

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-tiled lantern room at the top. A long, dark shadow of the lighthouse is cast across the water's surface, extending from the base towards the right side of the frame. The water shows some white foam and ripples around the base of the lighthouse.

2010
ANNUAL
Corporate Responsibility
and Sustainability Report
Telefónica S.A.

Telefónica

About the Report

We present Telefónica's ninth Corporate Responsibility and Sustainability Report

Moving towards a comparable reporting and global framework

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

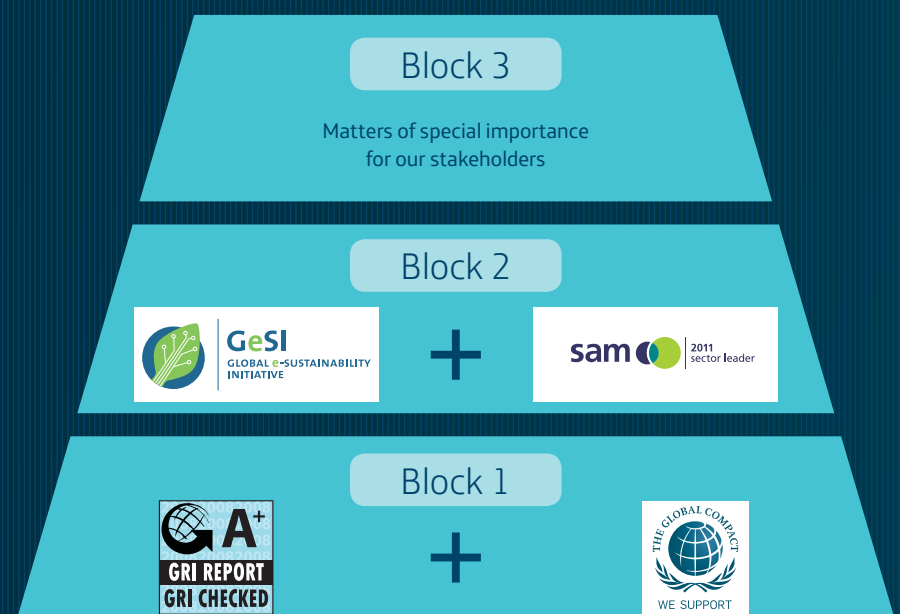
transparency, reflects the advances in management and the spirit of the progress reports of the Global Compact.

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.



Block 1

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.
Operating 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 CO ₂ 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.

Block 2

Telefónica's Corporate Responsibility and Sustainability Reports for 2010 follow the same structure based on the analysis of materiality and our strategy.

In order to prepare block 2 of our Corporate Responsibility and Sustainability Reports 2010, we have carried out an analysis of materiality that has allowed us to focus its content on important issues. In the first phase of identification 28 relevant issues were detected, and in the second phase of prioritization, the issues were evaluated against two variables: our strategy and the expectations of our stakeholders.

This analysis, which was carried out both on a global and local scale, allowed us to agree on a single index for all of the reports, arranged in accordance with our strategy (risk management, opportunities and stakeholder engagement) and the Bravo! programme. (To build relationships based on trust with the stakeholders).

The Corporate Responsibility and Sustainability Reports published by Telefónica in 17 countries, follow the GRI G3, AA1000AS (AccountAbility) standards relating to principles of materiality, responsiveness and inclusivity, and LBG standards for social and cultural action. Ernst&Young, an independent body, verify the reports and the statements they contain.

1. Telefónica's Corporate Responsibility and Sustainability strategy

Managing Risks

- Diversity
- Health and safety
- Integrity
- Protection of personal data and privacy
- Child protection
- Responsibility in the supply chain
- Responsible advertising
- Electromagnetic fields
- Environmental Management

Managing Opportunities

- Accessibility
- Digital inclusion
- Green ICT

Stakeholder Engagement

- Dialogue Process with stakeholders
- Dialogue 2.0

2. Building relationships based on trust with our stakeholders

With our employees

With our customers

With our community

- Engine of progress for the societies in which we work
- Telefónica's social action
- Promoting knowledge
- Regulatory compliance

With our suppliers

Block 3

This is about the drafting of monographs on topics that are relevant to the company locally, where there is a demand for information from the stakeholders.



Corporate Responsibility and Sustainability Reports of Telefónica in 2010

Argentina

Since 2003
GRI A+
AA1000AS

Brazil

Since 2003
GRI A+
AA1000AS

Chile

Since 2003
GRI A+
AA1000AS

Colombia

Since 2006
GRI A+
AA1000AS

Ecuador

Since 2006
GRI A+
AA1000AS

El Salvador

Since 2006*
GRI A+
AA1000AS

Guatemala

Since 2006*
GRI A+
AA1000AS

Mexico

Since 2006
GRI A+
AA1000AS

Nicaragua

Since 2006*
GRI A+
AA1000AS

Panama

Since 2006*
GRI A+
AA1000AS

Peru

Since 2003
GRI A+
AA1000AS

Uruguay

Since 2006*
GRI A+
AA1000AS

Venezuela

Since 2006
GRI A+
AA1000AS

Czech Republic

Since 2006
GRI A+
AA1000AS

Germany

Since 2006
GRI A+

Spain

Since 1999
GRI A+
AA1000AS

United Kingdom

Since 2006
GRI A+
AA1000AS

* Since 2009 these countries have been publishing their reports separately. Previously they published the Corporate Responsibility Report of Central America.

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Index

04	1 Letter from the Executive Chairman
06	2 Telefónica's Corporate Responsibility and Sustainability Strategy
08	3 Principles of the Global Compact
28	4 Analysis of materiality
30	5 Indicators
32	6 Partner for transformation progress
34	7 Recognition
35	8 Independent Assurance

www.rcysostenibilidad.telefonica.com/rcysost2010

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 17 Corporate Responsibility reports locally which are also verified 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.



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

The bravo! programme establishes our strategic needs

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.

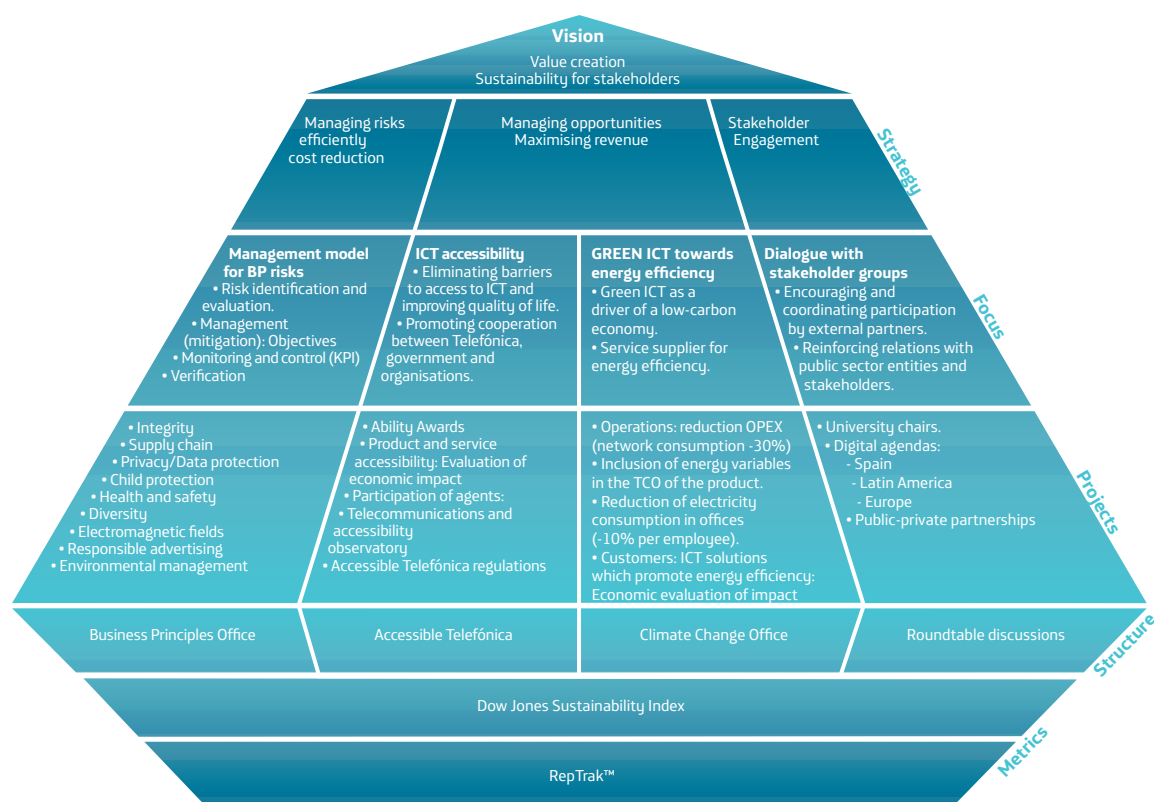
In 2010, the Business Principles Office implemented a new way of working, modifying its operating activities to include new responsibilities and a more proactive role for local Business Principles Offices. Together with day-to-day management of our Business Principles through training, communication 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.

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.

The Strategic Structure of Corporate Responsibility and Sustainability



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.

03

PRINCIPLES OF THE GLOBAL COMPACT

Principle 1

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.).



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.](#)

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

* For further information, see GRI tables (www.rcysostenibilidad.telefonica.com/rcysost2010).
¹ The total for fines relates to data protection and privacy issues in Spain, Germany, Colombia and the Czech Republic.

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

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 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 prepay 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).

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

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.

Our Business Principles

Telefónica

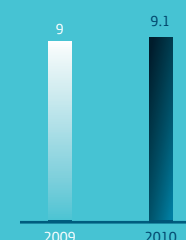
"We respect the principles of the United Nations Universal Declaration of Human Rights and the declarations of the International Labour Organization. We promote equality of opportunity and treat all people equally and fairly, with no prejudice based on race, colour, nationality, ethnic origin, religion, gender, sexual orientation, civil status, disability or family responsibilities".

Health and safety

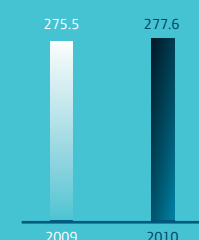
In 2010 we continued working on the qualitative and quantitative analysis of accident rates in the company. This analysis enabled us to obtain greater information on the circumstances in which accidents occur so that we can eradicate them.

	2009	2010
Units		
Absenteeism rate (DR) (GRI)	6,046	5,560
Accident rate (DR) (GRI)	0.8	0.9
Days lost rate (DR) (GRI)	16	27.8
Occupational illness rate (ODR) (GRI)	0.4	0.3

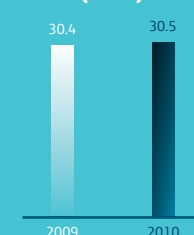
Incident Rate (IR)



Seriousness ratio (SR)



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.

03 Principle 2

of the Global Compact

PRINCIPLES OF THE GLOBAL COMPACT

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

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 overviews.

Here at Telefónica we are working to stop any breaches of human rights in our value chain, to which end we carried out over 1,100 audits of suppliers in 2010

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



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.

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

* For further information, see GRI tables (www.rcysostenibilidad.telefonica.com/rcysost2010).

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.

- The Brazil Customer Defence Service, the Ouvidoria (previously known as the Ombudsman), recorded 149,575 incidents. Of these, 86% were resolved within a maximum of 5 working days due to the committed efforts of the Customer Defence Service and other areas of the company.

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 works, 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.

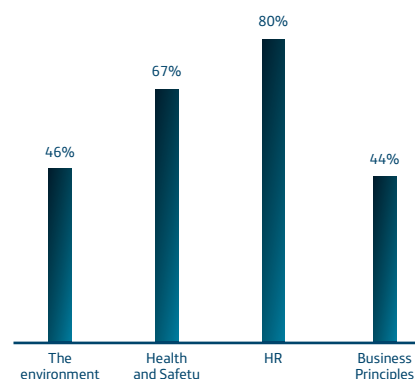
Through our Supply Chain Responsibility Policy, we inform our suppliers of the sustainability criteria and standards we expect of them, encouraging them to spread such standards throughout their supply chains.

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.

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 perform their business applying similar principles to our own, in addition to requiring compliance with the law and regulation in 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".

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.

PRINCIPLES OF THE GLOBAL COMPACT

03 Principle 3
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 1987 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.

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%

* For further information, see GRI tables (www.rcysostenibilidad.telefonica.com/rcysost2010).
¹ The percentage of employees with collective agreements, where such agreements are negotiated through trade unions (guilds, employees’ representatives, etc.).

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, 4000 in the mobile business and approximately 3000 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 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.

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 will respect the right of our employees to belong to a union organisation of their own choice, and we will not tolerate any form of reprisals or hostile action towards employees who take part 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.

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	90	97%

PRINCIPLES OF THE GLOBAL COMPACT

03 Principle 4 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.

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.

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

* For further information, see GRI tables (www.rcysostenibilidad.telefonica.com/rcysost2010).

Our Business Principles

Telefónica

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.



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 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.

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.](#)

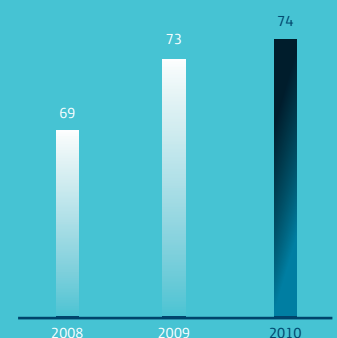
"We will not tolerate any form of child labour or forced labour, or any form of threats, coercion, abuse, violence or intimidation in our working environment, whether directly or indirectly".

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 (%)



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	1º
Telefónica Ecuador	2º
TM Colombia	2º
TM Argentina	3º
Telecom	6º
TISA	7º
Telefónica Central America	8º
Telefónica Chile	9º
Movistar Mexico	10º
TM Peru	13º
TSC	17º
Terra Chile	18º
TGestiona Perú S.A.C.	35º
Terra México	45º
VIVO	Among the "100 best companies to work for in Brazil"
	17th among the "70 Best IT and Telecom Companies to work for"
	Among the "15 Best Large 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	2º
Atento Argentina	4º
Atento Mexico	4º
Atento Peru	27º
Europe	
Telefonica O2 Ireland	6º
Telefonica O2 Germany	Among the 100 best companies to work for

03 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

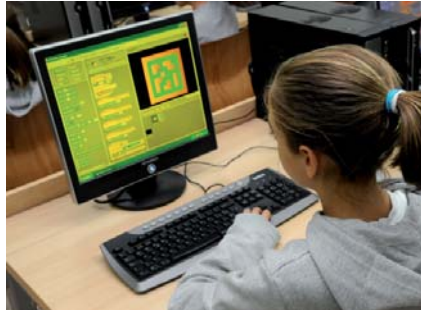
- 118 implementing NGOs.
- 5,860 educational centres involved.
- 211,349 beneficiaries of comprehensive protection.
- 432 Fundación Telefónica classrooms installed.
- 223,988 other beneficiaries of Fundación Telefónica classrooms.

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.

* For further information, see GRI tables (www.rcysostenibilidad.telefonica.com/rcysost2010).



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 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.

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.

Our Business Principles

Telefónica

"We work with civil, community and not-for-profit bodies, and with public initiatives aimed at mitigating social problems in the regions in which we work; basically through the use of our technology and capabilities".

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.

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 *online* 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.

03 Principle 6 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 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.

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

* For further information, see GRI tables (www.rcysostenibilidad.telefonica.com/rcysost2010).
1 This information has been adapted in order to make it possible to compare information from 2010, after the standardisation of sources of information.

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.
- 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).

"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

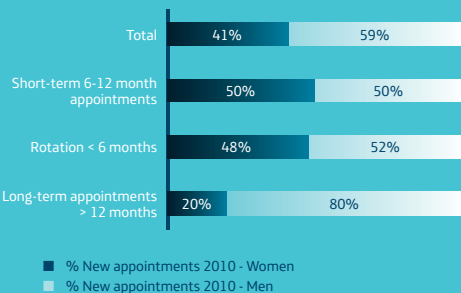
Since 2008 Telefónica has had an International Appointment Management Programme in place, designed to promote the mobility of talent as a key factor in the personal development of our staff, as well as best ensuring a transfer of knowledge and good working practices between company bodies and countries.

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).

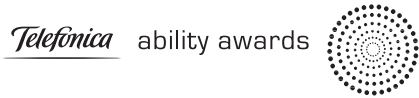
In 2010 there was a total of 297 such appointments. Of all these new appointments in 2010, 59% corresponded to men and 41% to women. This means there is a greater balance than in 2009, where the split was 65%-35% respectively. This is due to the fact that in 2010 the number of women thus appointed increased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



1st Telefónica Ability Awards in Spain



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

03 PRINCIPLES OF THE GLOBAL COMPACT

Principle 7

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 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. 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.

Global Reporting Initiative Indicators*

EC2 Financial implications and other risks and opportunities for the organization's activities due to climate change.
SO5 Public policy positions and participation in their development and lobbying activities.
AM 18 Initiatives to reduce greenhouse gas emissions.

* For further information, see GRI tables (www.rcysostenibilidad.telefonica.com/rcysost2010).

Reduction of climate change through ICTs

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 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 action to reduce greenhouse gases

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 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 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 approaches 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 construction. 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.

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 CDP² 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.

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 on adapting 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, the protection of the environment and the reduction of any negative impact arising from our operations in the environment".

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.
² Carbon Disclosure Project.

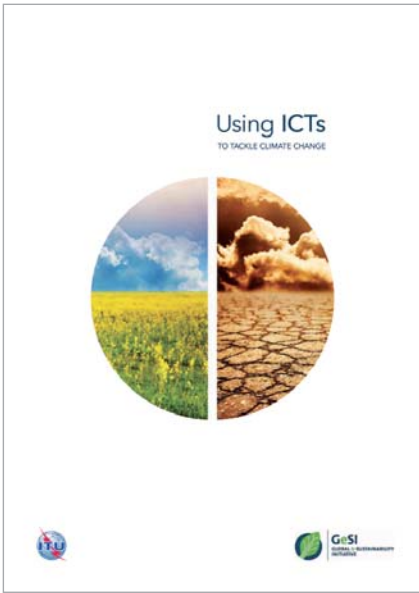
COP 17 ITU

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



03

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

Energy and CO ₂ ¹			
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

* For further information, see GRI tables (www.rcysostenibilidad.telefonica.com/rcysost2010).

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

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

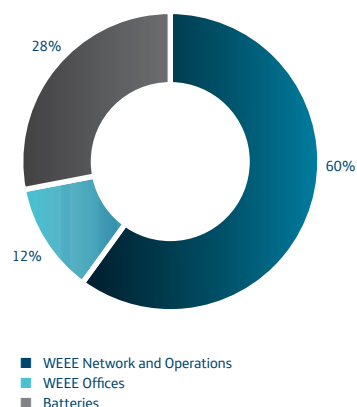
The management of environmental aspects is marked by an efficient use of resources, that is, to generate more benefits using fewer resources and generating less waste.

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 money saving activities and campaigns with employees to raise awareness.
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, extending the "paper-free office" model. At the same

time, the Company is seeking to promote the computer invoicing of its customers, further reducing paper consumption.

3. **Waste management efficiency:** The generation of waste is one of the most significant environmental issues relating to 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.

Telefónica Waste %



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 consumption and

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

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 regulation.

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 TWIS 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.

Our Business Principles

Telefónica

"We are committed to sustainable development, the protection of the environment and the reduction of any negative impact arising from our operations in the environment".

Leadership in energy efficiency



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.

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 corporative 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.

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 a 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.



Base station Brazil - VIVO

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, residue 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.

03 Principle 9 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 360º 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.

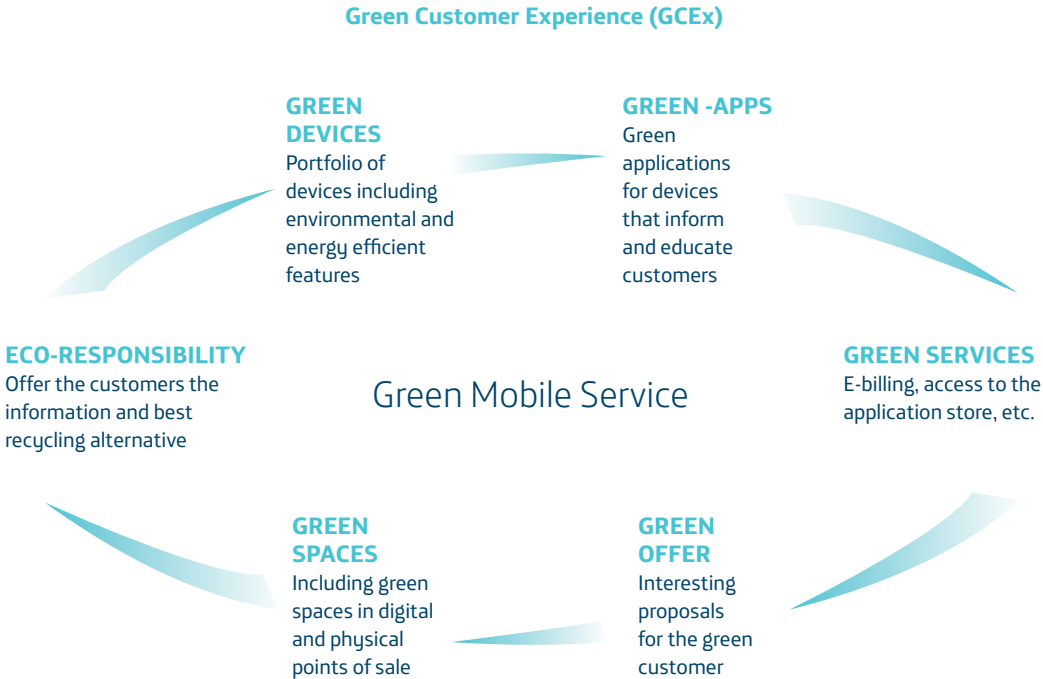
We have designed a 360º corporate model that aims at the inclusion of energy efficient

Green Technology



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

and environmental aspects in services or solutions released by Telefónica. For each one of these processes, Telefónica has created several activities worldwide.



Our Business Principles

Telefónica

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 Spaces:** 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.



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%.

"We are committed to sustainable development, the protection of the environment and the reduction of any negative impact arising from our operations in the environment".

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.

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).

03 Principle 10 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

* For further information, see GRI tables (www.rcysostenibilidad.telefonica.com/rcysost2010).

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 Panamá	Internet Portal	Panama
T. Móviles Panamá	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 Panamá	Call Centre services	Panama

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.

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.

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.

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.

"Under no circumstances will we offer or accept gifts, invitations, privileges or any other kind of incentive which may seek to reward or influence corporate decisions. We shall avoid or declare any conflict of interest which might put personal priorities before collective interests."

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.

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).

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.

Our purchasing process

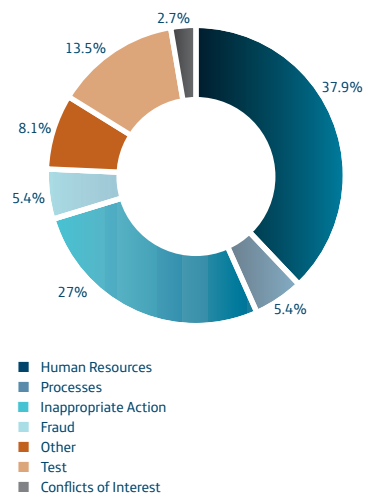


Business Principles Channel

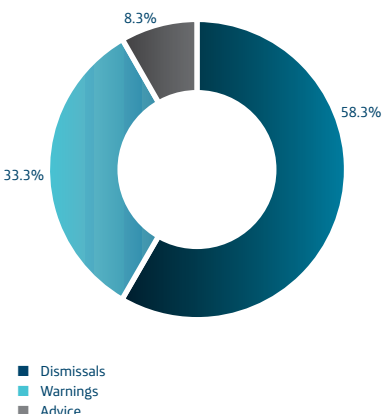
In 2010, our Business Principles channels for employees received a total of 121 communications, either anonymously or personally.

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



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

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

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 (website², blogs, Twitter, YouTube, Flickr).



1 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).
2 www.rcysostenibilidad.com

En una segunda fase, los resultados inicialmente obtenidos fueron priorizados en función de dos variables:

- Impacto actual o potencial en nuestra estrategia.
- Nivel de preocupación de nuestros grupos de interés.

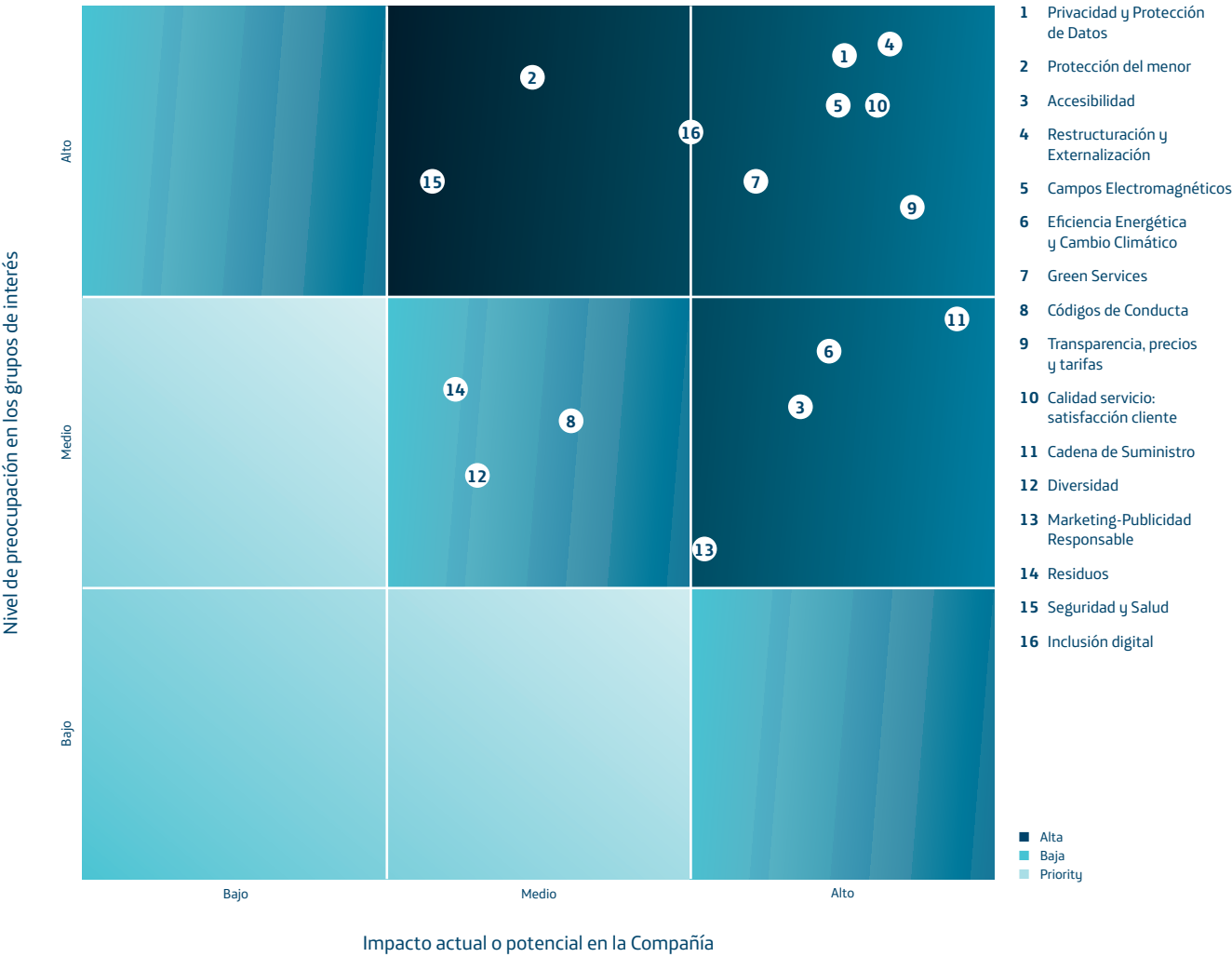
El ejercicio de priorización se efectuó con las unidades responsables de la gestión de los asuntos materiales inicialmente identificados. Además se aplicó un filtro de análisis de riesgo país, consistente en la evaluación del impacto en la estrategia y en la reputación.

Los resultados obtenidos han confirmado la importancia para nosotros de aspectos como la privacidad y protección de datos, protección del menor, cadena de suministro, inclusión digital, eficiencia energética y cambio climático, calidad de servicio...etc.

Estos resultados también han reflejado un aumento en la preocupación de nuestros grupos de interés de temas que tienen un alto impacto en nuestra estrategia: campos electromagnéticos, *green services*, externalización y reestructuración, seguridad y salud.

En la matriz de materialidad que se muestra aparecen los temas con un impacto medio-alto tras el análisis realizado. El desarrollo de estos temas forman parte de lo que hemos denominado bloque 2 del Informe de Responsabilidad Corporativa y Sostenibilidad 2010 (disponible en www.rcysostenibilidad.telefonica.com/rcysost2010)

Matriz de materialidad



Telefónica uses a range of indicators to measure its economic, social and environmental performance

Economic Impact

	Measurement unit	2010	2009	2008	% change previous year
Telefónica Group revenues	€ million	60,737	56,731	57,946	7.1
Market capitalization	€ million	77,588	89,089	74,574	-12.9
Investment in technological innovation	€ million	4,814	4,291	4,614	12.2
Payments to Government Bodies ¹	€ million	12,894	11,743	10,336	9.8
Payments to employees ²	€ million	8,409	6,775	6,767	24.0
Infrastructure investment	€ million	10,844	7,064	8,401	53.5
Volume of purchases awarded ³	€ million	26,858	22,802	25,926	17.8

Social Impact

	Measurement unit	2010	2009	2008	% change previous year
Total social investment (LBG) ⁴	Thousand euros	131,959	108,471	113,181	21.6
Number of Fundación Telefónica beneficiaries	Thousand	37,432	56,339	40,248	-33.6
Proniño programme beneficiaries	Thousand	211,349	163,900	107,602	28.9

Human rights

	Measurement unit	2010	2009	2008	% change previous year
Employees trained in Business Principles	%	59.7	57.0	49.0	4.7
Monetary value of fines for failure to comply with data protection regulations ⁵	Euros	2,132,321	3,832,652	1,064,000	-44.4

Employment standards

	Measurement unit	2010	2009	2008	% change previous year
Total number of audits performed on at-risk suppliers	Units	1,163	840	55	385
Global customer satisfaction index	Units	7.13	6.98	6.92	2.2
Total number of employees	Units	285,106	257,426	257,035	10.8
Employees with negotiated collective agreements ⁶	%	74.9	72.6	56.9	3.2
Total training costs in the year	Thousand euros	56,457	63,300	64,514	-10.8
Total training hours	Thousand hours	12,289	11,218	10,758	9.5
Women	%	51.5	50.1	49	2.8
Female managers ⁷	%	16.8	15.6 ⁷	16.6	7.7
Number of disabled people	Units	1,610	1,420	1,542	13.4
Number of discrimination incidents investigated by the BP Office	Units	0	0	15	0

¹ The difference in the payments to Government Bodies published on page 32 of this report is explained by the payment criteria used on page 32, whilst here we use the accounting figures.

² Payments to employees include Social Security contributions.

³ Does not include interconnection payments.

⁴ Social investment based on London Benchmarking Group (LBG) methodology.

⁵ The total for fines relates to data protection and privacy in Spain, Germany, Colombia and the Czech Republic.

⁶ The percentage of employees covered by collective agreements, where the agreement is negotiated through a union (trades union, worker representatives, etc).

⁷ Data adapted to enable comparison with 2010 following standardisation of information.

Environment

	Measurement unit	2010	2009	2008	% change previous year
Network roll out					
Expenses - Network deployment					
environmental impact studies	Thousand euros	204	451	761	-54.8
Shared infrastructure base stations	Units	26,781	25,205	17,594	6.3
Visual impact improvement investment	Thousand 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	Thousand euros	982	822	2,209	19.5
Acoustic impact improvement investment	Thousand euros	630	1,245	3,070	-49.4
Environmental investment and expenses	Thousand euros	17,030	24,035	20,089	-29.1
Eco-efficiency					
Total consumption of White Paper (including bills)	t	14,444	16,972	16,281	-14.9
Total consumption or Recycled Paper	t	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	t	2,485	1,978	2,071	25.6
Batteries	t	1,870	2,681	2,110	-30.2
Customer electrical and electronic equipment waste	t	1,614	1,811	1,632	-10.9
Total volume of waste recycled	t	4,155	3,478	n.d	-19.5
Oil waste	thousand 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
Energy and CO₂⁸					
Scope 1					
Fleet fuel consumption (diesel and petrol)	Thousand litres	35,248	24,911	27,646	41
Consumption of natural gas in operations	Cubic metres	420,866	444,283	471,453	-5.3
Consumption of natural gas in offices	Cubic metres	6,261,916	6,237,141	8,190,277	-0.4
Consumption of diesel on operations	Thousand litres	17,372	13,140	14,418	32
Consumption of diesel in offices	Thousand litres	1,191	1,195	588	-0.3
Direct emissions	t CO ₂ eq ⁹	149,761	114,839	127,755	30
Scope 2					
Energy consumption of office buildings	MWh	821,581	775,764	802,853	6
Energy consumption of operating buildings	MWh	5,546,827	4,296,489	3,959,408	29
Indirect emissions	t CO ₂ eq ⁹	1,776,944	1,674,531	1,566,336	6
Scope 3					
Work travel by plane	Units	125,927	111,231	72,338	13
Work travel by train	Units	75,779	55,851	45,525	36
Work travel by car	Units	33,444	18,570	13,695	80
Other indirect emissions	t CO ₂ eq ⁹	63,368	61,877	31,306	2
Avoided emissions ¹⁰	t CO ₂ eq ⁹	245,238	222,879	189,747	10
Total emissions	t CO ₂ eq ⁹	1,990,072	1,851,247	1,725,397	7

Anti-corruption

	Measurement unit	2010	2009	2008	% var. previous year
Number of employees dismissed for failure to comply with Business Principles	Units	7	8	0 ¹¹	-12.50
Number of corruption incidents investigated by the Action Principle Office	Units	5	13	1	-61.54

8 2009 energy data verified in 2010. 2010 energy and emissions data being verified; includes data from Vivo and TWIS.

9 The inventory in the three years includes t CO₂eq: CO₂, CH₄ and N₂O.

10 Emissions avoided through generation and purchase of renewable energy.

11 Changes have been made to the definition of the indicator, meaning that the 2008 and 2009 data are not comparable.

Telefónica is a driver of economic, technological and social growth in the countries in which we operate

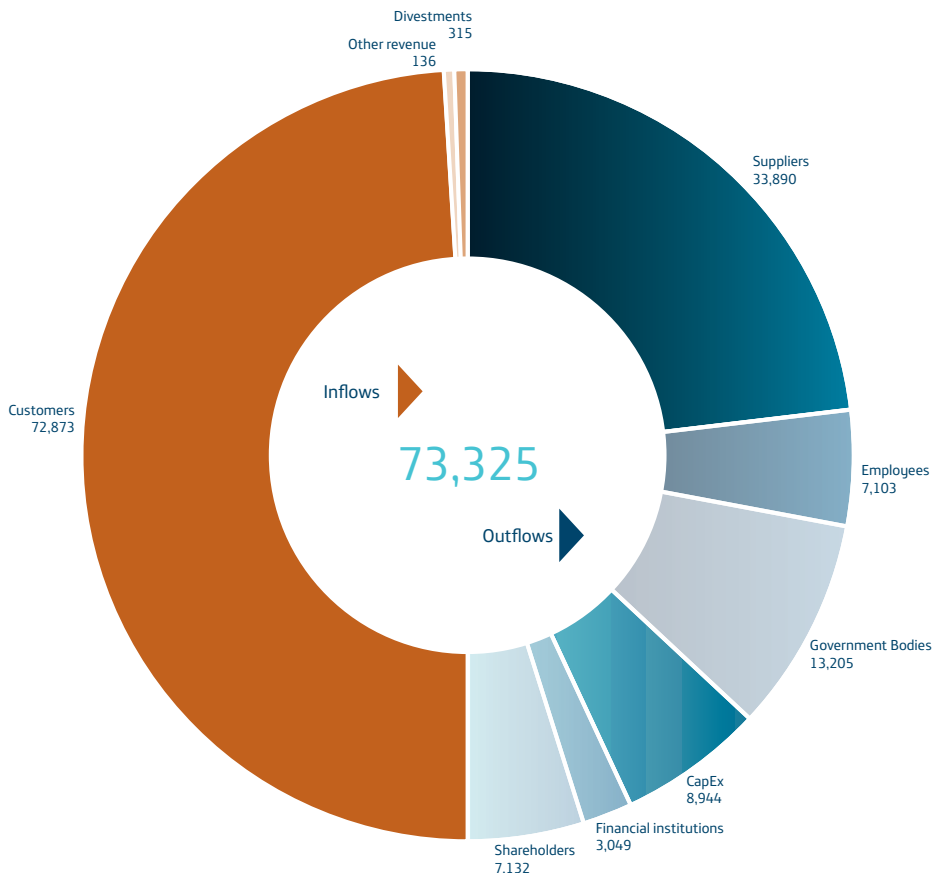
In 2010, the Company created wealth valued at 73,325 million euros

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.

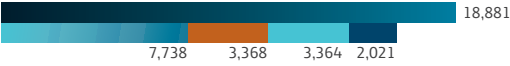
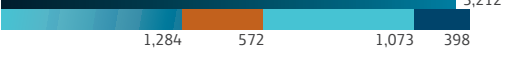
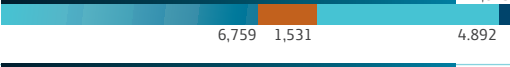
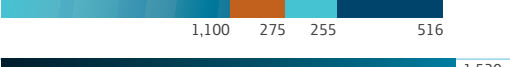
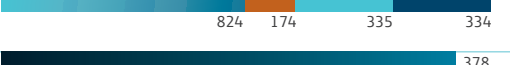
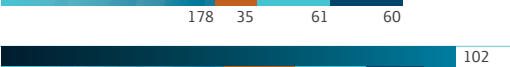
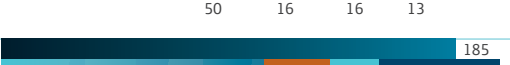
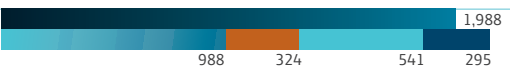
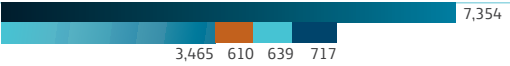
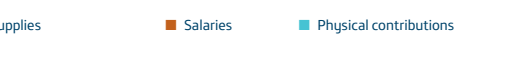


Notes:

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 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.

Contribution to progress

		Economic Impact	Revenue/GDP	Volumes	
Spain	Revenue Payments		1.8%	Employees	54,879
				approved suppliers	2,877
				% local purchases	87.4%
				Accesses (thousands)	47,591
Germany	Revenue Payments		0.2%	Employees	5,297
				approved suppliers	1,832
				% local purchases	64.2%
				Accesses (thousands)	23,074
Argentina	Revenue Payments		1.2%	Employees	24,322
				approved suppliers	1,431
				% local purchases	77.0%
				Accesses (thousands)	22,289
Brazil	Revenue Payments		0.8%	Employees	101,920
				approved suppliers	3,733
				% local purchases	99.1%
				Accesses (thousands)	75,954
Chile	Revenue Payments		1.4%	Employees	10,301
				approved suppliers	1,443
				% local purchases	76.2%
				Accesses (thousands)	11,916
Colombia	Revenue Payments		0.7%	Employees	7,412
				approved suppliers	1,016
				% local purchases	69.7%
				Accesses (thousands)	12,354
Ecuador	Revenue Payments		0.8%	Employees	1,160
				approved suppliers	422
				% local purchases	60.5%
				Accesses (thousands)	4,315
El Salvador	Revenue Payments		0.6%	Employees	243
				approved suppliers	314
				% local purchases	45.3%
Guatemala	Revenue Payments		0.6%	Employees	4,870
				approved suppliers	375
				% local purchases	47.2%
Ireland	Revenue Payments		0.5%	Employees	1,185
				approved suppliers	548
				% local purchases	87.6%
				Accesses (thousands)	1,696
Mexico	Revenue Payments		0.3%	Employees	22,547
				approved suppliers	760
				% local purchases	88.1%
				Accesses (thousands)	20,227
Nicaragua	Revenue Payments		2.2%	Employees	353
				approved suppliers	232
				% local purchases	39.7%
Panama	Revenue Payments		0.8%	Employees	432
				approved suppliers	258
				% local purchases	45.9%
Peru	Revenue Payments		1.7%	Employees	17,401
				approved suppliers	1,792
				% local purchases	78.3%
				Accesses (thousands)	16,955
United Kingdom	Revenue Payments		0.4%	Employees	11,845
				approved suppliers	1,870
				% local purchases	67.4%
				Accesses (thousands)	22,883
Czech Rep	Revenue Payments		1.4%	Employees	8,316
				approved suppliers	167
				% local purchases	88.6%
				Accesses (thousands)	7,667
Uruguay	Revenue Payments		0.7%	Employees	799
				approved suppliers	628
				% local purchases	22.7%
				Accesses (thousands)	1,709
Venezuela	Revenue Payments		1.1%	Employees	8,486
				approved suppliers	972
				% local purchases	95.6%
				Accesses (thousands)	10,550

■ Telefónica revenues ■ Supplies ■ Salaries ■ Physical contributions ■ Investment

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).

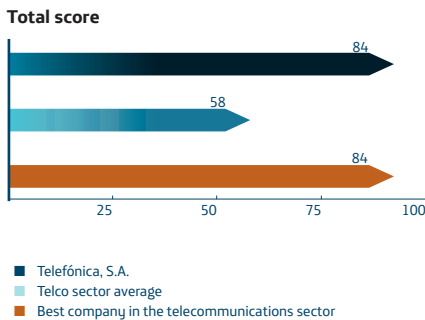
Employees: direct Telefónica employees in each country. In the case of Brazil, only 50% of Vivo is included in order to maintain consistency and comparability with the management data contained in the Telefónica employees chapter in this Report. For the same purposes of comparability and consistency, 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.

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.

FTSE4Good certificate



Independent review.

A message from Ernst & Young

We were engaged by the Audit Committee to review the 2010 Annual Corporate Responsibility and Sustainability Report of Telefónica, S.A. There are two parts to the report: this written document and the complete on-line version, that it will be available at www.rcysostenibilidad.telefonica.com/rcysost2010.

The preparation of the 2010 Annual Corporate Responsibility and Sustainability Report, as well as the information contained therein, is the responsibility of the governing bodies and management of Telefónica, which has been prepared based on:

- The principles and guidelines established in the G3 Global Reporting Initiative (GRI) reference guide for the worldwide scope of Telefónica.
- The principles stated in the AA1000 APS 2008 Assurance Standard 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, the United Kingdom and the Czech Republic.

Telefónica has also engaged us to review its 2010 Annual Corporate Responsibility Reports prepared locally in Spain, Argentina, Colombia, Chile, Peru, Brazil, Mexico, Venezuela, Ecuador, Panama, Nicaragua, Guatemala, El Salvador, Uruguay, the UK and Germany. These reports will be published in the coming months and will be available at www.rcysostenibilidad.telefonica.com/rcysost2010.

Scope of the work

Our work consisted in:

- **Review of compliance with GRI standards**
 1. Adaptation of the structure and content of the Report to the principles and guidelines established in the Guide G3.
 2. Adequate traceability of information and data corresponding to core and additional indicators and the Telecommunications sector supplement, as well as the reasonableness of the criteria for classifying indicators, where appropriate, as not applicable.
- **Assurance under AA1000 Assurance Standards**

The assurance procedures were carried out to evaluate that, for the aforementioned Telefónica Group scope, the 2010 Annual Corporate Responsibility and Sustainability Report complies with the following principles:

1. **Inclusivity:** this refers to the implication and requirements of interest groups when determining contents to be included.
2. **Materiality:** this relates to the inclusion of material and significant aspects for the Company and its interest groups regarding sustainability.
3. **Responsiveness:** determining the objectives and expectations of the interest groups and the appropriate and opportune communication of plans addressed to these groups.

The applicable guidelines of ISAE 3000 (The International Standard on Assurance Engagements Other than Audits or Reviews of Historical Financial Information) issued by the International Auditing and Assurance Standard Board (IASSB) of the International Federation of Accountants (IFAC) were taken into account, as were the Guidelines for reviewing Corporate Responsibility Reports, issued by the Official Register of Auditors of Accounts (ICJCE).

The assurance procedures included, fundamentally via interviews with the executive management of the corporate areas and the aforementioned countries, reviewing the Group's relevant information and press releases, reviewing the data-collection procedures, and based on selective tests, checking the traceability of the reported information for each of the indicators.

Our Independence

Ernst & Young's independence policies are applicable to the Firm, its partners and professionals. These policies prohibit any financial interest in our clients that might compromise our independence. Each year, partners and personnel are required to confirm their compliance with the Firm's policies. Ernst & Young's independence standards are more exhaustive, in certain areas, than IFAC (International Federation of Accountants) requirements.

Our Independent Review Report contains the scope of the work, review criteria, procedures carried out, our independence, as well as the conclusions and recommendations arising from the performance of our work. This information will be available at www.rcysostenibilidad.telefonica.com/rcysost2010.

ERNST & YOUNG, S.L.

Madrid, May 18, 2011

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.

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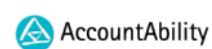
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