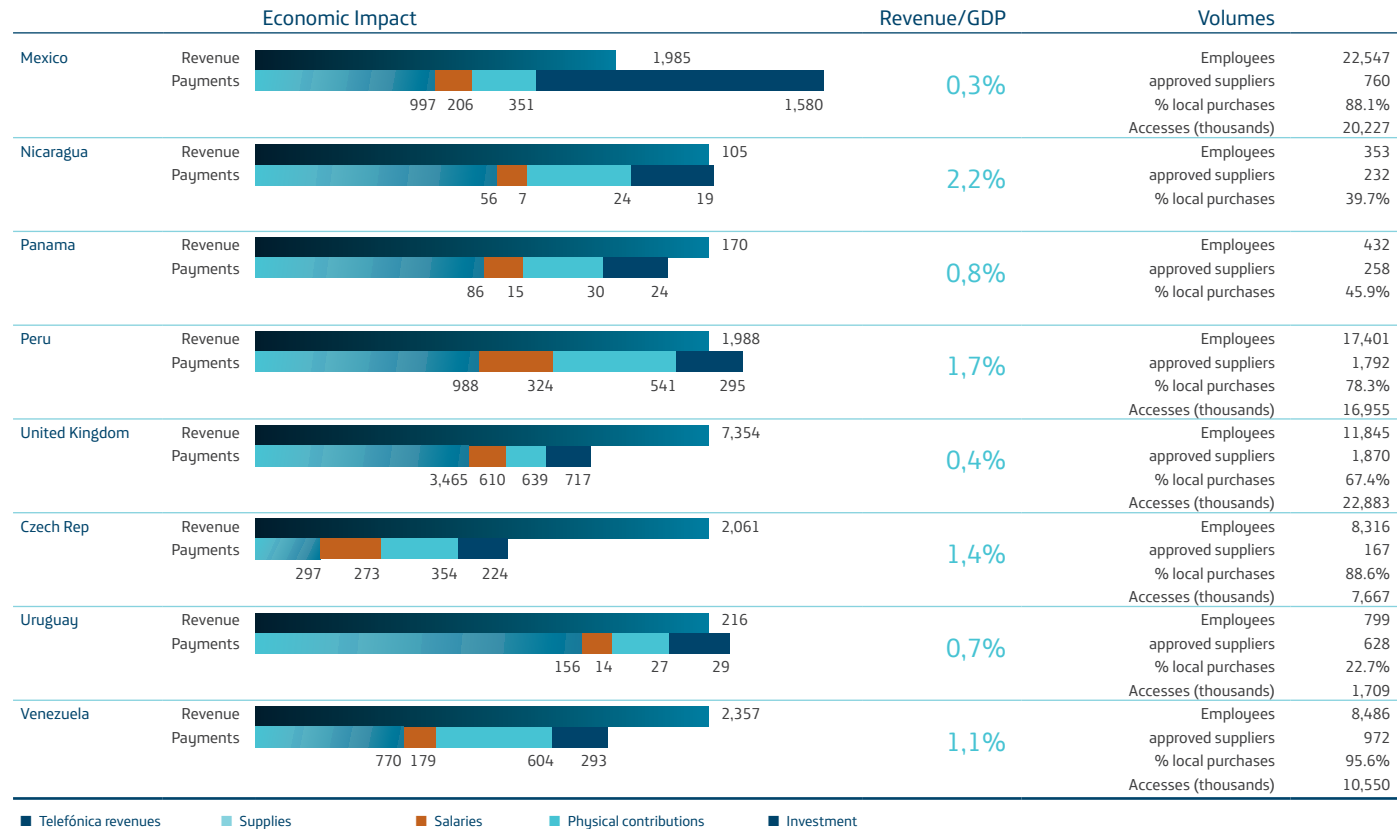
* All figures in million euros.

* Information in this chart has been calculated based on payment assumptions and taking into account the scope of consolidation in the financial statements of Telefónica. In other words, it includes all inflows and outflows from Haneset since February 2010; from Jajah since January 2010; from Tuenti since August 2010; and 100% of Vivo since 2010; also excluding Telcel Marruecos since January 2010.

Contribution to progress

Economic Impact		Revenue/GDP	Volumes	
Spain	Revenue	1,8%	Employees	54,879
	Payments			
Germany	Revenue	0,2%	Employees	5,297
	Payments			
Argentina	Revenue	1,2%	Employees	24,322
	Payments			
Brazil	Revenue	0,8%	Employees	101,920
	Payments			
Chile	Revenue	1,4%	Employees	10,301
	Payments			
Colombia	Revenue	0,7%	Employees	7,412
	Payments			
Ecuador	Revenue	0,8%	Employees	1,160
	Payments			
El Salvador	Revenue	0,6%	Employees	243
	Payments			
Guatemala	Revenue	0,6%	Employees	4,870
	Payments			
Ireland	Revenue	0,5%	Employees	1,185
	Payments			

Contribution to progress



Notes:

All figures in million euros.

Revenue, salaries and investment: audited consolidated figures are contained in the financial statements of Telefónica. In other words, they include all inflows and outflows from Hansenet since February 2010; from Jajah since January 2010; from Tuenti since August 2010; and 100% of Vivo since 2010; also excluding Telyco Marruecos since January 2010. Investment includes license costs for Mexico and Germany.

GDP: estimates for each country from the April 2011 World Economic Outlook (WEO).

Employees: direct Telefónica employees in each country. In the case of Brazil, only 50% of Vivo is included in order to maintain consistency and comparability with the management data contained in the Telefónica employees chapter in this Report. For the same purposes of comparability and consistency, figures for employees in Germany do not include those from Hansenet.

Suppliers: the total number of suppliers approved in each country. The percentage represents the share of purchasing awarded locally.

Accesses: the consolidated number of Telefónica accesses.

Responsible investment (ISR)

Socially responsible investment (SRI) taking into account environmental, social and good governance criteria, by Pension Funds for Telefónica Group employees ("Telefónica Employees in Spain, F. P." and "Fonditel B, F. P." which integrate the pension plans of other Group companies in Spain) amounted to

€71.5 million in 2010, 2.1% of their funds. These investments were made both through direct investments and through specialist funds, being distributed as follows:

- 41% in environmental companies and funds, renewable energy, water and forestry;
- 46% in companies dedicated to social housing for rental;
- 13% in good corporate governance funds.

Fonditel Pensiones EGFP, S.A., the fund manager for the pensions of the Group in Spain, is a founding member of SPAINSIF, the Spanish Socially Responsible Investment Forum.

Socially Responsible Investment

	ETE, F.P.	Fonditel B, F.P.	Total Telefónica Group Pension Fund
Valuation at 31/12/2010, € million *			
Lazora S.A.	15.00	=	15.00
Lazora II S.A.	16.90	1.25	18.15
Foresta individual1 S.A	2.22	2.22	4.44
Eolia Renovables	=	5.78	5.78
CA AM ActionsEurope ISR	9.00	=	9.00
CA AM Actions Durables	=	0.33	0.33
Amundi FDS Clean Planet	=	0.25	0.25
F.Sam Soustainability Water	7.51	=	7.51
F.PF(Lux) Water	5.23	=	5.23
Jupiter Ecology Fund	5.89	=	5.89
Total	61.75	9.83	71.57
Funds	3,081.81	271.95	3,353.75
% SRI	2.00%	3.61%	2.13%

* Information taken from audit reports of pension funds for 2010.

Technological innovation

Telefónica has continued working “openly” and promoting collaborative models, creating one of the largest innovation networks in the global ICT sector.

Technological innovation focuses on building a digital society by taking advantage of the opportunities offered by new technology and production tools for software development and creative talent.

Development of new capabilities

Information and Communication Technology (ICT) is a fundamental tool for economic and social development; this means that we can affirm that Telefónica is one of the drivers of transformation in the countries in which we are active.

Telefónica continues to believe that technological innovation is the key to achieving sustainable competitive advantages by staying ahead of market trends, enabling us to differentiate the products we develop.

Applying this belief, in 2010, Telefónica increased its technological innovation efforts, investing €4,814 million.

With regard to how it innovates, Telefónica continues to believe that it cannot differentiate its products from the competition and improve its market position based exclusively on acquired technology. For this reason, it is important to promote research and development (R&D) activities in an effort to achieve this differentiation and make progress in other areas of innovation.

Accordingly, in 2010 Telefónica dedicated a budget of €797 million to R&D, 13% up on 2009. Telefónica I+D was responsible for the largest share of the research activities applied and, as part of its technological development, activities aimed at obtaining the initial versions of products which it is considered appropriate to develop internally. The remainder -over 80%- of this R&D effort was channelled through collaborating companies, constituting one of the largest innovation networks in the global R&D sector. This is one of the pillars of the “open innovation” model which the company has been promoting for many years with initiatives such as the opening of the company’s platforms to collaboration with third parties (the BlueVia initiative); support for technology companies through the MovilForum and Telefónica’s venture capital fund; taking advantage of the talent in Universities through collaboration on projects

and by promoting them through Telefónica University Chairs; promoting the involvement of customers in innovation processes such as the LivingLabs (user experience in the development phase); promoting initiatives such as the CampusParty; taking part in technology platforms and programmes promoting business R&D nationally and internationally; innovating in collaboration with leading companies in each sector, etc.

Global innovation with a regional focus promoted by Group businesses

Telefónica’s business areas have continued the coordinated development of innovation initiatives, applying a global focus but adapting to regional requirements.

Many of these initiatives have been aimed at analysing the possibilities of new broadband networks and launching new mobile broadband services. Telefónica now has some 17.1 million mobile broadband customers.

In 2010, Telefónica decided to create a new organisation with seven vertical markets for digital services to service the various carriers in the Group.



This new organisation is a response to Telefónica's strategy to go beyond the operation of networks and to provide complete technology services to business customers and individuals in order to offer greater added value than simple landline or mobile connectivity.

The areas which have been detected as being strategic because of their potential for short-term growth are: Financial Services; eHealth; Global Internet Applications and Companies; Security; Video and Contents; Machine to Machine Services and Cloud Services.

Telefónica operates a corporate venture capital programme which takes minority stakes in innovative companies with product, service and technology capabilities which might help to accelerate the creation of revenue for Telefónica in new and adjacent business areas.

2010 was a busy year in terms of technology venture capital activity. Following the decrease resulting from the economic crisis in 2009, investment levels have returned to growth. Playing its part in this, Telefónica's venture capital programme has been very active, focusing on video technology and cloud services.

In 2010 we also re-launched our incubator programme, starting the first wave of the programme which ends in 2011. This programme seeks to develop new business ideas with market potential incorporating an innovative component and relevant technology, going beyond our core activities and complementing our innovation processes. In 2010, we designed a programme including multiple implementation mechanisms: internal developments and developments with third parties, etc. We also launched a process to select ideas globally which include all our regions and business units.

In 2010 Telefónica I+D changed its focus to more innovative activities.

Telefónica I+D is the heir to the research and development activities which the Group became involved in over 30 years ago. We have adapted to the needs of a telecommunications operation at all times in the evolution of our business.

In 2010, Telefónica I+D evolved its model again to adapt to the needs of the company in the new digital context. In this global context, the challenge is to innovate efficiently in developing digital services. In Telefónica we combine three innovative aspects to create real impact: meeting the needs of our customers; developing technological capacity which sets us apart; and creating efficient business models. It is difficult for innovation to be viable without these three factors.

Some of the basic ingredients in our innovation model include: collaboration with strategic partners; the involvement of customers in all stages of the creative process; the application of new responsible methodologies focused on the development of new digital products and services; excellence in research by specialist scientific groups; the identification of results which facilitate their marketing; and, in general, a culture of innovation which helps us to face up to these challenges from a different perspective.

The R&D activities carried out by Telefónica I+D during 2010 focused on:

- Future communications between individuals in a natural manner, leveraging the possibilities enabled by the Internet, Web 2.0 technologies and smartphones.
- Video and multimedia services (combination of text, audio, imaging and video) with a user experience in all connected devices.
- Advanced solutions in emerging ICT businesses, such as remote-health, surveillance and support platforms, and remote support for and monitoring of patients.
- Machine to machine (M2M) service management, related to energy efficiency and people's mobility.
- Cloud computing, which make intensive use of the resources available on the web to publish, market, and distribute applications.
- Analysis of user profiles, based on their use of communications, providing opportunities for services and business models (marketing campaigns, targeted advertising and personalised contextual services, turnover reduction, cross-selling, etc.).
- And the development of the network and services using a new global infrastructure which is common to all business areas in order to reduce operating and maintenance cost, offering greater capacity to handle the explosion of mobile data, video content and evolution from an Internet of people towards an Internet of objects.

Improving the network

Telefónica is fully committed to providing a secure, trustworthy environments for its customers. To ensure that this is so, we are currently working on a number of initiatives aimed at strengthening "digital trust" among service users.

The Security Policy established by Telefónica's Security Committee has led to a new approach in terms of the technical tests carried out on the Company's data communications networks and services. This new way of going about testing, which is better suited to its purpose, is based on two corporate security services: SIGA and Anti-Spam.

The SIGA Service - Internet Threat Identification and Management Service

Since it was launched in 2005, the objective of the SIGA Corporate Security Service has been to identify threats and relevant information which might have an impact on security and the value of Telefónica and its customers: fraud, cyber-crime, threats against the company, its workers or customers, the fight against child pornography and other such actions.

This service provides a response to common Internet security problems:

- Fraud mitigation: identifying information which aims to defraud the Company or its customers, through the sale of fraudulent Telefónica products and services and other actions which prejudice the company and its customers.
- Stopping "cyber-squatting", the registering and maintenance of websites with names related to commercial trademarks, and Telefónica products and services which might confuse customers or fraud from identity theft.
- Analysis of indirect sales channels, monitoring how authorised distributors are following the stylebook and identifying unauthorised or fraudulent distributors.
- Combating Cybercrime: identifying action and information on Telefónica and external webpages.
- Protection for children and the fight against child pornography: identifying information relating to illegal actions associated with bullying and child pornography on Telefónica-hosted websites.
- Reinforcing our Corporate Reputation and Brand: monitoring correct use of the brand on the Internet, identifying cases which might harm the company and identifying variables which define the company's positioning and values with respect to internal systems such as Reptrack.

In conclusion, SIGA protects the company, its shareholders and customers from:

- Threats to the Company's image and/or reputation:
 - Fake websites that discredit the Company.
 - Dissemination of erroneous, mistaken or false information with the intent of causing damage to the image of the Company.
- Identification of threats to the customer and the business consisting of:
 - Phishing.
 - Hoaxes and fraud schemes.
- Brand protection:
 - Ensuring proper use of the brand.
 - Identifying fraudulent users on the web.
- Control of on-line sales channels and fraud against customers:
 - Identifying websites that are not part of Telefónica's on-line channel.
 - Identifying deceptive uses of the identities of genuine suppliers on the web.
 - Identifying websites that profess to act on behalf of Telefónica in order to commit fraud against customers.



In 2010 the SIGA corporate security service identified new threats against the Company, its services and customers, which have been remedied through use of internal protection procedures.

The ultimate purpose of corporate security services is to protect customers so that their trust in Telefónica's products and services is reinforced in all the countries where the Company operates.

Anti-spam project

SPAM is a problem which not only involves inconvenience and gives a poor image of the email service to the customer, it also has a number of other negative impacts for the Company:

- The need for greater storage in email inboxes, if spam is not detected correctly.
- Increased broadband consumption in communications, impacting on other services.
- A poor image of service quality for the customer if they find a large quantity of SPAM in their inbox.
- It is a way of transmitting malware to customers.
- Telefónica becomes identified as a generator of SPAM, through client equipment infected with botnets which send SPAM.

In order to minimise these problems, a global SPAM mitigation project has been launched focusing on two areas: detection and blocking of outbound mail from those customers (residential, SME, large customers) which generate SPAM as a result of malware; complementing this with adequate telephone support advising the customer of the problem in their equipment and instructing them in how to protect themselves from malware and cleanse their systems, stopping them from sending SPAM.

The technical aspects of this project were developed in 2009 with detection and customer support being reinforced in 2010. Our customer support informs customers that their systems may be infected with a virus, worm or trojan which is sending spam.

Finally, the customer is provided with information on how best to "clean" his or her PC and eliminate the problem. The project has produced the following benefits:

- Complete elimination of incidents related to the spread of viruses over the internet.
- Control and stabilisation of the number of cases of phishing detected on the Internet through the company's networks which affect customers.

- Reduction of outgoing spam from Telefónica's network in 2010.
- Thanks to this, in 2010 Telefónica secured one of the lowest positions in the ranking of spam generators in the world.

As a result of this work and the work of the Anti-SPAM working group, Corporate Security has driven the extension of this model to all Telefónica companies, and is currently evolving towards intelligent SPAM and malware detection in email services (in countries where internet technology enables this).

Last year Telefónica also continued participating - as we have been doing since 2007 - in the Abuses Forum, a world-first initiative that brings together all the major Spanish operators with a view to building trust among internet service providers so that unwanted mail may be eliminated. Technically, these relations forged on mutual trust translate into the use of the SPF protocol (Sender Policy Framework), which is used to verify that a given sender is genuine and to filter out fraudulent addresses used by spam producers. The possibility of implementing this protocol in all countries where Telefónica offers its services is currently being studied, as this depends on the availability of appropriate technology and infrastructure.



Universal Service

The Universal Service is a guarantee of a service for the whole population, guaranteeing minimum service levels at affordable prices. These services and the conditions under which they are provided, together with the operators who are responsible for them, are specified by the regulator for each sector in each of the countries which decide to establish them.

The aim of the Universal Service Fund is to establish financing mechanisms for the projects related to the provision of telecommunications services to the whole population, guaranteeing minimum levels of acceptable quality and affordable prices.

Telefónica complies with these requirements in those countries which require them. Telefónica is involved in the Universal Service in Argentina, Brazil, Colombia, Spain, Peru, the Czech Republic and Venezuela.

"In Spain, Telefónica's obligation to provide the Universal Service relates to services for

connection to the public telephone network from a fixed location, and access to the telephone service, public telephones, telephone directories and services to special users (people with disabilities, pensioners etc.). As of May 2011, no value has yet been established for such services provided in 2010. However, the importance of the Universal Service for Telefónica in Spain can be seen from the figures for the previous year, when it was calculated at 75 million euros, making it the country with the highest such contribution".

In Latin America, Universal Service Funds are used for different types of projects depending on the country, including: discounts for low consumption, credit for institutions, public telephones, services for people with hearing difficulties, Braille services, information services, services for areas which are not profitable, spectrum and long distance services and the roll out of fibre optics.

In the Czech Republic, Telefónica offered the following services derived from the Universal Service: public phone boxes and special offers for disadvantaged social groups.

Provision of Universal Service Funds in 2010

	2010
Thousands of euros	
Argentina	25,462
Brazil	96,588
Peru	11,702
Colombia	98,067
Venezuela	18,386
Czech Republic	1,350

Capacity to respond in emergencies

Telecommunications have a very important role to play in helping to manage public health emergencies and natural and humanitarian disasters, as they make it possible to send out mass alerts, coordinate the groups involved, provide support for aid activities and improve the effectiveness of rescue teams.

Here in Telefónica we understand the social responsibility that excellent management of networks can have on the prevention, reduction and mitigation of the effects of such situations. For this reason, we have established Business Continuity Plans to enable us to continue offering communication services normally in the event of emergencies in the countries in which we operate.

These plans, which conform to international standards, are drawn up according to the characteristics and risks of each particular market. Their implementation commonly implies the availability of communication platforms to support operations and provide for a speedier recovery in the event of failure of the systems used by the platforms. And our presence in many countries means that local operators can support each other if necessary.

In 2010 Telefónica made significant contributions in countries which suffered emergencies.

The most notable of these was the earthquake which hit the centre of Chile on 27 February 2010, as Telefónica's infrastructure in the area was damaged and its systems were saturated with calls trying to find out information about relatives. However, we were able to overcome the situation through Telefónica Chile's contingency plan, under which we carry out regular simulations and we have an integrated landline and mobile supervision network. We should also highlight the role which Telefónica played in many countries in guaranteeing communication with the people of Chile at that difficult time.

Also in Chile, we also played an active role in the rescue of the 33 miners trapped in the San José mine, as in just a few hours our colleagues in Copiapó had organised everything and provided satellite communications to the mine, helping family members and collecting information on-site of the needs of the authorities.

In summer 2010, Brazil suffered torrential rains which affected the normal running of the country. In response to this, Telefónica implemented a wide-range of plans to reduce the risk of service interruptions during the emergency, by establishing prioritisation criteria and increasing the energy and human



resources it contracted; it was also involved in close, direct collaboration with the Civil Defence Department of the state of Sao Paulo, to which it made 150 employees and subcontractors available. It also made available nine public phone lines and two satellite phones for free public use in the worst affected towns.

Colombia suffered an emergency as a result of winter flooding at the end of 2010. As a result of the scale and spread of this problem, we established a Service Recovery Protocol to coordinate services and ensure that they operated as normal.

Social support for affected communities

"Chile is calling. I'm here"

New "Commercial Action in Response to Disasters Policy": this includes a range of benefits and facilities provided for our customers in Regions VII and VIII, including free top-ups for their mobile phones, payment facilities, the re-establishment of suspended services, freeing public phones and the landline network for calls to and from the affected areas, among many others.

"Chile helps Chile", Teletón's key ally, for which it provided telecommunications support and helped to facilitate donations and participation, with Fundación Telefónica and Movistar making it possible to make donations from landlines and text messages from mobiles.

Contributions through the Proniño corporate responsibility programme, helping the schools involved in the programme and their educational community.

Return of money in proportion to the unavailability of voice, broadband and television services.

In Peru we have carried out preventative campaigns to promote the appropriate use of telecommunication services in the event of emergencies, holding six-monthly simulations in coordination with INDECI (Peru's Civil Defence Institute).

In Argentina we have agreed to establish a contingency plan for natural disasters and emergencies. This involves the planning, engineering and mobile phone operation departments.

In Ecuador we have been working to improve our redundant transmission and energy systems for emergency situations to ensure services for our prepay customers through the implementation of a Disaster Recovery system hosted at Telefónica's facilities in the United States to support our 13 operators in Latin America, with investment of around 2.7 million dollars.

In the UK we obtained BS 25999 certification which certifies our continuity management processes for all of our operations; we are the first British company to obtain such certification. BS 25999 is an international standard awarded to companies which demonstrate that they can continue to offer services to their customers in the event of extraordinary incidents.

Earthquake 27 February 2010; Emergency and reconstruction

On 27 February 2010, the centre of Chile was struck by an earthquake and a tsunami; on 4 March this resulted in a widespread power cut which affected large areas of the country.

In the minutes following the earthquake, the importance of ICT for the people of Chile was more obvious than ever. Not having electricity and having lost all their material possessions was nothing compared to the urgent need to communicate with their loved ones and to coordinate the emergency response.

Telefónica's infrastructure in Chile was damaged and its services were overwhelmed, affecting the communications of our customers.

However, we were able to avoid worse communication problems in the country by having a good contingency plan, which involves carrying out regular simulations, having a committed team, having integrated our landline and mobile supervision network at the time of the earthquake, and being able to count on the support of Telefónica throughout the world.

From the time that disaster struck, Telefónica's team worldwide worked intensively to help to re-establish connectivity for everyone in Chile.

More than 200 satellite phones and 29 professionals from different countries (17 from Peru, 9 from Brazil and 3 from Venezuela) were installed in Chile to help with the repair work undertaken by Telefónica in Chile.

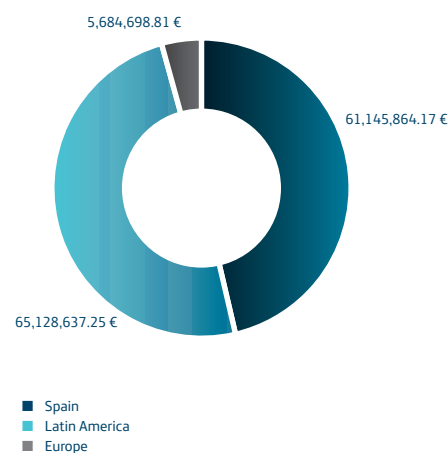
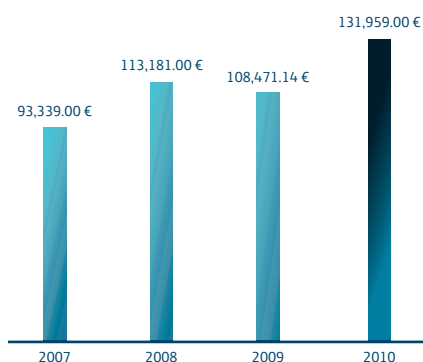
Our Action Plan for disasters clearly establishes that when an emergency arises our Integrated Landline and Mobile Emergency Protocol should be implemented and an emergency committee should be created (NOC committee). The objective and main task of this Committee was to determine the impact of the emergency on Telefónica's employees in Chile and on its network management systems in the affected areas. At the same time, a Crisis Committee was created involving the whole management team, and defining the role of each member with regard to the crisis. "Text not voice" was the key message communicated following the 2010 earthquake: both Telefónica in Chile and the country's government bodies carried out an educational and awareness raising campaign in the community.

Seven months after the earthquake in Chile, a fibre optic network was installed in the Bio Bio region -the worst affected area- to support 50 thousand households in cities in the south of Chile.

Social action

In 2010, we invested 131.99 million euros in social action, an increase of 21.7% on the previous year. One highlight was that

contributions increased in all categories, with a particularly significant increase for education and young people (+59.8%). These amounts are calculated using LBG criteria.



Classification	Total	Percentages
Socioeconomic Development	11,608,034.88 €	8.8%
Art and Culture	25,161,183.47 €	19.1%
Education and youth	78,937,057.46 €	59.8%
Social welfare	12,288,504.75 €	9.3%
Health	776,000.23 €	0.6%
The environment	640,383.81 €	0.5%
Other	2,548,035.31 €	1.9%
Total	131,959,199.90 €	100.00%

Our Foundation

Since 1998, Fundación Telefónica has been channelling and complementing the cultural and social activities of Telefónica in all the countries in which we operate, going beyond our own business objectives and exploiting our extensive geographic presence, numerous employees and technological capacity. Today, Information and Communications Technology (ICT) has become a key part in the development of activities related to the social changes we are currently experiencing. As a result, one of the objectives we have been pushing most strongly in recent years has been to facilitate access to knowledge for the largest number of people possible, thus helping with educational, social and cultural development.

In 2010, the budget for the activities of our Fundación Telefónica was 91.2 million euros, of which we invested a total of 82.05 million euros, 10% more than in 2009.

The Fundación Telefónica's work is carried out through 5 major transnational programmes -Proniño, Young People, EducaRed, Debate & Knowledge and Art and Technology- which have been designed and developed based on the expectations and real needs of each one of the communities to which they are addressed. These programmes, which interact to benefit from synergies, have a strategic focus on access to knowledge and education through the application of ICT.

1 Figure yet to be audited.

Fundación Telefónica in 2010

- **Our mission:** The development of social and cultural activities which are relevant and transformative, focusing on facilitating access to knowledge through innovative, integrated and global management.
- We have developed and cooperated in social and cultural activities in **19** European and Latin American countries.
- **82.05** million euros invested in social and cultural action, up 10% on 2009.
- Over **4,845** different initiatives carried out.
- Over **830** educational, social and cultural, public and private partner organisations.
- A total of **37,431,598** people directly reached by Telefónica volunteer work.

Proniño: social and educational inclusion

Proniño seeks to ensure the sustainable withdrawal of boys, girls and teenagers from work in 13 Latin American countries by giving them access to a quality education. The programme is committed to working in a network involving public policies, the private sector and the third sector; strengthening institutions and providing tools in order to systematise and raise awareness of best practices and collaborative knowledge.

Milestones in 2010

Publication of 10 studies on a range of subjects, including *"Manual para el educador sobre el trabajo infantil"* [Manual for the educator on child labour], produced in Argentina by the Fundación Telefónica and ILO-UNESCO and the research project *"No más trabajo infantil: una meta posible de alcanzar"* [No more child labour: an attainable goal], produced in Venezuela with the collaboration of UNICEF, which has served to raise awareness of the reality of the environment in which Proniño acts.

Support for the implementation and promotion of the *"Hoja de ruta para lograr la eliminación de las peores formas de trabajo infantil para 2016"* [Road map for achieving the elimination of the worst forms of child labour by 2016], a document resulting from the 1st Global Child Labour Conference held at The Hague, in the Netherlands.

In May, over 9,000 children and young people in Spain and Latin America took part in the 2nd Annual "Hoy Escolar" Competition, organised

by Vocento and the Fundación, the objective of which is to promote education in values and the use of ICT amongst young people through computerised journalism.

In June, Proniño joined with numerous activities for the World Day Against Child Labour, an ILO (International Labour Organisation) initiative.

Involvement in a range of actions in Spain and Latin America to contribute to the debate on specific practices and experiences in this area. Another highlight was the organisation of the first "Niñez y Niñez Trabajadora" (Childhood and Working Children) forum in Chile in July and the 3rd International Conference "Networks and Innovation for the Prevention and Eradication of Child Labour", which was held in Colombia in November.

The Fundación launched the solidarity campaign entitled "Aquí estoy" [Here I am] which aims to develop into the largest social network in the world for the eradication of child labour.

Presentation in December of *"La hora del recreo"* [Playtime], a book of photographs and stories the objective of which is to raise awareness in society regarding the need to end the problem of child labour.

One of the most important of the new alliances formed by Proniño is that with the OEI (Organization of Ibero-American States) to work together to improve the education of over one million children over the next decade.

Finally, this programme has introduced an IT management application to measure the progress, impact and results of social actions using a range of indicators. The information provided by this new application will be analysed in 2011 in order to refine the monitoring of such social actions. A unified model for the presentation of financial statements has likewise been defined for collaborating social organisations and a manual of guidelines to follow has been prepared.

The Fundación Telefónica Classrooms Network: transforming education in a precarious social environment

For the purpose of supporting improvement in the educational quality of the Proniño programme and achieving the computerisation of the educational community in Latin America, a project was launched in 2008 directed at providing the Fundación's education centres with the educational and IT knowledge accumulated in the EducaRed programme.

Milestones in 2010

Installation of new Fundación Telefónica Classrooms in Proniño education centres, bringing the total to 432, equipped with computers and internet access, reaching a further 223,988 boys, girls and teenagers who were not previously beneficiaries of the programme.



12,639 teachers and educators registered in the "EducaRed Channel of the Proniño Educator – Child Labour Education Community", an international community for information and exchange of knowledge, experiences and best practices between centres.

The Fundación Telefónica Classroom Network offers a classroom and continuous on-line education plan, as well as advice and training for educators in the use of ICT and educational innovation, with close to 19,000 actions.

Young People: educational and social projection

In 2010, Fundación Telefónica initiated its global Young People programme, the aim of which is to support this demographic group, improving its outlook and generating opportunities for a transition to an independent and responsible adult life.

Milestones in 2010

The new programme has focused its activity on young people finishing their secondary education in the Proniño programme; it has been launched and developed in 8 of the 13 Latin American in which Proniño operates: Chile, Colombia, Ecuador, El Salvador, Nicaragua, Panama, Peru and Venezuela.

In order to design and adapt the programme to the needs of these young people, a full consultation was carried out with the main stakeholders (the young people themselves, local foundations, NGOs, etc.) which identified the most important aspects to be taken into account.

In addition, we have started to build relations with different organisations offering services which can provide these young people with solutions to help them achieve their objectives and goals in life.

Educational continuity activities have been developed (Fundación Telefónica Scholarships for young people graduated from the Proniño secondary school programme), as well as a range of activities to encourage employability and entrepreneurship (creation of new employment opportunities and encouraging youth enterprise).

Fundación Telefónica International Young People's Network was launched to provide a link for communication and exchange of experiences and projects between the participants, additionally offering the possibility of participating in meetings and conferences, such as those held in Ecuador and El Salvador, which were attended by 300 young people, as well as the 1st International Youth Convention organised in Bogota (Colombia), in which over 40 persons from the 8 Latin American countries participated.

EducaRed: educational excellence

Created in 1998, the EducaRed programme seeks to promote improvements in the quality of education through the incorporation of ICT into teaching; it is an on-line multi-cultural learning community and an international benchmark in the analysis of educational innovation.

Milestones in 2010

Performance of an exhaustive analysis of the educational community's needs in relation to the integration of ICT into teaching-learning processes. As a result of this analysis, the EducaRed model has been developed based on the TPACK (Technological Pedagogical Content Knowledge) methodology, in which the integration of ICT brings together three key elements: teaching, content and technology.



In order to implement this model, a wide-ranging programme of teacher training and instruction in Spain and Latin America has been developed through initiatives such as the "EducaRed Week" or "Training School 2.0".

In March, Spain's Ministry of Education invited EducaRed to participate in the Forum on Models for Integration of ICT in Schools, organised by the Spanish Presidency of the European Union.

Over 2,150 teams from 19 countries took part in the 11th International EducaRed Competition, which consists of multimedia work related to the school curriculum subjects, the prizes for which went to proposals from Ecuador, Spain and Peru.

Also, in June, the 3rd Annual International Fundación Telefónica-OEI Prize was held, which recognises the best contributions for the incorporation of ICT into education.

Creation of new learning communities of teachers and the consolidation of existing ones such as the "EducaRed Network of Hospital Classrooms". One of the challenges for 2011 will be the development of other communities for all groups: leaders, families, teachers, school managers, etc.

Signing collaboration agreements with various educational social networks, such as the Red Espiral and iEARN (International Education and Resource Network), in order to join forces to contribute to improving the quality of education. Another notable alliance is that between Fundación Telefónica and Wikimedia to promote educational progress through EducaRed and Wikipedia.

Debate and Knowledge: Creation of knowledge:

The Debate & Knowledge programme seeks to establish Fundación Telefónica as a reference point for advanced research into the Information Society and the social impact of ICT through creation, debate on the new digital culture and the spreading of knowledge.

Milestones in 2010

Research projects:

- Development or continuation of 12 specific research and study projects related to the Information Society prepared by renowned experts, promoting the performance of projects in Latin American countries, notable example of which include "Jóvenes, culturas urbanas y redes digitales: prácticas emergentes en las artes, el campo editorial y la música" [Young people, urban cultures and computer networks: emerging practices in the arts, publishing and music].

Publications:

- Publication of 10 new titles in the Fundación Telefónica / Ariel Collection: research projects, studies, papers and working documents in academic and professional fields. These included "Periodismo digital en tiempos de crisis" [Digital journalism in times of recession], "Un caso de estudio: el tratamiento de la inmigración en los medios" [A case study: the treatment of immigration in the media] and "Lengua y Tecnologías de la Información y las Comunicaciones" [Language and information and communication technologies].
- Our publications have been published in a number of countries. These include our major releases such as "El valor económico del español" [The economic value of Spanish], which was presented in Mexico and the United States, and other works of

specialist interest for different sectors of Latin American society, including "El proyecto Facebook y la posuniversidad" [The Facebook project and the post-university situation], which was presented in Buenos Aires in May.

- Publication of four new editions of TELOS magazine. Communication and Innovation papers, a major reference point in the study of communications, ICT and its impact on society. We should also mention the on-line edition of the Information Society Bulletin.

Debates and conference programmes:

- Organisation of a range of public events in Spain and Latin America such as: conference programmes, debates and other events of interest on subjects related to technology and the internet; these enjoyed great success, both in terms of the quality of the speakers and public participation.
- In April, for the first time in Spain Telefónica and the Fundación hosted the third European Dialogue on Internet Governance (EuroDIG).
- Completion of the "Diez conceptos que están cambiando el mundo" [Ten concepts which are changing the world] programme in Madrid with the celebration of the Thinking Party, the first marathon of thought on ICT, which was organised by the Fundación; this event featured the most important and original speakers on the internet universe in Spain and attracted around 400 participants.

- Launch of new conference programmes such as "Internet y las nuevas tecnologías crean nuevas profesiones" [The internet and new technologies create new professions] and "Entendiendo los cambios. Libros, ideas y autores en Fundación Telefónica" [Understanding changes. Books, ideas and authors at the Fundación Telefónica], which featured leading speakers such as: Fons Trompenaars, Alex Pentland, Sugata Mitra, Don Tapscott and Andreas S. Weigend, amongst others.

Art and Technology: artistic and technological promotion

Art and Technology promotes access to culture and encourages artistic creativity through the use of ICT. In addition, the programme is responsible for conserving and exhibiting the Telefónica Group's artistic and technological heritage.

Milestones in 2010

A wide-ranging and successful programme of temporary exhibitions in Fundación Telefónica's four Cultural Spaces, travelling exhibitions and joint exhibitions with other cultural institutions were held, which attracted around 500,000 people.

Temporary exhibitions:

- The Fundación's has Cultural Spaces in Buenos Aires, Lima, Madrid and Santiago de Chile, which are equipped with modern facilities and the latest technological resources; the Cultural Spaces have continued to establish their status on the artistic and creative scene in Spain and Latin America.

- Some of our notable temporary exhibitions included "El Di Tella y un episodio en la vida de la TV" and "Collection Nouveaux Medias, Centre Pompidou" in Buenos Aires; "Geografías celulares" and "Poéticas plurales" in Lima; "Ante el tiempo: Bleda y Rosa / Jem Southam" and "Laboratorio Gran Vía" in Madrid, and "Emergentes" and "Juan Downey, el ojo pensante" in Santiago de Chile.
- The programmes for these exhibitions placed great emphasis on educational guidance; to this end new educational projects were developed aimed at students, families and adults, with their methodologies adapted to the needs and interests of each one of these groups.

Telefónica Art Collection:

- A total of 33 works by Chillida, Helena Almeida, Joaquín Peinado, John Baldessari, Luis Fernández, Marín, Olafur Eliasson, Picasso, Sherrie Levine and Thomas Ruff, amongst other artists belonging to the Telefónica Art Collection, one of the largest corporate artistic collections in Europe, were loaned to 22 cultural institutions in several countries around the world.

Travelling exhibitions:

- One of the major projects involving our artistic collection was the travelling exhibition "El Cubismo y sus entornos en las Colecciones de Telefónica" [Cubism and its surroundings in the Telefónica Collection], which was shown at the el Ixelles Museum in Brussels (Belgium), the Lehmbrock Museum in Duisburg (Germany) and the National Art Museum of China (NAMOC) in Beijing.

VIDA International Art and Artificial Life
Competition:

- The 13th annual competition promoted by the Fundación Telefónica to stimulate artistic creation based on new technologies and artificial life featured a 107% increase in the number of projects submitted.

Volunteering in Telefónica

Managed by the Fundación, Telefónica Volunteers is a programme which works to promote and administer social action and collaboration with Company employees, forming an international network of volunteers who are involved in activities with significant social impact.

Milestones in 2010

Progress has been made in integrating Telefónica Europe employees into the Volunteers programme.

Numerous activities with Volunteers have been promoted, both within the framework of Fundación social programmes as well as through collaboration agreements with organisations that request this, supporting solidarity initiatives proposed by the Telefónica Volunteers themselves or channelling their financial donations so they can be allocated to projects with significant social impact. Moreover, we have encouraged the development of different global projects and campaigns.

The celebration of the "International Telefónica Volunteer Day" was carried out for the first time worldwide, with the participation of over 4,000 employees who dedicated 14,000 hours of volunteer work. It is worth mentioning that on this occasion, this day was held on a work day (Friday, 1 October) and featured the participation of the Company's senior management.

Between July and September, about 100 Volunteers from 19 countries travelled for four weeks to Latin America in order to participate in the 6th Annual "Solidarity Vacation", supporting several Proniño projects. In a new development, exchange between volunteers from different Latin American countries was coordinated, helping everyone involved to enjoy a unique experience.

Also, the "Escuelas Amigas" programme was consolidated, this being a virtual and classroom

initiative for cultural exchange directed at students from 10 to 12 years old from Spain and Latin America, in which over 2,300 students from 60 schools in 10 countries participated with the support of 160 Volunteers.

In December and January, a global Christmas campaign was carried out for the first time, where Volunteers were offered a range of social action opportunities such as: campaigns to collect food and toys, Christmas cars campaigns, charity fairs involving traditional products and foods, and awareness-raising activities.

Support for the individual projects of Volunteers continued through internal competitions for volunteer work proposals. Worldwide, over 500 projects were presented to these competitions, of which around 50 percent were put into practice.

Lastly, training of Volunteers to help them prepare, launch and evaluate social projects has been broadened and improved.

Our social and cultural sponsorships

In 2010, we invested 34 million euros in social and cultural sponsorship, up 45% on 2009. Our sponsorship strategy supports areas which contribute to the development of society, such as social integration of different groups, popularisation of culture to promote education and care about the environment.

The increase in investment in sponsorship mostly took place in Latin America, and the initiatives we decided to sponsor benefited people in all the countries where Telefónica is present.

**Art and Literature for all**

Telefónica has a strong commitment to culture, and collaborates in many cultural initiatives, contributing to the promotion of art, music, literature and other cultural disciplines. This is reflected in the institutions we support, such as the Prado art gallery -through sponsorship of the "Visitor's Centre", which provides access to one of the best art galleries in the world for over two million people every year- the Guggenheim Gallery in Bilbao and the Metropolitano Museum in Lima. We are also working with Spain's National Library to digitalise and promote its collections through an ambitious project which runs until 2012. This project involves the digitalisation of over 25 million pages and making the collection of this renowned institution accessible on-line for all from the start of the project.

In order to promote its commitment to culture, Telefónica held the second "Journey to the centre of Culture", which aims to bring culture to our customers in a different way by showing the hidden side of great cultural institutions, including the Prado art gallery, the Liceu opera house, the National Library of Spain, the Natural Sciences Museum, the Guggenheim Gallery Bilbao, the Cathedral of Pilar in Zaragoza, the Reina Sofía art gallery, the Teatro Real theatre, the Alhambra in Granada, the Alcazar in Seville, the Casa de América and the Spanish Royal Academy.

Language, culture and Latin America

Telefónica also supports projects related to Hispanic language and culture, such as the website of the Academy of the Spanish Language and the Pro Real Academia Española Foundation, which brings together all the linguistic activities of the academy in close cooperation with American academies using the Internet.

Our cooperation with the Instituto Cervantes, which began in 2000 to promote Spanish worldwide, is continuing, as is that with the Comillas Foundation, the main objective of which is the launch, development and management of a centre of excellence dedicated to the promotion and specialised teaching of Hispanic language and culture.

Telefónica works closely with Madrid's Casa de América, of which it is a Major Sponsor, and it sponsored the 2010 Vivamérica Festival with Ibero-American artistic, cultural and creative events in Madrid, Cadiz, Zaragoza and Barranquilla. Telefónica was also involved in many festivals organised throughout Latin America.

Promotion of classical music

Telefónica's support for the promotion, conservation and diffusion of the heritage of Spanish lyrical-musical comedy is demonstrated by its sponsorship as patron of El Teatro Real (the Theatre Royal) in Madrid, El Liceo (The Lyceum) in Barcelona and El Palau de Les Arts (the Palace of Arts) in Valencia. It also contributes to promotion of classical music in Latin America, where it sponsors a number of initiatives: the Asociación Cultural Romanza in Peru; the Avenida Theatre in Venezuela for "zarzuela" and opera; the Concierto Schola Cantorum in Argentina; the New Year Concert in Bogotá, Colombia; and the Asociación de Cultura Artística, Telefónica Sonidos Clásicos do Brasil season in Brazil.

In addition, the Company is continuing to sponsor the Telefónica Violin Chair at the Reina Sofía Higher Musical School, the Isaac Albéniz Foundation for the education and development of young talents and Juventudes Musicales de Madrid (Musical Youth of Madrid) through the organisation of a concert programme at the Auditorio Nacional concert hall in Madrid.

Sport and social integration

Through its support for sport, Telefónica aims to contribute to the social integration of young people from different cultures as well as people with disabilities.

The company sponsors the "Movistar Megacraks" tour organised by the "Inter Movistar" 6-a-side football club, the objective of which is to promote the sport as a healthy way of life for children.

Another interesting initiative in 2010 was "Proniño encesta con el Estu" to promote access to basketball courts for boys and girls, and to teach them and their families about the benefits of the sport.

The Company's "Mundialito 2010" 11-a-side football tournament for immigrants in the Madrid region has developed into a major sporting event for immigrants in the area, attracting over 36,000 people.

In Brazil we promote many activities which aim to integrate young people into society through sport: such as "Futebol para todos", "Núcleo de Formação esportiva Santo André", "Centro de excelencia do Basquetebol brasileiro", "Judo-Educando para a vida", "Mundial de basquete de rua" and the "Núcleo Fundação Casa".

In Argentina, we sponsor the "Disney Cup"; a regional inter-school football tournament for boys and girls up to 14 years old.

In Peru we helped with the "special Olympics" to promote sport among people with intellectual difficulties.

In Nicaragua, we sponsor inter-school junior leagues, which contributes to sport for young people.

In Venezuela we sponsored the "Inter-university Football" tournament and the "All Star Football School".

Telefónica contributes grants to the Help for Olympic and Para-Olympic Sports Plan in Spain, which is promoted by the Asociación de Deportes Olímpicos (ADO - Olympics Sports Association) and to the ADO project in Chile.

UNED

Since 2009, Telefónica has had a cooperation agreement with the UNED distance learning university to promote the implementation of information and communication technology in universities. This agreement reaffirms Telefónica's commitment to supporting the development and improvement of social welfare through technology.

**Our commitment to people
with disabilities: ATAM**

Telefónica has helped over 23,000 people with disabilities in Spain through ATAM.

In 2010, 57,232 people contributed to the ATAM social project. These people include active, early-retired and retired employees of the 28 companies in the Telefónica Group, which also contributed to this charity project. Overall, this resulted in a contribution of 14.35 million euros which was invested in implementing a range of programmes to provide help and solutions to people with disabilities and their families.

ATAM is a not-for-profit entity which has been declared to be a Public Good, which aims to help people with disabilities to become fully integrated into society. Social commitment is the essence of its existence: helping people, as far as possible to overcome the difficulties caused by a disability, and providing personalised solutions for each case.

Financial aid programme

In 2010, we granted financial aid to 3,240 people with disabilities and their families, with a total value of €6,352,261, which is an increase on the previous year. This system aims to improve the system of assistance provided by public bodies because it is complementary and subsidiary to such aid.

All the aid offered by ATAM is described in the Regulatory Aid Book, which is divided into two sections based on age: Care for people aged under 60 (people of pre-school, school and employment age with disabilities) and people aged over 60 (elderly people with dependencies). The objective of the Association is to find solutions which are suited to the needs of people with disabilities throughout all stages of life, whatever their disability (physical, psychiatric or sensory). Some of the help offered includes:

- Hyperactivity in children.
- Dyslexia.
- Attention deficit disorders.
- Physiotherapy.
- Speech and language therapy.
- Orthopaedics.
- Residential homes.
- Home helps.
- Legal assistance for people who are not legally competent.

Health programmes

In 2010, ATAM's Clinical Team worked to prevent and assess disabilities. The team was involved in 2,015 consultations in a range of specialities (neurology, rehabilitation, psychiatry, psychology and ophthalmics).

ATAM supports people with disabilities throughout their lives, whatever their age. The work of these health professionals focuses on evaluating and assessing each case individually in order to try to prevent disabilities and dependency, producing a diagnosis and an evaluation, and prescribing guidelines and criteria for helping people.

In 2010, ATAM worked on the roll out of an Assessment and Guidance Network consisting of clinical specialists and other professionals supported by ATAM's network of service offices. The objective of this network is to provide people with disabilities with comprehensive solutions which are adapted to their individual needs, enabling them to minimise the effect of disability or dependency on their lives. The current Clinical Team will be responsible for coordinating this Clinical Network and will be the driving force behind it, and will manage the knowledge and experience of its professionals.

Integration into employment

In 2010, ATAM dealt with 1,663 people through its employment services. ATAM represents our commitment to improving access to the labour market for people with disabilities. We consider employment to be an element of fundamental importance in ensuring a person's independence and their full participation as an active member of society.

ATAM has continued to work with Fundación Telefónica on the Mercadis website, which it manages. Mercadis is a virtual job centre which encourages employment of people with disabilities. Over 4,400 new users registered with the website in 2010. However, the current economic crisis has had its effect with a decrease in the number of job offers and, at the same time, more people looking for jobs.

ATAM works not only with people with disabilities who are seeking employment but also with companies themselves, providing assessment, advice and guidance on hiring and how best to adapt the workplace. To this end, ATAM was called on 223 times, assisting companies through visits, offers, contracting and intermediation. ATAM is also one of the Trustees of the Telefónica Ability Awards, encouraging the development and promotion of these awards and providing technical support and management services.

ATAM is part of a business networks from which it can offer more and better employment opportunities. At the end of 2010, its special centres had 363 employees. These companies are wholly owned by ATAM. They carry on their business just like any other company in their market sector, encouraging normal working relations with the people with disabilities who work with them and their sustainability.

There are three companies in this group:

Servitelco, Laveco and Mondeco. The purpose of these companies is to promote and encourage employment for people with disabilities through the generation of stable, quality jobs.

Servitelco is a company specialising in call centre services, with centres in Madrid, Seville and Barcelona. As of 31 December 2010, it had 231 employees. Telefónica works closely with Servitelco commercially, entrusting it with management of a number of telecommunication services. As a result, in 2010 it received the "Diamante de la Compra" award from AERCE (the Spanish Association of Purchasing, Contracting and Supply Professionals) for one of the best projects of the year in purchasing management, which is awarded for innovation, originality or value added. This award recognises the employment integration work of both Telefónica and Servitelco.

In 2010, the company grew considerably with a 16% increase in its workforce; this was the result the commercial efforts of the company to diversify its customer-base and because of commercial support from Telefónica. During the year, it won contracts for telephone customer helpline services from a number of public sector bodies, such as the Ministry of Science and Innovation and the Regional Government of Madrid.

Laveco is an industrial laundry company with a workforce of 52. Mondeco is involved in the assembly of electronic and mechanical components, and employs 80 people. It is also involved in building maintenance and cleaning services. In addition, in 2010 it was involved in a new business project involving the collection of oil for recycling in the Valencia area, where it is based.

Around 87% of employees in ATAM special employment centres have some form of disability.

New business project: DO₂ Sostenible

The DO₂ Sostenible project is continuing to progress as part of this policy of employment integration. In November 2010, DO₂ Sostenible held its first environmental commitment conference. This focused on the need for a new model of generating employment for people with disabilities based on a network of technology partners with a rigorous and serious business model to generate new opportunities, supported by a logistics and operating system throughout the whole country, in which collaborating charity bodies play a role with an innovative vision of social commitment.

DO₂ was established as a social innovation project. It is a network of a range of social bodies which promote job creation and employment integration for people with disabilities in management projects and environmental care. This network led by ATAM consists of 14 social bodies involved in disabilities in different autonomous communities. A number of governmental bodies -such as the councils of Rivas Vaciamadrid and Silla (Valencia)- have now got involved in the project.

Organisation and cooperation with other bodies

In order to carry out these activities, ATAM has a structure consisting of a service network with 19 offices spread throughout Spain, together with its central offices where it provides its employment integration service, its central social attention service and other administrative services. At its offices ATAM has personal advisors, who are social workers or psychologists, to help people with disabilities and their families by offering guidance on the most appropriate local resources for their needs. These 30 personal advisors seek the most appropriate solution in each individual case, providing "*accompaniment and guidance*". As stated previously in the healthcare section, work is being done to complete this service network with clinical professionals and by offering comprehensive solutions.

ATAM's collaborations with other entities is another of its foundations for achieving better quality of life for people with disabilities. The Association collaborates with over 40 entities, organisations and institutions from the social sector -both public and private- in order to guarantee equality of opportunity and to achieve a more inclusive society which respects all individuals and enables them to take as active a role as possible.

Furthermore, in addition to AGMT (the Telefónica Pensioners Group) and COFEDETEL (the State Confederation of Associations and Federations of Early-Retirement and Retired Telefónica Employees), with which ATAM has been working for many years, in 2010 ATAM signed an agreement with AITP (the Independent Association of Early-Retirement, Retired and Ex-employees of the Telefónica Group). Many of ATAM's efforts have focused on working with these bodies, which work with dependent elderly people to promote an active old age and quality of life for the elderly.

Furthermore, ATAM has continued to be deeply involved in the Pro Project with the Antena 3 Foundation: in 2010, this Audio-visual School ran two courses for people with disabilities providing training for professions related to the radio and television. Through this training and the Association's work and that of other bodies involved in the project, in 2010 40 people with disabilities were trained as professionals in the audio-visual sector.

In 2010, the Association maintained and reinforced its collaboration with Fundación Telefónica through its Volunteers project, channelling its resources and knowledge to improve quality of life for people with disabilities.

118 people attended the 5 volunteering courses on disability run by ATAM. These courses provide basic training to help employees of Telefónica Group companies to volunteer in various social entities. In addition, this approach has been boosted, with Telefónica Volunteers providing cooperation requirements with entities in the sector and investing 2,882 hours of effort which have benefitted more than 6,000 people with disabilities and their families. This initiative aims particularly to benefit people with disabilities who do not have much money, with employees investing part of their working day in social actions to their mutual benefit.

Telefónica volunteers and ATAM are also involved in the Retadis network which involves 26 entities from the social sector. In 2010 these volunteers helped 14,000 users. These users are people with disabilities located throughout Spain who have been able to use the network of specially adapted computers. Every machine is configured with specific programs and devices depending on the type of disability, whether physical, visual, hearing or cognitive. In 2010, such adaptations were made to the personal computers of 50 users. Telefónica has two objectives with this project: firstly, to give people with disabilities access to new technology; and secondly to detect needs and improve adaptation and accessibility. This project is part of the Fundación Telefónica's Volunteering Project and part of the Ministry of Industry's Avanza Plan. ATAM performs promotional work by promoting knowledge about and use of new technology, acting as a meeting point for people with disabilities, entities and volunteers.

Through this volunteering project, and the boost that ATAM is giving to the disability sector, we are finding out about and meeting the needs of people with disabilities and the organisations which work with them; and the volunteers help to raise awareness among the rest of society, which is a very important task which the Association has been involved in since it was created 40 years ago.

In this regard, and coinciding with the UN's annual International Day of Persons with Disabilities, in 2010 ATAM and Telefónica jointly organised an awareness raising conference on the advantage of integrating people with disabilities in all aspects of life: social, economic, political and cultural. ATAM is working to build an inclusive society in which there are no barriers stopping people from participating, promoting the principles of equality of opportunity and non-discrimination.

We have continued collaborating in Social Innovation Forums with many entities from the social sector. In 2010, there were two meetings - one in Burgos and one in Igualada (Barcelona). ATAM took part in both with the objective of sharing best practices and innovative initiatives which permit cooperation and use of social networks. The ultimate objective of this is an exchange of experiences enabling these organisations to offer better services for people with disabilities and their families, promoting sustainable development of society from the economic, social and environmental perspectives.

Own equipment:

In 2010, 407 people with disabilities benefited from such equipment which perform activities for people who cannot perform professional work as a result of their age or capabilities.

In September, ATAM signed an agreement with Social Action and Citizenship Department of the Regional Government of Catalonia which enabled the creation of 96 new places in residences and occupational training for people with disabilities in San Cugat del Vallés (Valldoreix – Barcelona). All of these places will be publically-funded, and will form part of the Regional Government's Basic Network of Public Services.

These activities are managed jointly with the Public Administrations where the services are based. The Association is continuing to work on the refurbishment of this equipment in order to modernise it and guarantee its viability, and increasing the number of places so that more people with disabilities can benefit from these activities, whilst also implementing new external management models.

Telefónica University Chairs

The Network of Telefónica University Chairs is a tool that enables and promotes communication and joint collaboration between some of the best Universities in Spain and Telefónica so as to contribute to the development of the Information Society.

The common focus of the work carried out by each of the University Chairs is to analyse the current situation and identify trends in **the Impact of Technology on society**. The aim is to study how technology forms a part of and influences our lives, the people around us and society in general.

The Network of Chairs tackles this work in a **multidisciplinary** manner. Each of the Chairs is specialised in one field on which its activities are focused and contributes to the Network of University Chairs being a leading **think tank** in the study of the impact of technology on society. Thus, for example, some of the relevant issues on which Information and Communication Technology (ICT) has a big impact are: education, health, energy efficiency, the productivity of people and companies, etc.

Each of the Chairs has a work team managed by **people of great prestige that belong to the world of university**. The activities carried out by these teams are varied and range from the analysis of the impact of ICT on education or the productivity of companies to the training of demonstrators to show how the use of ICT can improve the life of disabled people.



For more information, visit [this website](#).

The Telefónica University Chair model is based on three approaches which are applied to the specific work of each Chair:

- a) A common focus on the impact of technology on society.
- b) Particular emphasis on communication, promotion and distribution of results.
- c) Working with others and seeking synergies among the Chairs in the Network.

a) The impact of technology on society.

At present, the Chairs are focusing their activity on issues on the Public Agenda. These include education, health, energy efficiency, productivity, social media, information security and privacy, etc. For more information, visit [this website](#).

Some of the activities carried out this year deal with the role of information and communication technology in the education of the future and how technology can help to make information more secure as people browse the Internet.

The Network of University Chairs continued to examine these issues in depth in 2010 - 2011, including in their work programmes activities such as:

Analysis of the demands and needs of society related to the areas of work of the University Chair

The purpose of this activity is to analyse the needs and demands of people, companies and society in general related to the work done by the University Chairs. Some examples are: Education 2.0, eHealth, SME Productivity, the use of social media in organisational communication, etc.

This has been performed using some of the traditional (eg. the University Chair Conference, Blog, etc.) and new (eg. specific working groups, surveys and on-line debates, etc.) tools of the University Chair Network.

The results of these activities have been communicated through the usual channels of the University Chair network (eg. University Chair Papers, Blogs, Video reports, etc.).

**b) Communication, promotion
and distribution of results**

Communication, promotion and distribution of the results has continued to be an essential activity for the University Chairs in 2010-2011.

Some of the 2010 activities which contributed to this included: the University Chair Conference, publications, radio and television reports and the University Chair blog.

In 2010, a new approach to distributing and promoting the results of the Chairs was introduced through the Telefónica University Chair Papers.

The University Chair Conference continued to be used to promote the activities of University Chairs in 2010-2011.

**c) Working with others and seeking
synergies among the Chairs in the Network**

This third approach includes activities to facilitate communication, synergies, cooperation and sharing of work among the Telefónica University Chairs.

The following are some of the activities implemented in 2010-2011:

Telefónica University Chair Papers

These are periodic publications which describe aspects of the work done by the University Chair; they are aimed at the general public and are not necessarily specialised in technology.

Content:

The 2011 focus of the University Chairs: Education, Health, Productivity, Energy Efficiency... and, in particular, the impact of ICT on society from these perspectives.

They include references to, and descriptions of, the contributions made by the University Chair through its projects and activities.

Style:

Educational, light and easy to read, but also accurate and fully documented.

Target public:

People with basic technological education, Telefónica staff, University students, etc. In general, people interested in the impact of technology on society.

The Papers published can be freely accessed and downloaded from the following link:

For more information, visit [this website](#).

University Chair Conference

This is an open conference focusing on the University Chair's area of activity, to which university students and representatives of companies are invited, and which are addressed by speakers representing the University Chair and companies and institutions specialising in the sector.

The purpose of the Conference is to present the state of the art and innovations in the topic selected and to raise awareness of the activities of the University Chair.

Workshop involving Telefónica and University Chair Network Clusters

The clusters that have been created in the University Chair Network are Education, Healthcare, Productivity, Energy Efficiency, Information Security and Privacy and Technology and R&D.

The goals of these workshops are:

1. To analyse the current status of work from the perspective of Telefónica and the University through the University Chair; and
2. To align visions and establish proposals and areas of work and actions to be undertaken in the next period.

Conference of the Telefónica University Chair Network – Telefónica Corporate University

The 2nd Telefónica University Chairs Conference took place in June 2011. This Conference attracted the Managers of the University Chairs and representatives of Telefónica involved in work related to each of the clusters.

During the Conference there were presentations on the current and future outlook for the ICT sector, and a number of work groups were held to identify synergies, combine visions and continue work on the strategic alignment of work being done in common.

The Conferences took place at Telefónica's Corporate University.

Telefónica University Chairs and Topics developed

University	Name of the Telefónica University Chair	Topic
1. UPM - Polytechnic University of Madrid	New Generation Internet	Security
2. UPM - Polytechnic University of Madrid	Sustainability in Mobile Communications	Sustainability
3. UC3M - Carlos III University of Madrid	Social Applications of Decision Aid	Technology / R+D
4. UC3M - Carlos III University of Madrid	Future Internet for Productivity	Technology / R+D
5. UC3M - Carlos III University of Madrid	Telecommunications economics	Productivity
6. UPC - Polytechnic University of Catalonia	Analysis of the Evolution and Future Trends of the Information Society	Energy Efficiency
7. Pompeu Fabra University	Social Media	Education
8. Polytechnic University of Valencia	New Technologies for the Environment and Social Inclusion	Energy Efficiency. Social Innovation
9. Deusto University	New Technologies for Education	Education
10. Zaragoza University	Security and Productivity in the Information Society	Productivity, Security
11. University of Navarra	Information Processing, Storage and Communication Technologies in Public Health Applications	Healthcare
12. La Laguna University	Telemedicine	Healthcare
13. University of Las Palmas de Gran Canaria	Accessible Technologies	Social Innovation, Sustainable Tourism
14. Oviedo University	Information and Communication Technologies Applied to the Environment	Energy Efficiency
15. Extremadura University	Technology Applied to Energy Efficiency	Energy Efficiency
16. Seville University	Intelligence on the network	Energy Efficiency, Education, Healthcare
17. Gerona University	Scientific Culture and Digital Communication	Education
18. UNED	Corporate Responsibility and Sustainability	Corporate Responsibility
19. Salamanca University	Comprehensive security	Security
20. Alcala de Henares University	Corporate Social Responsibility	Corporate Responsibility
21. Alcala de Henares University	CAPTA - Improving the Autonomy of Individuals.	Social Innovation
22. Valencia University	Sustainability and Inclusion	Social Innovation
23. University of the Balearic Islands	Technology applied to sustainable and inclusive tourism	Tourism
24. La Plata National University	IT applied to Education	Education
25. Valladolid University	Mobile Technology applied to Education	Education

Telefónica University Chair Clusters

Clusters

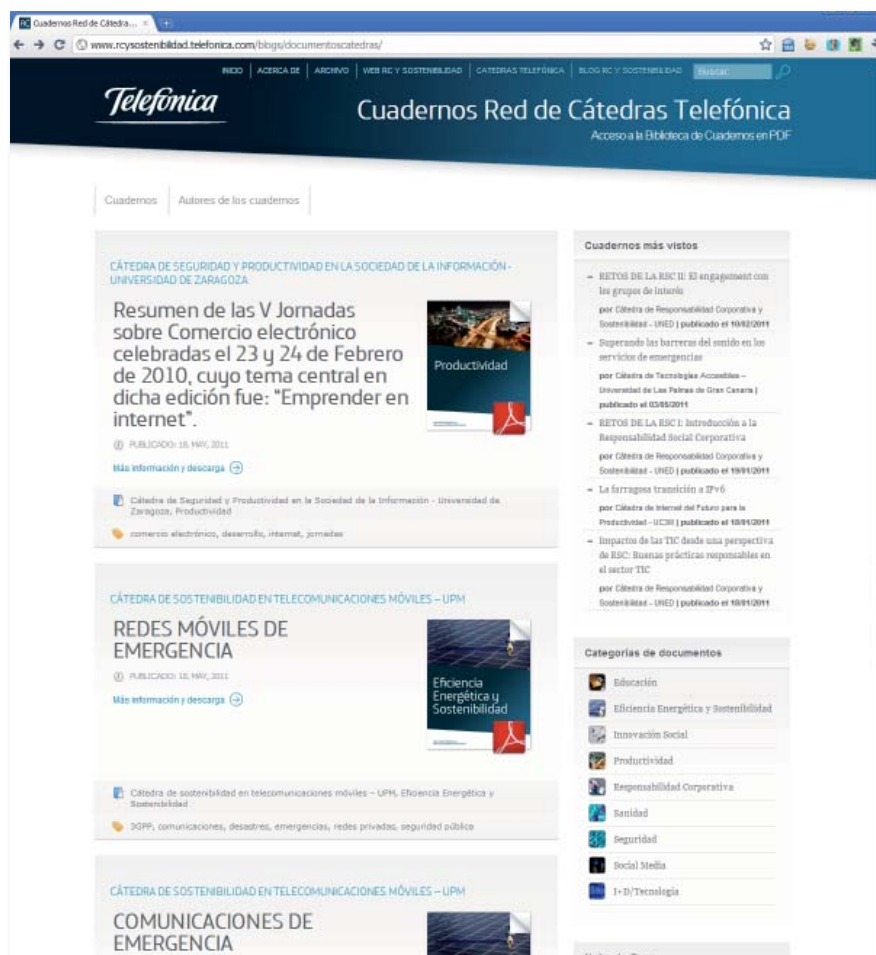
- 1 Energy Efficiency and Sustainability
- 2 Security
- 3 Social Innovation
- 4 Education
- 5 Healthcare
- 6 Productivity
- 7 Corporate Responsibility
- 8 Technology / R+D
- 9 Sustainable and Inclusive Tourism

The Network of Telefónica Chairs Blog



For more information, visit [this website](http://this.website).

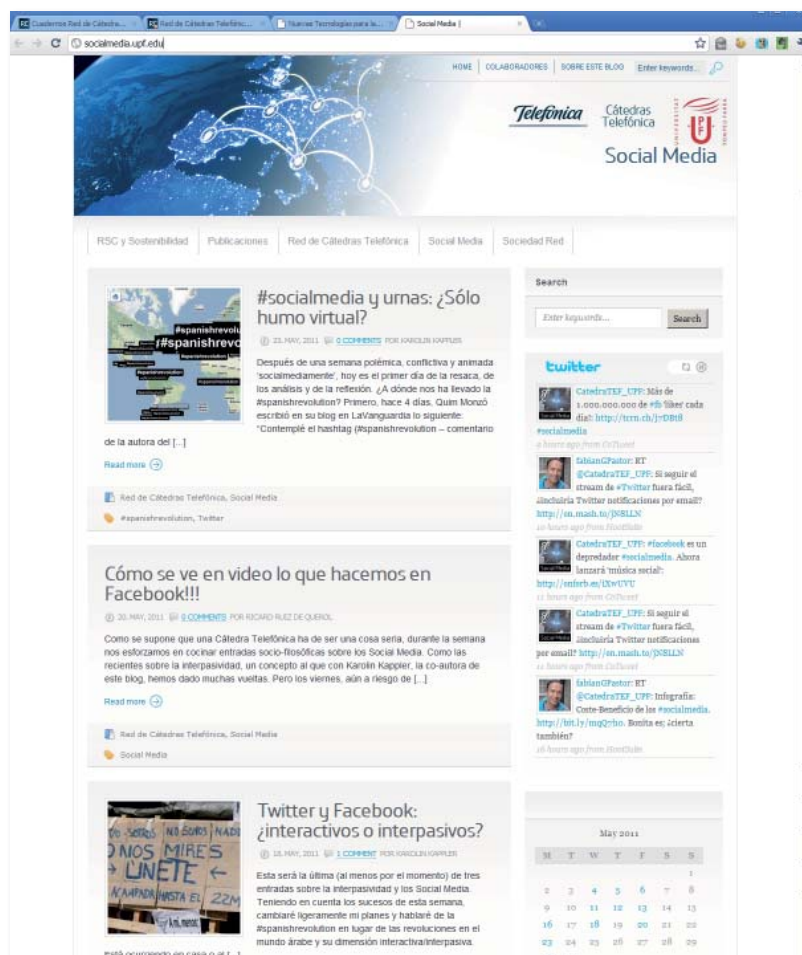
Telefónica University Chair Papers

For more information, visit [this website](#).

Telefónica University Chair Blog – Deusto University

For more information, visit [this website](#).

Telefónica University Chair Blog – Pompeu Fabra University



For more information, visit [this website](#).

Telefónica University Chair website – Alcalá de Henares University



For more information, visit [this website](#).

Compliance with the Regulation and Competition Standard

Relevant proceedings regarding competition

Spain

On 20 April 2010, the High Court confirmed the National Court's ruling annulling the €57m fine imposed by the Competition Court on Telefónica de España because the former considered it proven that the latter had behaved in a manner restricting competition, something forbidden by Article 6 of Law 16/1989, of 17 July, on Competition and Article 82 of the EC Treaty, a conduct consisting in an abuse of a dominant position by linking the provision of certain services to the inexistence of pre-allocations with competing operators and by carrying out unfair advertising campaigns. With this ruling by the High Court, it is conclusively proven once and for all that Telefónica did not infringe Competition Standards.

On the other hand, the Basque Competition Court passed a resolution on 11 February 2010 in which it declared the existence of an abuse of dominant position consisting in discrimination in relation to Euskaltel during 2006 and 2007. The Basque competition authority imposed fines on Telefónica de España and Telefónica Móviles España for €2,398,297 and €975,000 respectively. Telefónica will appeal against this ruling before the courts because it is in total disagreement with its content.

Europe

Only in the **Czech Republic** some novelties, favourable to Telefónica, have appeared in proceedings that were open prior to Telefónica purchasing the operator in the Czech Republic comprising the former Cesky Telecom, fixed operator, and EUROTEL, mobile operator.

First, the High Administrative Court annulled in 2010 the ruling of the Brno Regional Court imposing in 2003 on the former Cesky Telecom a fine of 3.3 million euros (81.7 million Czech crowns) for an abuse of dominant position consisting in the application of fidelising discounts and discriminatory conditions in the fixed voice services in the corporate segment. With this decision, the High Administrative Court has returned the case to Brno Regional Court.

Also in 2010, the Brno Regional Court has ordered the national competition authority to end the procedure in a case against the former EUROTEL where it had been imposed a fine of 880,000 euros (22 million Czech crowns), in 2003, by an indirect pricing agreement in interconnection agreements. The competition authority is expected to adopt the decision to end the proceeding.

Latin America

With regard to **Colombia**, the competition authority through Ruling 48372, of 13 September 2010, closed the investigation against Telefónica Móviles Colombia S.A. for restrictive trade practices for the case of interconnection with Avantel. On the other hand, through Ruling 42828 of 18 August 2010, it annulled the penalty imposed on Telefónica Móviles Colombia S.A. for 923 million pesos, in the investigation for restrictive trade practices for presumed rate discrimination in Fixed - Mobile phone calls.

With regard to the operations in **Peru**, the appeal for reversal against a decision of OSIPTEL of penalising Telefónica was settled. In the year 2002 AT&T (today Telmex) sued Telefónica del Perú ("Telefónica") before OSIPTEL for abuse of domain position and non-compliance with legal regulations. In July 2002, OSIPTEL declared that the complaint was partially grounded and imposed a fine of approximately 1,047,695.70 euros (1.097 tax units). Anti-competition behaviours proven by OSIPTEL were boycott and refusal to buy input materials essential for competing in the long-distance market. Against the decision of OSIPTEL, Telefónica promoted a judicial review action

before the Judiciary that ruled unfavourably to Telefónica in the year 2010. Telefónica cancelled the fine imposed.

Also in **Chile** a matter of abuse of domain position was finally settled. Voissnet, S.A. filed a complaint against Telefónica Chile S.A. for cross subsidy and tie-in sale. The TDLC (Free Competition Defence Court) through its ruling no. 97 of 4/03/2010 accepted the complaint for tie-in sales and rejected it for the cross subsidy, applying a fine of approximately US\$4,500,000. The High Court, through its ruling of 14 January 2011, confirmed the sentence that then became a firm judgment. The fine was paid on 31 January 2011 and was supplied at 100%.

Finally, in **El Salvador**, during the year 2010, only an investigation against Telefónica for presumed pricing – together with TIGO, CLARO and DIGICEL – with regard to the rates applied to the user in the fixed-mobile phone calls. Telefónica – and the other operators – left the audience granted by the competition authority, denying the existence of a pricing procedure. Given the statements of Telefónica – and the rest of operators – the competition authority gave up continuing investigating and closed the case.

Relevant proceedings regarding regulations**Spain**

On 15 July 2010, the CMT decided to impose on Telefónica España a fine of 330,000 euros for non-compliance with a Ruling of analysis methodology ex - ante of commercial offers. An appeal has been filed against the penalising decision.

Europe

In the year 2010 no relevant regulatory fining procedures have been settled against Telefónica.

Latin America

In **Chile**, the Court of Appeals of Santiago through its ruling of 13/12/2010, confirmed the fines imposed by the Ministry of Transport and Telecommunications for non-compliance with the complaint decisions. The amount of the fines corresponding to 11 lawsuits was 1,850,000 dollars. The fine was paid in January 2011.

In **Brazil**, most PADOS against Telesp for the joint sales of the Speedy service and the STFC service were closed.

In **Peru**, some penalising decisions were also adopted against Telefónica in Perú, in matters of compliance with information requirements, infringing rights of users and infringing the legal framework related to interconnection. In total, the fines imposed amount to 659,226 euros and most have been appealed.

In **El Salvador**, the SIGET imposed two very severe penalties for a presumed refusal to give access to its technical facilities to verify the interconnection status with two operators of intermediate services. The fines amount to US\$87K each. These decisions have been appealed before the Court of Appeals of the High Court of Justice.

Actions to comply with Competition and Telecommunications Standards

Aware of the great significance of the goals of telecommunications regulation and competition standards, the Telefónica Group has incorporated into its Business Principles the commitment to observe the law and has adapted its internal structures with an evident intention to comply with the regulatory framework and Competition and Telecommunication Standards.

Thus, as envisaged by the Code of the Board of Directors of Telefónica S.A., there is a Regulation Commission made up of six board advisers – mostly external – whose aim is to know and analyse the most relevant events at both the level of each of the local operations and the level of the Group itself in relation to the telecommunications and competition regulatory framework.

Within Telefónica's organisational structure, both Telefónica S.A. and local operators have units specifically devoted to regulatory management. These units have the support of other legal units specialised in telecommunications and competition law whose mission is to prevent and advise the Company so that, during the decision making, market growth and the fulfilment of the communication needs of the customers are combined with the observance of the telecommunications and competition regulatory framework.

Additionally, and in those countries where it has a leadership position in the market, Telefónica is aware of its particular responsibility and maintains its commitment to maintain the maximum respect for the principles and standards as regards telecommunications and competition law.

Due to all the above, Telefónica has kept carrying out actions aimed at guaranteeing compliance with Competition and Telecommunications Standards. This commitment has materialised throughout the years in the gradual implementation of specific training on the principles of these standards at both the executive level and the middle management level and to many employees.

A good example of this is the existence of the Programmes of Compliance with the Competition Law comprising both courses *on-line* on generic training on these regulations and training and diffusion actions on specific subjects and/or those aimed at specific groups of workers or areas. These programmes have been already fully implemented by most European and Latin American operators (Brazil, Chile, Uruguay, Mexico, Colombia and Venezuela). In the year 2011 these Programmes shall be implemented by the other Group operators, meaning that a large number of their employees shall be completing them, thus ensuring the staff commitment to compliance with competition regulations and the Business Principles of the Company.

The results of the preventive initiatives that are spreading throughout the Group and which have been detailed in the past few years have been very positive.

For further information about the standard, regulatory structure and competition conditions of each market where the Company operates, please [click here](#).



With our suppliers

The Purchase Management model is one of the issues most positively valued by suppliers

The Company allotted more than 83% of its purchases to local suppliers, thus contributing to the development of the countries where it operates

Telefónica has a common Purchase Management Model in all countries where it is present, ensuring that the purchasing function is developed on a coordinated and responsible basis.

The Telefónica Purchasing Model is based on the principles of: Concurrence and equality of opportunities, transparency in the process and decision making, objectiveness and unanimity in adjudication decisions, commitment of service to internal and external clients, mutual compliance with commitments with suppliers.

Furthermore, the Purchasing Model promotes compliance with Telefónica's Business Principles and commitment to sustainability in the supply chain.

These principles and commitments were applied in the over 41 thousand purchases made during 2010 for an amount above 26.8 billion euros, of which 83.6% were awarded to local suppliers, thus contributing to the development of the countries where Telefónica operates.

The main suppliers of Telefónica in 2010 were: Apple, Nokia, Ericsson, Huawei, Nokia Siemens, Samsung, LG, Alcatel-Lucent, Celistics and RIM.

In 2010 Telefónica continued to promote the use of electronic commerce managing to get 84.9 % of the amount awarded (over 22 thousand million euros) negotiated electronically, 23.5% of which through tenders.

For the purpose of completing the purchasing and supplying process electronically, the commitment electronic formalisation operations have also been increased, rising 36% from the previous year, and exceeding 165 thousand operations including orders and award letters. In addition, in 2010 the use of electronic invoices continued to spread, exceeding 109 thousand electronic invoices.

Telefónica has a Supplier's portal in Telefónica's web page (for further information see [this web page](#)) where the suppliers can perform the registration process to be suppliers of Telefónica and relevant information



can be seen, such as products and services purchased by Telefónica, the countries where it operates and information about the Purchasing and Responsibility Model in the supply chain.

In addition, Telefónica is part of the e-Marketplace of Adquira, where major companies such as Repsol, Iberia and BBVA also participate, besides other smaller companies, which means an advantage for suppliers, as they have access to a wide market of purchasers.

Telefónica Global Services (TGS)

One of the most important changes of the Purchasing Model in 2010 was the creation of Telefónica Global Services (TGS), a company that aims to strengthen relations with the Telefónica Group's main suppliers within the scope of network infrastructures, client devices and information systems.

TGS adds and manages all purchasing orders of the different operations of the Group in the world and negotiates with suppliers on a standardised basis, simplifying processes and thus improving efficiency by achieving an expedited, integrated procedure. In 2010 TGS negotiated over 8,000 purchasing processes for an amount of over 5.8 billion euros. In 2011 it is expected to extend this Model to other products and services.

In line with the objective of completing the purchasing and supplying process on-line, TGS promotes the use of the electronic invoice among its suppliers.

Telefónica Compras Electrónicas (TCE)

Telefónica Compras Electrónicas (TCE) is the company in charge of managing the electronic commerce platform of Telefónica, ensuring an adequate performance and availability of the system and giving an adequate attention service to internal and external users (suppliers).

In 2010, within the purchasing system standardisation plan in the Telefónica Group, TCE deployed the new purchasing management tool (ACM) in Telefónica, providing the coordinated action of purchases and aggregation of needs and information.

The availability of the platform exceeded 99.61% on average in 2010 for all modules and over 85 thousand service orders were met (including incidents, queries and user requests) with an average resolution time of less than one day. For the purpose of improving the service for users, in addition to the user service centre located in Colombia - where the service is provided in Spanish, Portuguese and English - in May 2010 the European user service centre, located in the Czech Republic, was set up. This centre attends to purchasers and suppliers of operators from Europe in English, German, and Czech.

Survey on satisfaction of suppliers

Telefónica performed in late 2010 a survey on its main suppliers to gauge their satisfaction level and identify which issues are valued positively and which could be improved. This time the survey was aimed at over six million suppliers, reaching a participation level of 22.86%. The ratings (on a scale from 0 to 5) were: Telefónica Purchasing Model **3.12**, Global Purchasing Organisation (TGS) **2.75**, Purchaser Management **3.18**, Assessment of Operative Relations with Telefónica **3.17**, Evaluation of Telefónica's Electronic Commerce Systems **3.20** and Corporate Social Responsibility **3.72**, the latter being the best valued block.

The issues evaluated favourably include: the principles of the Telefónica Purchasing Model, the Corporate Social Responsibility policy, the easy negotiations and opening of markets thanks to TGS, the honest and transparent action of purchasers, the electronic signature of commitments and electronic invoices, the support for users of electronic commerce tools, etc.

The suppliers identify the following issues as capable of improvement: the time devoted to each purchasing process, need for a greater diffusion of the Social Responsibility policy in the Supply Chain, the delivery of orders in due time and proper form, and more clear specifications.

During 2011 measures will be adopted to improve the issues highlighted by suppliers.

With our shareholders

The office of the Shareholder increased its activity in the year 2010 by 48.83 per cent

We ensure a clear, fluid communication

Telefónica has almost one million and a half shareholders and their Telefónica shares are listed in the Continuous Spanish Market (within the selective Ibex 35 Index) and the four Spanish Stock Markets (Madrid, Barcelona, Bilbao and Valencia), and the Stock Markets of London (UK), Tokyo (Japan), New York (US), Buenos Aires (Argentina), São Paulo (Brazil), and Lima (Peru).

In the year 2010, we allocated 6.755 billion euros to pay our shareholders, an amount that involves 80% of the cash flow generated in the fiscal year and around 9% of the market capitalisation of the Company at the closure of the fiscal year. Shareholder return involved the payment of dividends in cash (5.872 billion euros) and buying back shareholders' equity (883 million euros). The information detailed on the evolution of shareholder return can be seen here. [Click here](#) for more information.

Since the year 2003, when the Board of Administrators of Telefónica approved the so-called Spanish and international standards on Information Communication to Markets, the Company has been disseminating immediately and simultaneously in the markets where it is present all the information considered relevant and, therefore, capable of being notified to the market. These statements are also posted on our website.

Telefónica has different communication tools and channels to guarantee the principles of transparency and equality in the relations with both retail and institutional shareholders. This is reflected in the Telefónica Board of Directors regulation, which regulates the channels through which that relationship is established.

On-line channel

During the year 2010 the total number of ages visited in the website of Shareholders and Investors (for more information see [this website](#)) was 1,439,537 compared to 1,363,455 the previous year, which means an increase of 5.6% from the previous fiscal year. The website is available in Spanish, English and Portuguese, and has specific sections on:

- Information about the Company and its corporate profile, business lines and presence in other countries.
- The Company's stock market performance, including on-line share prices of the Company and its ADR programmes can generate interactive charts; compare Telefónica's share price with that of other companies in the sector; calculate returns over a

period selected by the user; and provide comparisons with reference indexes and their weight.

- The opinion of analysts, reflecting the current consensus, the relation of them and objective price comparisons.
- Information about the share capital of the Company. Its description, evolution, bought-back stock, and significant shares in other companies.
- Presentations and retransmissions on-line of multiconferences and outstanding interventions of the Company managing team.
- Financial information to official registers, results and communications with the markets, relevant facts and information on Corporate Governance (composition of Governing Bodies, Articles of Association, Regulations, etc.).
- Ratings, debt profile. Financing policy, evolution and details of the debt, emitting entities, presentations in forums and professional events.

- Viewing and downloading documents, including annual reports, the Regulations of the General Shareholders' Meeting and the Board of Directors, the Articles of Association, and official records of information on the Company's activities.
- The Shareholders' Corner provides small shareholders with a personalised interactive area for asking questions, receiving specific information and alerts about information relevant to the Company.
- Link to the web page on Corporate Responsibility and Sustainability of the Company.
- Latest relevant news, alerts, contacts and tools.

Shareholders

The Shareholder's Office ensures smooth and transparent communication with investors. At the end of 2010, there were 206,939 registered shareholders, who can access all the Company information, including the financial results and any corporate event that may be relevant to their investment.

The web page (for further information see [this web page](#)), the e-mail address accion.telefonica@telefonica.es, the corporate profile, shareholder's newsletter and shareholder attention phone number 900 111 004 are the channels most commonly used by our private shareholders. In the year 2010 the total number of pages viewed in the web page of shareholders and investors reached 1,439,537.

Our free hotline 900 111 004 during 2010 attended to a total of 74,951 calls, which meant an increase of 1.45% as compared to 2009, with a monthly average of 6,246 calls attended to.

These queries are broken down as follows:

- 19,268 queries about the General Shareholders' Meeting.
- 27,997 queries about stock market performance and share prices.
- 6,258 queries about results and relevant events.
- 53 queries on capital extensions and special financial operations.

In addition to these telephone queries, the Office of the Shareholder answered 5,190 other queries by e-mail and regular mail, which meant an increase of 48.83% from the previous year.

In the year 2010, the Office of the Shareholder went again to the most significant Stock fairs in Spain for professionals from the financial world, savers, and investors:

- Bolsalia, held from 6 to 8 May at the Municipal Conference Centre of Madrid.
- Borsadiner, held from 25 to 27 November at the Palau de Congressos de Catalunya, in Barcelona.

The Shareholder's Office publishes a magazine for the Company shareholders called "Acción Telefónica". This is a quarterly publication. In 2010, 598,402 copies were sent to the homes of shareholders. The magazine contains information about the financial results, corporate events, the Stock Exchange, news and cultural reports, draws and offers on different products and services.

Institutional investors

Communications with institutional investors were performed through the specific mail address for institutional investors (ir@telefonica.es) and the area of Relations with Investors, that depends directly on the General Director of Strategy, Finances and Development. The area of Relations with Investors provides individualised attention to institutional

investors and keeps a communication with national and international markets, in addition to representing the company in multiple professional events worldwide. Through this department, markets know the Company's main organisational, operative and business strategies, as well as its expectations for the future.

During 2010, personal meetings were held with 766 investors and 131 analysts, which meant an increase of 14.5% and 32.3%, respectively. In addition, we represent the Company in ten professional forums of investors in Spain, Europe, Latin America and the US.

To be highlighted is the organisation of the 8th Investor Conference in London from 13 to 14 April. Four hundred and fifty professionals participated in this conference. About 50% of them attended the event personally, accounting for about 23% of the share capital of Telefónica and the rest could follow it via webcast. The main Company executives participated in the event and interactions between managers of the different business areas and attendees could be multiplied during the plenary sessions and additional sessions in smaller groups.



10

GRI TABLES

GRI3 profile	Indicators	Covered in the 2009 CR Report	Covered in the 2010 CR Report	Covered in the 2010 Annual Corporate Governance Report	Covered in the CR Web/ Atlas	Not applicable/ material	Status within the 2010 CR Report (or explanation of omission of the indicator)
1.	Strategy and analysis						
1.1.	Statement by the top decision maker of the organisation (general manager, CEO or equivalent) on the relevance of sustainability for the organisation and its strategy.	X	X				Letter from the Chairman
1.2.	Description of the main impacts, risks and opportunities.		X				Corporate responsibility strategy in Telefónica
2.	Profile of the organisation						
2.1	Name of the organisation.	X	X				Throughout the report
2.2	Main brands, products and/or services.		X				Our clients
2.3	Operational structure of the organisation, including the main divisions, operational entities, subsidiaries and joint ventures.			X			http://www.telefonica.com/es/annual_report/pdf/telefonica_ia10_esp.pdf
2.4	Location of the organisation's headquarters.			X			http://www.telefonica.com/es/annual_report/pdf/telefonica_ia10_esp.pdf
2.5	Number of countries in which the organisation operates and the name of the countries in which its activities are significant or specifically relevant to the sustainability aspects discussed in the report.			X			http://www.telefonica.com/es/annual_report/pdf/telefonica_ia10_esp.pdf
2.6	Nature of ownership and legal structure.			X			http://www.telefonica.com/es/annual_report/pdf/telefonica_gc10_esp.pdf
2.7	Markets served (including geographical breakdown, sectors supplied and types of clients/beneficiaries).			X			http://www.telefonica.com/es/annual_report/pdf/telefonica_ia10_esp.pdf
2.8	Dimensions of the reporting organisation.			X			http://www.telefonica.com/es/annual_report/pdf/telefonica_ia10_esp.pdf
2.9	Significant changes in the period covered by the report in size, structure and ownership of the company, including: the localisation of activities or changes occurring in them, openings, closures and extension of facilities; and Changes in the structure of the share capital and other types of capital, maintenance thereof and operations for modifying the capital.	X	X				Consolidation perimeter of the information contained in this report
2.10	Prizes and awards received during the reporting period.	X	X				Recognition

GRI3 profile	Indicators	Covered in the 2009 CR Report	Covered in the 2010 CR Report	Covered in the 2010 Annual Corporate Governance Report	Covered in the CR Web/Atlas	Not applicable/ material	Status within the 2010 CR Report (or explanation of omission of the indicator)
3.	Report parameters						
3.1	Period covered by the information contained in the report.	X	X				Perimeter of this Report
3.2	Date of the most recent previous report (if any).	X	X				Perimeter of this Report
3.3	Report presentation cycle (annual, biannual, etc.).	X	X				Perimeter of this Report
3.4	Contact for issues regarding the report or its content.	X	X				Perimeter of this Report
3.5	Definition process for the report contents.	X	X				Perimeter of this Report
3.6	Scope of the report (e.g. countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers).	X	X				Perimeter of this Report
3.7	Indicate the existence of limitations in the scope or cover of the report.	X	X				Perimeter of this Report
3.8	The basis for including information in the case of joint ventures, subsidiaries, leased facilities, subcontracted activities and other entities that may have a significant effect on the comparison between periods and/or organisations.	X	X				Perimeter of this Report
3.9	Data measurement techniques and bases for calculations, including the underlying hypotheses and techniques.	X	X				Perimeter of this Report
3.10	Description of the potential effect of re-statement of information from previous reports, as well as the reasons for such re-statement (such as mergers and acquisitions, changes in reporting periods, nature of business or evaluation methods).	X	X				Perimeter of this Report
3.11	Significant changes relating to previous periods in the scope, cover or valuation methods applied in the report.	X	X				Perimeter of this Report
3.12	Table indicating the location of the basic Content of the report.	X	X				GRI Tables
3.13	Current policy and practice regarding the request for external verification of the report.	X	X				Checks and validations
4.	Governance, commitments and participation of Stakeholders						
4.1	The governance structure of the organisation, including the committees of the highest governing body responsible for tasks such as defining the strategy or supervising the organisation.			X			http://www.telefonica.com/es/annual_report/pdf/telefonica_gc10_esp.pdf
4.2	It must be specified whether the president of the highest governing body also occupies an executive position (and if so, the function in the organisation and the reasons that justify this).			X			http://www.telefonica.com/es/annual_report/pdf/telefonica_gc10_esp.pdf
4.3	In organisations with a unitary management structure, the number of members of the highest governing body who are independent or not executives must be specified.			X			http://www.telefonica.com/es/annual_report/pdf/telefonica_gc10_esp.pdf
4.4	Mechanisms used by shareholders and employees to notify recommendations or indications to the governing body.	X	X				<ul style="list-style-type: none"> • With our professionals. • In-house communication • With our shareholders

GRI3 profile	Indicators	Covered in the 2009 CR Report	Covered in the 2010 CR Report	Covered in the 2010 Annual Corporate Governance Report	Covered in the CR Web/ Atlas	Not applicable/ material	Status within the 2010 CR Report (or explanation of omission of the indicator)
4.5	Link between the income of the members of the highest governing body, senior management and executives (including agreements for leaving positions) and organisation performance (including social and environmental performance).			X			http://www.telefonica.com/es/annual_report/pdf/telefonica_gc10_esp.pdf
4.6	Procedures implemented for preventing conflicts of interest in the highest governing body.			X			http://www.telefonica.com/es/annual_report/pdf/telefonica_gc10_esp.pdf
4.7	Procedure for determining the skills and experience required of members of the highest governing body in order to guide the organisation's strategy in social, environmental and economic aspects.			X			http://www.telefonica.com/es/annual_report/pdf/telefonica_gc10_esp.pdf
4.8	Mission and value statements developed internally, codes of conduct and principles relevant for economic, environmental and social performance, and their state of implementation.	X		X			http://www.telefonica.com/es/annual_report/pdf/telefonica_gc10_esp.pdf
4.9	Procedures of the highest governing body for supervising the identification and management by the organisation of the economic, environmental and social performance, including related risks and opportunities, as well as adhesion or compliance with standards agreed at an international level, codes of conduct and principles.			X			http://www.telefonica.com/es/annual_report/pdf/telefonica_gc10_esp.pdf
4.10	Procedures for assessing the own performance of the highest governing body, particularly regarding economic, environmental and social performance.			X			http://www.telefonica.com/es/annual_report/pdf/telefonica_gc10_esp.pdf
4.11	Description of how the organisation has adopted a precautionary approach or principle.	X	X				Managing the risks. Integrity
4.12	Social, environmental and economic principles or programmes developed externally, as well as any other initiative that the organisation endorses or approves of.	X	X				About and scope of the Report
4.13	Main associations to which it belongs (such as sector associations) and/or national or international bodies that the organisation supports.	X	X				Throughout the report
4.14	List of stakeholders that the organisation has included.	X	X				Materiality analysis
4.15	Basis for identifying and selecting stakeholders which the organisation is committed to.	X	X				Materiality analysis
4.16	Approaches used to include stakeholders, including frequency of participation by types and categories of stakeholder.	X	X				Stakeholder Engagement
4.17	Main concerns and issues of interest arising from participation of the stakeholders and the manner in which the organisation responded to them in the creation of the report.	X	X				Materiality analysis

GRI3 profile	Indicators	Covered in the 2009 CR Report	Covered in the 2010 CR Report	Covered in the 2010 Annual Corporate Governance Report	Covered in the CR Web/ Atlas	Not applicable/ material	Status within the 2010 CR Report (or explanation of omission of the indicator)
Economy							
EC01	Direct economic value generated and distributed in society.	X	X				With our community. Driver of progress
EC02	Financial consequences for the organisation's activities relating to climate change.	X	X				Managing Opportunities. Green ICT
EC03	Coverage of the organisation's defined benefit plan obligations.	X	X				With our community. Social Action
EC04	Significant financial aid received from governments.	X	X				With our community. Universal Service
EC05	Range of relationship between the initial starting salary and the minimum local salary in places where significant operations are carried out.					X	Telefónica has employees in 26 different countries, with highly diverse laws, and even in several countries in which the figure of "local minimum salary" does not exist.
EC06	Policy, practices, and proportion of expenses corresponding to local suppliers.	X	X				With our community. Driver of progress
EC07	Proportion of upper management coming from the local community.	X	X				Managing the risks. Diversity
EC08	Development and impact of investments in infrastructure and services rendered mainly for the benefit of the public.	X	X				<ul style="list-style-type: none">Management of Opportunities. Social InnovationWith our community. Universal Service
EC09	Understanding and description of significant indirect economic impact.	X	X				With our community. Driver of progress

GRI3 profile Indicators		Covered in the 2009 CR Report	Covered in the 2010 CR Report	Covered in the 2010 Annual Corporate Governance Report	Covered in the CR Web/ Atlas	Not applicable/ material	Status within the 2010 CR Report (or explanation of omission of the indicator)
Human Rights							
HR1	Percentage and total number of significant investment agreements that include human rights clauses.	X	X				Managing the risks. Integrity
HR2	Percentage of major distributors and contractors that have undergone screening on human rights.	X	X				Managing the risks. Integrity
HR3	Total hours spent training employees in policies and procedures related to those aspects of human rights which are relevant to their activities, including the percentage of employees trained.	X	X				Managing the risks. Integrity
HR4	Total number of discrimination complaints.	X	X				Managing the risks. Integrity
HR5	Activities of the company in which the right of freedom of association and the use of collective bargaining could involve significant risks.	X	X				<ul style="list-style-type: none"> Managing the risks. Integrity Principles of the Global Compact. Principle 3
HR6	Identified activities that bring a potential risk of the exploitation of child labour.	X	X				Managing the risks. Responsibility in the supply chain
HR7	Identified activities that bring a potential risk of incidents of forced labour.	X	X				Managing the risks. Integrity
HR8	Percentage of security personnel who have been trained in the organisation's human rights policies or procedures.		X				Managing the risks. Integrity
HR9	Total number of incidents related to violations of the rights of indigenous people and measures adopted.		X				Managing the risks. Integrity
Labour practices and dignified work							
LA1	Breakdown of employees.	X	X				With our professionals. Our professionals in figures
LA2	Total number of employees and average rotation of employees.	X	X				With our professionals. Our professionals in figures
LA3	Social benefits for full time employees.	X	X				With our professionals. Fair wages
LA4	Percentage of employees covered by collective bargaining agreement.	X	X				With our professionals. Freedom of association and social dialogue

GRI3 profile	Indicators	Covered in the 2009 CR Report	Covered in the 2010 CR Report	Covered in the 2010 Annual Corporate Governance Report	Covered in the CR Web/ Atlas	Not applicable/ material	Status within the 2010 CR Report (or explanation of omission of the indicator)
LA5	Minimum notice period(s) for organisational changes	X	X				Principles of the Global Compact. Principle 3
LA6	Percentage of all employees that are represented on the joint management employees health and safety committees	X	X				Principles of the Global Compact. Principle 3
LA7	Absenteeism rates, occupational illness, days lost and the number of fatal accidents in the workplace	X	X				Managing the risks. Health and safety
LA8	Programmes of education, training, advice and prevention and control of risks applied to employees	X	X				Managing the risks. Health and safety
LA9	Health and safety matters covered by formal agreements with unions	X	X				Managing the risks. Health and safety
LA10	Average training hours a year by employee	X	X				With our professionals. Training and development
LA11	Programmes for skills management and ongoing training that further the employability of employees, and which support them in managing the end of their professional careers.	X	X				With our professionals. Training and development
LA12	Percentage of employees that receive regular evaluations of professional performance and development.	X	X				With our professionals. Attracting and retaining talent
LA13	Make-up of the Corporate Governance and Workforce bodies, broken down by gender and age group	X	X				Managing the risks. Diversity
LA14	Relationship between the base salaries of men and women, broken down by professional category.					X	The professional categories of Telefónica show very broad salary ranges, meaning that they are superimposable with each other, up to 50%, the result being that salary distribution by category, as an average, is no longer applicable for this purpose.
Environment							
EN01	Materials used, by weight or volume.	X	X				Managing the risks. Environmental Management
EN02	Percentage of recycled materials used.	X	X				Managing the risks. Environmental Management
EN03	Direct energy consumption by primary source.	X	X				Managing Opportunities. Green ICT
EN04	Indirect energy consumption by primary source.	X	X				Managing Opportunities. Green ICT

GRI3 profile	Indicators	Covered in the 2009 CR Report	Covered in the 2010 CR Report	Covered in the 2010 Annual Corporate Governance Report	Covered in the CR Web/ Atlas	Not applicable/ material	Status within the 2010 CR Report (or explanation of omission of the indicator)
EN05	Energy savings due to conservation and efficiency improvements.	X	X				Managing Opportunities. Green ICT
EN06	Initiatives to provide efficient products and services vis a vis energy consumption , or based on renewable energies and reductions in the consumption of energy as a result of such initiatives.	X	X				Managing Opportunities. Green ICT
EN07	Initiatives to reduce the indirect consumption of energy and reductions achieved with such initiatives.	X	X				Managing the risks. Environmental Management
EN08	Total water withdrawal by source.	X	X				Managing the risks. Environmental Management
EN09	Water sources that have been significantly affected by water collection.					X	This indicator is not applicable for all of the activities developed by Telefónica
EN10	Percentage and total volume of recycled and re-used water.					X	This indicator is not applicable for all of the activities developed by Telefónica
EN11	Description of adjacent land, or land located within natural protected areas , or unprotected areas with significant biodiversity.					X	This indicator is not applicable for all of the activities developed by Telefónica
EN12	Description of the most significant impacts on biodiversity located within natural protected areas, or unprotected areas with significant biodiversity.	X	X				Managing the risks. Environmental Management
EN13	Protected or restored habitats.	X				X	This indicator is not applicable for all of the activities developed by Telefónica
EN14	Present and future strategies and actions for managing impact on biodiversity.	X	X				Managing the risks. Environmental Management
EN15	Number of species, broken down by their risk of extinction, included on the Red List of the IUCN and national lists, and whose habitats are in areas affected by operations according to the threat level of the species.					X	This indicator is not applicable for all of the activities developed by Telefónica
EN16	Total direct and indirect greenhouse gas emissions by weight.	X	X				Managing Opportunities. Green ICT
EN17	Other direct and indirect greenhouse gas emissions by weight.	X	X				Managing Opportunities. Green ICT
EN18	Initiatives to reduce greenhouse gas emissions and the reductions achieved.	X	X				Managing Opportunities. Green ICT

GRI3 profile	Indicators	Covered in the 2009 CR Report	Covered in the 2010 CR Report	Covered in the 2010 Annual Corporate Governance Report	Covered in the CR Web/ Atlas	Not applicable/ material	Status within the 2010 CR Report (or explanation of omission of the indicator)
EN19	Emissions of substances that destroy the ozone layer, by weight.	X	X				Managing Opportunities. Green ICT
EN20	NO, SO and other significant air emissions by type and weight.		X				Managing Opportunities. Green ICT
EN21	Total use of waste water, according to nature and destination.		X				Managing Opportunities. Green ICT
EN22	Total weight of waste by type and disposal method.	X	X				Managing the risks. Environmental Management
EN23	Total number and volume of significant accidental spills.	X	X				Managing the risks. Environmental Management
EN24	Weight of waste transported, imported, exported or processed, and which is considered to be dangerous according to the classification of the Basel Convention, appendices I, II, III and VIII, and percentage of waste transported internationally.	X	X				Managing the risks. Environmental Management
EN25	Identification, size, status of protection and biodiversity value of water resources and related habitats affected significantly by water spills and runoff water from the reporting organisation.					X	This indicator is not applicable for all of the activities developed by Telefónica
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of reduction of this impact.	X	X				Managing Opportunities. Green ICT
EN27	Percentage of products sold, and their packaging materials, which are recovered at the end of their useful life, by category.	X	X				Managing the risks. Integrity
EN28	Cost of significant fines and the number of non-pecuniary penalties for breaches of environmental rules.	X	X				Managing the risks. Integrity
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations.		X				Managing Opportunities. Green ICT
EN30	Total environmental protection expenditure and investments by type.	X	X				Managing the risks. Environmental Management
Society							
SO1	Nature, scope and effectiveness of programmes and practices to evaluate and manage the impact of operations on communities.				X		www.telefonica.com/ext/atlasrc/es
SO2	Percentage and total number of business units analysed with respect to risks relating to corruption.		X				Principles of the Global Compact. Principles 1 and 10
SO3	Percentage of employees trained in anti-corruption policies and procedures in the organisation.	X	X				Principles of the Global Compact. Principle 10

GRI3 profile	Indicators	Covered in the 2009 CR Report	Covered in the 2010 CR Report	Covered in the 2010 Annual Corporate Governance Report	Covered in the CR Web/ Atlas	Not applicable/ material	Status within the 2010 CR Report (or explanation of omission of the indicator)
S04	Actions taken in response to incidents of corruption.	X	X				Principles of the Global Compact. Principle 10
S05	Position on public policies and participation in the development of same, and lobbying activities.	X	X				Materiality analysis
S06	Total value of contributions - financial and in kind - to political parties or related institutions.	X	X				Managing the risks. Integrity
S07	Total number of actions on issues relating to monopolistic actions and those against free competition, and their results.	X	X				Compliance with the Regulation and Competition Standard
S08	Pecuniary value of the contributions in kind or in cash to political parties or related institutions.	X	X				Compliance with the Regulation and Competition Standard
Product responsibility							
PR1	Phases of the life cycle of products and services, in which an evaluation is carried out so that any necessary improvements can be made, the impact of same on the health and safety of customers.	X	X				With our community. Commitment with technological innovation
PR2	Total number of incidents relating to the impact of products and services on health and safety during the life cycle.	X	X				With our community. Commitment to network improvement.
PR3	Types of information on products and services required by procedures and regulations in force.	X	X				With our customers. Explanation of rates and invoicing
PR4	Total number of breaches of regulations and voluntary codes relating to information and labelling of products and services.		X				With our professionals. Voluntary codes of information on our products and services
PR5	Policies related to customer satisfaction, including results of customer satisfaction surveys.	X	X				With our customers. Customer satisfaction
PR6	Programmes on compliance with laws or agreement with voluntary standards and codes mentioned in marketing promotions, including advertising.		X				With our professionals. Voluntary codes of information on our products and services
PR7	Total number of incidents resulting from breaches of regulations on marketing communications, including advertising, promotion and sponsorship.		X				With our professionals. Voluntary codes of information on our products and services
PR8	Total number of duly supported claims relating to respect for privacy and the personal data of its customers.	X	X				Managing the risks. Protection of personal data and privacy
PR9	Cost of those significant fines resulting from the breach of regulations in relation to the supply and use of the organisation's products and services.	X	X				Managing the risks. Protection of personal data and privacy

GRI3 profile	Indicators	Covered in the 2009 CR Report	Covered in the 2010 CR Report	Covered in the 2010 Annual Corporate Governance Report	Covered in the CR Web/ Atlas	Not applicable/ material	Status within the 2010 CR Report (or explanation of omission of the indicator)
Telecommunications Sectorial Supplement							
I001	Investments in the development of telecommunication networks by country/ region.	X	X				With our community. Driver of progress
I002	Net costs of universal service obligations.	X	X				With our community. Universal Service
I003	Practices that ensure the health and safety of personnel working on the installation and maintenance of antennae, base stations and other facilities.	X	X				Managing the risks. Health and safety
I004	Compliance with ICNIRP standards relating to EMF emissions generated by handsets.	X	X				Managing the risks. Electromagnetic fields
I005	Compliance with ICNIRP standards with reference to EMF emissions emanating from base stations.	X	X				Managing the risks. Electromagnetic fields
I006	Practices and policies established vis a vis the Specific Absorption Rate (SAR) of handsets.	X	X				Managing the risks. Electromagnetic fields
I007	Description of policies and practices in relation to the location of antennas.	X	X				Managing the risks. Environmental Management
I008	Number and percentage of locations that share and recycle structures.	X	X				Managing the risks. Environmental Management

11

CONSOLIDATION
PERIMETER OF THE
INFORMATION CONTAINED
IN THIS REPORT

The Annual Report gathers economic, environmental and social information from all countries where Telefónica operates.

16 countries have local CSR reports

Telefónica is a global company with a presence in 26 countries and over 288 million customers. The company has over 285,000 professionals, about 29,000 suppliers and over 1.5 million shareholders. It is important that the Annual CR Report clearly describes the scope of the operations that have been considered, so that stakeholders get an accurate image of the performance of the company in Corporate Sustainability and Responsibility.

Since the publication of the first Corporate Responsibility Report in 2002, Telefónica has always presented itself to its stakeholders as a benchmark global company in the telecommunications sector. This is the reason why, from that first report, it has always included the data of its operations in the different countries where it operates.

Local Corporate Responsibility and Sustainability reports in the countries:

- Spain (since 1999)
- Germany (since 2006)
- United Kingdom (since 2006)
- Czech Republic (since 2006)

- Argentina (since 2006)
- Brazil (since 2003)
- Colombia (since 2006)
- Ecuador (since 2006)
- El Salvador (since 2006)
- Guatemala (since 2006)
- Mexico (since 2006)
- Nicaragua (since 2006)
- Panama (since 2006)
- Peru (since 2003)
- Uruguay (since 2009)
- Venezuela (since 2006)

The 2010 Annual Corporate Responsibility Report contains economic, environmental and social information from all countries in which the company operates. For this, Telefónica has an *on-line* system for the coordination and consolidation of the information received from each country for each indicator, both qualitative and quantitative. This system allows for analysing it for each country where the activities are fulfilled on a comparable, weighted and measurable basis, always for the purpose of using it as a management tool. The set-up of this corporate system also helps improve the process for external verification of the report.

The origin of the information for each of the chapters in this on-line 2010 Corporate Responsibility and Sustainability Report is as follows:

- Economic and financial information: coming from the same sources preparing the information included in the 2010 Financial report, audited by Ernst & Young. The consolidation perimeter of this information includes all inflows and outflows from Hansenet since February 2010; from Jajah since January 2010; from Tuenti since August 2010; and 100% of Vivo since January 2010. Investment includes licence costs for Mexico and Germany.
- Corporate governance and shareholders: comes from the same sources that prepare the information included in the Annual Corporate Governance Report. For this type of information, the scope covers the Telefónica Group.

- Innovation is consolidated through the Telefónica S.A. corporate innovation department in collaboration with Telefónica R&D. The source of data on investment in innovation comes from purchasing systems, and is consolidated without the application of any proportionality criteria. As this involves economic data, the scope corresponds to that for economic information.
- Customers: comes from the quality control systems of Telefónica S.A., and from those of the operations of Telefónica España, Telefónica Latin America and Telefónica Europe. It must be highlighted that the number of total accesses of Telefónica does not need to be consistent with the partial sum thereof country by country, as, following homogenisation criteria, the Corporate Management Control area must standardise some access accountability criteria. The standardisation criterion has been as follows: RTB (including TUP) x1; Basic access RDSI x1; Primary access RDSI Digital Access 2/6 x30 including self-consumption, inclusion of all fixed wireless accesses, inclusion of voice over IP and ADSL Libre (free), accountability as ADSL broad band, satellite, optic fiber, modem wire, and broad band circuits, accountability of Pay-TV customers as the sum of access of television by cables + IPTV television accesses + satellite television accesses (DTH), including loops rented by T O2 Germany and wholesalers of Línea Telefónica (AMLT) in Spain.
- Employees: comes from Human Resources management systems, and this report refers to people rather than the equivalent employment figure, which is normally used in financial reports. In those cases where the information is presented as consolidated, the number of employees is used as the proportionality factor. This chapter includes the entire economic perimeter of the Telefónica Group, though some management parameters exclude Atento on account of the distortion its business nature causes on some information, so different from that of a telecommunications service operator, the actual core business of the Company. In all indicators where Atento is excluded, it is clearly specified in the table footnote.
- Environment and Climate Change: comes from the Environment and Operations departments of each country. This type of information is obtained from on-line questionnaires and other types of computer formats which are available in the different companies and countries. The information is consolidated by simple addition and, in the case of climate change, takes into account the emission factors of the GHG Protocol. This chapter includes the fixed and mobile operators within the scope of the Telefónica Group, also including District C and Telefónica.
- Suppliers: comes directly from the contract award system through the purchasing departments. The consolidation of information is carried out without the application of any criterion as a proportionality factor, the information being presented by countries or business lines. This chapter includes the entire economic scope of the Telefónica Group. Worthy of note is the difference between the data on "provisionings" in the consolidated accounts of financial statements (according to accrual basis accounting and accountable consolidation perimeter of Telefónica S.A.) and the criterion of "adjudicated purchases" that we have used in different sections of this report, referring to the purchases approved in the period, regardless of the accountability criterion and accruals as cost.
- Digital inclusion: comes from the quality control, operation and regulation systems of Telefónica España, Telefónica Latin America and Telefónica Europe. The scope also includes R+D and the initiatives of Fundación Telefónica that encourage digital inclusion in society.
- Social Action: comes from Fundación Telefónica, ATAM, the sponsoring units of Telefónica S.A. and those undertaken from the area of Corporate Responsibility and Sustainability. This information is verified according to the international standard London Benchmarking Group (LBG).
- When drawing up this report, the news published in the company's internal communications media is used. It is considered that all information that can be provided in CR reports must have been notified to employees, as a guarantee that the information is relevant.
- Types of change: all the information in this report is given in current euros, unless otherwise specified. The exchange rates used have been the annual means for each period.

Service activities set out in this Report

The Annual report of Corporate Responsibility and Sustainability includes the telecommunications service activities developed directly by Telefónica in the different countries where it operates, with incomes consolidated globally. The analysis of the impact of the respective business lines on its stakeholders concludes that it is the fixed and mobile telephony units that have a much more tangible impact on its stakeholders.

- Spain (fixed/mobile)
- Europe:
- Germany (mobile)
- Ireland (mobile)
- United Kingdom (mobile)
- Czech Republic (fixed/mobile)
- Latin America:
- Argentina (fixed/mobile)
- Brazil (fixed)
- Chile (fixed/mobile)
- Colombia (fixed/mobile)
- Ecuador (mobile)
- El Salvador (mobile)
- Guatemala (mobile)
- Mexico (mobile)
- Nicaragua (mobile)
- Panama (mobile)
- Peru (fixed/mobile)
- Uruguay (mobile)
- Venezuela (mobile)

Note 1: It does not include (except for sections where it is mentioned expressly) Vivo (Brazil) as this company that was acquired fully in the last term of the fiscal year, so, according to the transparency and comparability criteria, the management indicators of Vivo would distort the information from Brazilian companies of Telefónica that were managed throughout the year. In cases where it was included it is specified clearly in the table footnote.

Exceptions to this scope

There are some telephone operators whose information is not included in the report as the percentage of shareholders is not above 50% and/or it is not controlled:

- Vivo: mobile telephony company in Brazil managed 50-50 as a "Joint venture" with Portugal Telecom. Despite ending the year as a company belonging 100% to Telefónica, the fact that it entered our consolidation perimeter in the month of October has led us not to include it in the perimeter of this Report for the purpose of preserving the criteria of transparency and comparability in 2010, and add it in the next fiscal year instead.
- Meditel: Joint venture with Portugal Telecom, in which Telefónica had a 32.18% shareholding and it was sold in the year 2010.
- China Unicom: a company in which Telefónica has a strategic stake of 5.38%.
- Portugal Telecom, in which Telefónica holds a stable stake of 9.86% of its capital.
- Telecom Italia: a company in which Telefónica has a strategic stake of 10.36%.

- The information on Atento is included in some indicators of Human Resources for the relevance of this company in the total staff of Telefónica. However, the company has notified the CNMV (Spanish government agency responsible for regulating the financial securities markets) that over 50% of Atento will be sold on the stock market, in a sales offer aimed at institutional investors; so for the purpose of maintaining transparency and comparability criteria, we have decided not to include Atento in the analysis of some indicators where the different nature of the business would distort the comparison of the management of these indicators of Telefónica with the other companies of the sector and with subsequent years.

According to the criterion of relative impact, the Telefónica Content units (Endemol, Telefe, Telefónica Servicios de Música or Telefónica Servicios Audiovisuales), Atento, Telefónica I+D and T-Gestiona are not included in the report, unless explicitly mentioned or if reference is made to the group. Other companies on which Telefónica does not report are Lycos Europa (32.1%) and Amper (6.10%).

Extraordinary inclusions to the perimeter in this report.

However, an analysis has been carried out for each stakeholder to see whether there are units within the Telefónica Group which might have a significant impact, resulting in the following:

- Telefónica I+D in the innovation chapter.
- Atento in the employee chapter.
- Fundación Telefónica and ATAM in the company's share capital.
- Telefónica S.A. as the corporate centre in the chapters on shareholders and resources.

For further information on this Report and its content, please contact:
responsabilidadcorporativa@telefonica.es
www.crandsustainability.telefonica.com/blogs
www.youtube.com/rcysostenibilidad
www.twitter.com/rcysost
www.facebook.com/rcysostenibilidad

If you prefer, contact us by regular mail, at the following address:
Reputación y Sostenibilidad Corporativas
Telefónica S.A.
Distrito C
Ronda de la Comunicación, s/n
Edificio Oeste 2. Planta 1
28050 Madrid
Spain

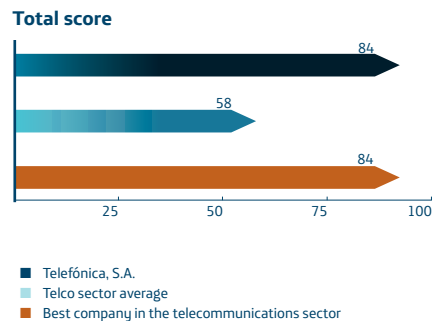
12

CHECKS AND VALIDATIONS

Recognition

Global Super Sector Leader in 2010,
with a score of 84 out of 100

DJSI sustainability ranking



For the second consecutive year, in 2010 we were the leaders in the “telecommunications super-sector” of the Dow Jones Sustainability Index (DJSI) for global corporate sustainability and responsibility. Whilst achieving this leadership in 2009 was a success in itself, repeating this has been even more significant as it further confirms the value of our strategy.

In its annual review, the Sustainable Asset Management (SAM) rating agency gave us a score of 84 out of 100, 26 percentage points higher than the sector average based on economic, environmental and social aspects. In 2010 we were recognised as being the company with best practices in seven key aspects: risk and crisis management; suppliers; environmental policies; development of human capital; impact of telecommunication services; social actions; and stakeholder engagement.

In **economic aspects**, we received a score of 83 points, 23 percentage points higher than the sector average. In this area, the index examines aspects related to business relationship management; privacy; risk management; corporate governance; Business Principles;

anti-corruption; and brand management. In a new development this year, the DJSI now includes innovation management, which includes environmental and social innovation.

We were awarded a score of 73 points **for environmental issues**, 21 percentage points above average. This area considers aspects related to environmental policy, eco-efficiency, environmental information and climate change. Our major improvement this year, achieving the highest score in the sector, was in terms of environmental management through the Global Environment Management System and the new ISO 14001 certification for the mobile business in Argentina; fixed-line telephony in Peru; and District C, our headquarters in Madrid. Over 50% of our companies now have this certification.

Finally, we were awarded 90 points for the **social dimension**, the highest score in the sector and 32 points above the average. This takes into account the evaluation of employment indicators; human resource development performance; talent retention; digital inclusion; the impact of telecommunications services; social action; social information; stakeholder

engagement, supply chain responsibility; and, for the first time this year; health and safety at work. It is worth noticing that the score we obtained in this new aspect was 32 percentage points above the sector average.

Furthermore, Telefónica has renewed its presence in the FTSE4Good index for responsible investment which measures the extent to which companies focus their business management on the long term and sustainability.

FTSE4Good highlighted some aspects of the management of our Company: human rights, *reporting*, the environment, society and the Business Principles management system. At present, this index includes 720 companies, with combined stock market capitalization of 13.14 billion dollars.

Communication of progress on the Global Compact

The integrity measures intend to safeguard the integrity of the companies signing the Global Compact

Nine years reporting on our principles

Telefónica signed up to the Global Compact Principles in 2002. Since then, the company has reported annually on its commitment to this initiative, on the application of the 10 Principles and on the evaluation of the results obtained in policies applied to achieve these Principles.

In 2004, the United Nations Global Compact office released the Integrity Measures. These measures intend to safeguard the credibility of the initiative and the companies which have signed up to the Compact. Thus, companies which have signed up to the 10 Global Compact Principles are asked to make public the "Communication on Progress", this is, to disclose in their Annual Reports, websites or in any other way the implementation of these Principles in their corporate strategy.

Communications on Progress must include the following three elements:

- A statement expressing continued support for the Global Compact in the letter or delivery or a statement of message from the CEO or equivalent.

- A description of practical actions taken by participants to implement the Global Compact principles in the preceding fiscal year.
- A measurement of results obtained or expected, using whenever possible indicators or systems such as those developed by the GRI (Global Reporting Initiative).

The declaration of continuity is contained in the letter signed by the Telefónica chairman which opens this 2009 CR Annual Report. The description of practical measures and the quantification of results is presented throughout the Progress Report.

Telefónica wished to take one further step, as an example of transparency, and in 2009 it focused its model report on these principles. Thus this report contains a specific section on progress in the last year in compliance with the 10 principles of the Global compact.

For an in-depth insight into the information and GRI indicators associated with compliance with the Principles [click here](#).



Contribution to the Millennium Development Goals

We are sure that our future is linked to the economic and social wellbeing of the societies where we operate.

Achieving
the MDGs
is still
feasible

Five years from the date established for reaching it, "We must not fail the billions of people who expect the international community to keep the promise of the Declaration of the Millennium for a better world. Let's keep our promise." - Ban Ki-Moon, Secretary General of the United Nations.

The figures given in the last summit on Millennium Development Goals, held in New York last September, reported that the efforts made in the past 10 years have brought progress in many sectors. However, improvements in the lives of disadvantaged people are insufficient. The global financial crisis has slowed down the progress recorded, but we still believe that reaching MDG is still feasible.

Reaching these goals requires the effort of all, and the private sector, as another actor, must contribute to the action taken by all countries to try and make MDGs become a reality.

In this context, the UN initiative [Global Compact LEAD](#), a company platform for promoting sustainability globally, must be highlighted. The 54 leading companies in sustainability, including Telefónica, have undertaken to work for the application of the Blueprint for Corporate Sustainability Leadership, a complex form based on three dimensions, including

increasing a complete road map based on three dimensions, including increasing support for the Millennium Development Goals.

This road map is based on a firm commitment to sustainability by the senior management of "LEAD" companies and their Board of Directors, and management based on transparency. In order to ensure the success of this initiative, the 54 companies will be sharing experience and best practices through local Global Compact networks. These companies undertake also to work more actively with the bodies, funds and programmes of the United Nations.

Furthermore, in Telefónica we are sure that our future is linked to the economic and social wellbeing of the communities where we operate. Therefore, Telefónica allocates significant resources to promote economic and social development in the countries where we operate.

- In this regard, through our foundation we have continued working on the contribution to achieving the goals: **1 "Eradicating extreme poverty and hunger"; 2 "Achieving universal primary education"; and 4 "Reducing child mortality"**, specifically through its social action programmes:

- [Proniño](#), which seeks to ensure sustainable withdrawal of children and adolescent workers from 13 Latin America countries through their access to quality education, had in 2010 the direct participation of 211,349 children in its comprehensive protection structure.
- [EducaRed](#), which intends to promote quality of education through the incorporation of ICT in teaching models, has 417,360 people registered in 112 virtual work and exchange communities.

- Thanks to the programme "**Jóvenes**" over 470 people have studied with scholarships from Fundación Telefónica. This programme was born last year with a global commitment and aimed to support this group, improving their expectations and generating opportunities for achieving an independent and responsible adult life.
- On the other hand, Telefónica has the [Global Diversity Project](#), which is undertaking to include in the in-house culture of the Company the concept of diversity. For this, in its third year of life, work was done mainly on the inclusion of this perspective in the life cycle of employees - from recruitment processes to evaluation and recognition of performance, also training our professionals in this field. At the close of 2010, Telefónica employed 146,909 women, 51.5% of the total workforce (up 1.4% on the previous year). We thus try to help to remove inequalities and therefore achieve **goal 3: "Promoting equality among the sexes and autonomy of women"**.
- From Telefónica Peru we participate as partners in [WawaRed](#), an initiative financed by the Inter-American Development Bank, aimed at "**improving mother-child health**"; **goal 5**. The programme is initially aimed at 5,000 pregnant women with low economic resources in the region of Callao, the middle-west of the country, and includes a mobile phone system for sending text messages that immediately gives them advice in the event of problems that may arise during pregnancy. Therefore, this initiative intends to improve mother-child information systems through text messages and a network of electronic clinical histories.
- We have several initiatives and sponsorships that evidence our commitment to achieving **goal 6: "Fight against HIV/AIDS, malaria and other diseases"**. We can highlight the collaboration with the [Spanish Association against Cancer](#) which has allowed for the incorporation of new technologies in its daily management and collaboration with the [ProCnic Foundation](#) that gathers the solidary interests of companies supporting the fight against cardiovascular diseases.
- We are also aware that one of the greatest global challenges is "**To ensure environmental sustainability**" (**goal 7**). Therefore, we have the so-called Office of [Climate Change and Energy Efficiency](#), whose aim is to reduce our internal emissions through energy efficiency actions and provide products and services enhancing greenhouse gas reduction in our customers and strategic sectors of economy. We have continued working on the implementation of the company's [Global Management System](#), guaranteeing compliance with certain common standards applicable to the management of all our companies' operations.
- Finally, we must highlight our contribution to **goal 8: "Promoting a world association for development"**, and more specifically the **Goal** "in collaboration with the private sector, **give access to the benefits of new technologies**, particularly information and communications". At Telefónica we have our own [social innovation strategy](#), aimed at meeting the needs of identified groups with special needs, mainly the elderly, disabled

people and the base of the pyramid. It focuses on various transversal areas, such as: (i) geographical, spreading telecommunications services in rural areas with high poverty rates, mainly in Latin America or (ii) finances, offering ICT solutions through the mobile phone for providing new methods of fund availability or account control to enhance financial inclusion in Latin America.

The company maintains its commitment by broadcasting these eight challenges, as well as raising awareness in society of the need to cooperate if they are to be achieved. To this end, as a member of the Corporate Reputation Forum, it continues to participate in the communications programme "2015: A better world for Joana", of which we have all been part since it was launched in 2007.

Another year, in Telefónica we have worked to contribute achieving Millennium Development Goals, through different initiatives, set out in this report, that intend to evidence how ICT is part of the solution, contributing to making MDGs an increasingly closer reality.

LBG Assurance Statement



Corporate Citizenship has been asked to provide assurance on Telefónica's application of the LBG measurement model for the year to 31st December 2010

For the
fourth year
in a row,
Telefónica
uses the LBG
model

The LBG model provides a robust and credible framework which measures the real value and impact of corporate community investment to both business and society. It moves beyond charitable donations to include the full range of contributions (in employee time, in-kind, and in cash) made to community causes.

Our work has been limited to assuring the correct application of the LBG model. This is the fourth year that Telefónica has used the LBG model and it continues to be an active member of the LBG España group.

In our opinion, Telefónica continues to show that it understands the LBG model and that it applies its principles to the measurement of community activities at home and abroad. Below we identify some improvements that can be made as the company develops its application of the model in the future.

Commentary

Despite practical challenges in applying a uniform system across Telefónica, the information on the inputs made by each entity continues to be sufficient to establish a good understanding of the overall contribution being made. We note that efforts have been made to capture employee volunteering hours and look forward to seeing this monetised in the future in order to provide further depth to understanding Telefónica's contribution in the community.

The Telefónica Foundation continues to demonstrate good practice in particular in the assessment and evaluation of programmes such as Pro Niño and EducaRed. As the focus and best practice in corporate community investment continues to shift from what you contribute to what you achieve, the business should investigate how best to learn and share practice across its operations. A move in this direction will be to develop and report full input, output and impact case studies for flagship projects from each of its core operating areas.

Telefónica's continued involvement in LBG España's working group to develop the collation and measurement of outputs and impacts is commendable and we would encourage the business to continue to develop best practice in Spain. We look forward to seeing the results of this work begin to show in next year's data.

Corporate Citizenship
www.corporate-citizenship.com
May, 2010

Independent Report of Ernst & Young

Ernst & Young has undertaken, for the fifth consecutive year, the independent review of our report

Credibility,
rigour, and
transparency

Independent review of reports provides credibility, rigour and transparency, making them a key instrument for ascertaining the shortcomings of management systems and policies.

For the fifth year in a row, the Telefónica Commission of Audits and Control asked Ernst & Young for an independent review of our Annual Corporate Responsibility and Sustainability Report based on standards AA1000 (according to the principles of materiality, relevance and exhaustivity) and GRIG3.

Likewise, it asked Ernst & Young to check each of the statements made in the CR report. Also, for the fourth year in a row, social and cultural action data were verified based on the LBG standard.

With respect to the review work carried out:

- The information on Corporate Responsibility published by Telefónica in Spain, UK, Germany, Czech Republic, Argentina, Brazil, Chile, Colombia, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, Panama, Peru, Uruguay and Venezuela has been verified by Ernst & Young whose headquarters are in Madrid and by the local teams of this company, which have spent over 3,652 hours reviewing the traceability of the information and holding interviews with managers.

The level of application of this report vis a vis the standard GRI was A+ GRI Checked.

Ernst & Young gives its independent opinion on the report by the Telefónica Group in its audit declaration. This report likewise saw the publication of a series of observations corresponding to AA1000 and compliance with the three principles of materiality, integrity and response capacity in this standard.

INDEPENDENT REVIEW OF THE TELEFÓNICA GROUP'S 2010 ANNUAL CORPORATE RESPONSIBILITY AND SUSTAINABILITY REPORT

To the Human Resources and Corporate Reputation Committee of Telefónica, S.A.:

Scope of the work

We have carried out the review of the content of the 2010 Annual Corporate Responsibility and Sustainability Report of Telefónica Group (hereinafter Telefónica), which has been prepared based on:

- The Global Reporting Initiative (GRI) Preparation Guide (version 3.0 - G3) for the worldwide scope of Telefónica.
- The principles stated in the AA1000 APS 2008 guide issued by AccountAbility (Institute of Social and Ethical AccountAbility) for the business activities carried out by Telefónica in Spain, Argentina, Colombia, Chile, Peru, Brazil, Mexico, Venezuela, Ecuador, Panama, Nicaragua, Guatemala, El Salvador, Uruguay, United Kingdom and the Czech Republic.

The scope determined by Telefónica, S.A. for the preparation of this report is defined in "Consolidation Perimeter" section in the accompanying Report.

The preparation of the accompanying 2010 Annual Corporate Responsibility and Sustainability Report, as well as the information contained therein, is the responsibility of the administrative bodies and management of Telefónica, S.A. They are also responsible for defining, adapting, and maintaining the management systems and internal controls from which the information is obtained. Our responsibility is to issue an independent report based on the procedures applied in our review.

Criteria

Our review was carried out based on:

- Standard ISAE 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standard Board (IAASB) of the International Federation of Accountants (IFAC), with a limited scope of assurance.
- AA1000 AccountAbility Assurance Standard 2008, with a moderate level of type 2 assurance.
- The Guidelines for reviewing Corporate Responsibility Reports, issued by the Official Register of Auditors of Accounts (ICJCE).

Applied procedures

Our review consisted in performing inquiries to corporate responsibility managers and the various managers of the businesses participating in the preparation of the 2010 Annual Corporate Responsibility and Sustainability Report, and in applying analytical procedures and sampling review tests as described below:

1. Interviews with the persons in charge of Telefónica's Responsibility and Corporate Reputation Department and a selection of managers and key management personnel involved in the Report's preparation. The purpose of these was to obtain an understanding of the Corporate Responsibility and Sustainability objectives and policies, as well as how they are put into practice and integrated into the Telefónica Group's strategy.
2. Review of relevant information, such as minutes of the meetings of the Human Resources and Corporate Reputation Committee of Telefónica, S.A. in which matters related to Corporate Responsibility and Sustainability have been discussed.
3. Review of the principal processes and systems through which Telefónica establishes its commitments with stakeholders, along with the coverage, relevance and integrity of the information included in the Report.
4. Analysis of the adaptation of the structure and content of the Report as indicated in G3 Global Reporting Initiative (GRI).
5. Test, on a sample basis, of the quantitative information included the Report, as well as its adequate compilation from data supplied by information sources. The review tests have been defined to provide assurance levels as described in "Criteria" section in this report.

A review is considerably less in scope than a reasonable assurance report. Therefore, the degree of assurance is also less. This report in no case should be considered an audit report.

These procedures have been applied based on the information provided in the 2010 Annual Report on Corporate Responsibility and Sustainability for the Group's most significant operators, except for VIVO in Brazil and Hansenet in Germany, as well as the information relating to energy consumption and emissions that were not included in the scope of our review.

Our Independence

We have performed our work in accordance with the standards of independence required by the Code of Ethics of the International Federation of Accountants (IFAC).

(Free translation from the Original Report on Independent Review in Spanish dated 18th March 2011. In case of any discrepancy, the Spanish version always prevails.)

Conclusions

As a result of our review of the 2010 Annual Corporate Responsibility and Sustainability Report, carried out with the scope indicated in "Applied procedures" section above, we conclude that:

- No matter came to our attention that would lead us to believe that the Report had not been prepared according to the Guidelines included in the Global Reporting Initiative (GRI) Preparation Guide for Sustainability Reports.
- No matter came to our attention that would lead us to believe that the remaining information and indicators included in the accompanying Report contain significant errors, or that the Report has not been prepared in accordance with the principles established in standard AA1000 APS (2008), such as:
 - ✓ **Inclusivity:** The mechanisms are in place to identify stakeholders, as well as to gain an awareness and understanding of their expectations, as explained in the "About and scope of the report" and "Stakeholder Engagement" sections of the accompanying Report.
 - ✓ **Materiality:** An analysis was carried out to select significant matters to be included in the Report, as described in the "About and scope of the report" section summarizing the materiality analysis.
 - ✓ **Responsiveness:** The necessary mechanisms to design, develop, evaluate, and communicate the responses necessary are in place to meet the principal expectations of stakeholders, as reflected in the "Highlights and Challenges" included in the chapters of the accompanying Report.

Recommendations

We also presented Telefónica, S.A.'s Corporate Responsibility Management with our recommendations regarding areas of improvement related to the application of standard AA1000 APS (2008), as well as to actions taken with main stakeholders. The most significant recommendations are summarized below:

a) **Inclusivity:**

This financial year, measures have been taken to enhance the dialogue channels with stakeholders, especially online channels such as "Dialogue 2.0". Our recommendation is to continue with the expansion of these channels gradually to the various stakeholders and to the principal countries in which it carries out its activities.

b) **Materiality:**

In addition to an analysis of materiality, 2010 Report includes a specific section with information on the most significant risks identified by Telefónica S.A.'s Business Principles Office and their impact on its reputation.

Our recommendation is to continue adapting the process of identifying the most significant risks to the needs of each country in which it carries out its activities.

c) **Responsiveness**

The ongoing assessment of objectives and the proposal of new challenges which were published in the 2010 Annual Corporate Responsibility and Sustainability Report demonstrate Telefónica's commitment to respond to the expectations of stakeholders. Our recommendation is that Telefónica define the challenges identification process more clearly to ensure that they are directly in line with the stakeholder's expectations.

We also suggest the following for procedures related to the actions taken with different stakeholders:

1) **Clients:**

The "Green Customer Experience Programme" was launched to contribute to the continual improvement of the Company's services. Our recommendation is that Telefónica improve the information related to the scope of services while expanding customer ombudsman services to all countries in which it operates.

2) **Employees:**

Information systems for health and safety indicators have been enhanced, establishing challenges in the area of "diversity." Our recommendation is that Telefónica expand the information related to the various facets of compensation, and that it develop policies and standards for "diversity" management.

3) **Suppliers:**

In 2010, Telefónica carried out the first suppliers satisfaction survey to obtain their evaluation of its behavior. Our recommendation is that Telefónica develop corrective action plans to address those areas which received lower evaluations.

4) **The community:**

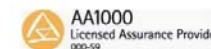
In 2010, Telefónica continued to work on its commitment to society, increasing its financial contribution to "social action" initiatives as well as the number of beneficiaries of the Proniño Programme. Our recommendation is that Telefónica continue improving its commitment to "accessibility."

4) **Environmental matters:**

In general, in 2010 controls concerning environmental data were improved. Our recommendation is that Telefónica improve the scope of the information in some indicators (for example: other office waste, etc.) and boost control of water consumption data.

This report has been prepared solely for the Human Resources and Corporate Reputation Commission of Telefónica, S.A., in accordance with the terms and conditions set out in our engagement letter.

ERNST & YOUNG, S.L.



(Free translation from the Original Report on Independent Review in Spanish dated 18th March 2011. In case of any discrepancy, the Spanish version always prevails.)

12 6

CHECKS AND VALIDATIONS

AENOR Certification

AENOR Asociación Española de
Normalización y Certificación

Madrid, June 6th, 2011

To whom it may concern,

AENOR (SPANISH ASSOCIATION FOR STANDARDIZATION AND CERTIFICATION), as an accredited verification body, confirms, with regard to our client TELEFONICA, S.A., that:

- Initially, during 2009, AENOR verified the procedures of energy consumption data, its consolidation and the emission factors to be applied for the calculation of CO2 emissions of the companies of TELEFONICA group.
- In 2011, we have done the external verification of greenhouse gas emissions of TELEFONICA, S.A. corresponding to the year 2010, taking the energy and mobility data as the activity data.
- The scope of the verification has been fixed and mobile operations that are carried out in Spain, Europe (O2 Germany, O2 UK, O2 Ireland and O2 Czech Republic) and America (Argentina, Brazil, Chile, Colombia, Ecuador, El Salvador, México, Nicaragua, Peru, Uruguay and Venezuela). Therefore, the emission sample made has been superior to the 90% of the total emissions.
- The verification was carried out in accordance with standard ISO 14064-3:2006, with a limited agreed level of assurance and on site and remote sample methodology. Also, the process included a specific analysis of the consistency with historical data with year 2007 as a base.
- The emissions object of verification, in accordance with standard ISO 14064-1:2006, have been:
 - o Scope 1 and 2, compulsory complete scope.
 - o Scope 3, anything related to the mobility of the members of the staff of TELEFONICA in their business trips.
- During 2011, for the first time, AENOR verified the development and implementation of energy efficiency projects of the companies of the group.

Finally, AENOR has the following accreditations:

- By United Nations Framework Convention on Climate Change, for the verification and validation of clean development mechanisms and joint action (Mechanism of the Compensation of Greenhouse Gas Emissions within Kyoto Protocol), especially for the production, distribution and energy consumption sectors.
- By ENAC, Accreditation Body, for the verification in accordance with EMAS Regulation for all the activity sectors, telecommunications included.
- By ENAC, nº 2/JCDE006, to carry out Greenhouse Gas Emissions verifications in those installations included in the National Emissions.

For the record to the appropriate purposes,


José MAGRO GONZÁLEZ
Environment Manager

Telefónica, S.A.
2010 Annual Corporate Responsibility and Sustainability Report of Telefónica, S.A.

This Report is available on Telefónica's website at: www.telefonica.com

Shareholders may also request copies of this Report from the Oficina del Accionista (Shareholders Office) by calling toll-free 900 111 004 (for Spain), or by e-mailing: accion.telefonica@telefonica.es

Additionally, all information required by current legislation is at the disposal of shareholders and the general public.

Publication:

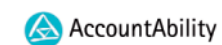
Technical General Secretary to the Chairman

Design and Layout by:

IMAGlA*oficina.es*

Issue date:

June 2011



Telefonica

www.telefonica.com
www.crandsustainability.telefonica.com
www.crandsustainability.telefonica.com/blogs
www.twitter.com/rcysost