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Business Principles

The goal is to provide training to over 80% of employees in 2008



For more information:
www.telefonica.es/cro7/businessprinciples

36,000 Telefónica Group employees have received training on the Business Principles

In December 2006 Telefónica approved its Business Principles. Based on its Vision and Business Principles, the Company is building a new corporate culture.

The Business Principles management model is three-pronged: (i) employee involvement, (ii) compliance policies and (iii) internal control.

Involvement

Ratification

Throughout 2007, following approval by the Board of Directors, each Group company and subsidiary ratified the Business Principles in their respective governing bodies, using them as the basis for their codes of conduct in substitution of any previously existing ethics guidelines. By year-end 81% of Telefónica companies had incorporated the Business Principles into their ethics codes.

Internal communications

Internal dissemination of the Business Guidelines kicked off with personnel communication to employees, with the emphasis on the importance of knowing and applying the Business Principles. To back this effort, the Company published related articles in the in-house magazine, SOMOS, distributed throughout the entire Group, and set up a dedicated intranet page. The online brochure, available in English, Spanish and Portuguese, has been downloaded over 50,000 times. In some countries, awareness campaigns were launched.

Training

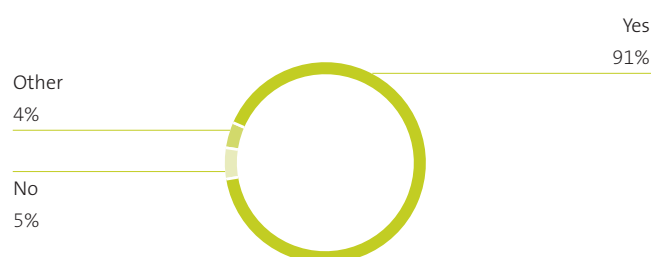
In 2007, Telefónica launched an online training programme, mandatory for all employees, with the goal of:

- Conveying the relationship between the Group's Vision, Values and Business Principles.
- Explaining the importance of following a set of basic business principles.
- Describing how their application can benefit brand image, culture and the work environment.

Latin America was the first of the Group's three regions to gradually implement the training programme. Training began in Mexico, Ecuador, Nicaragua, Colombia, Salvador, Panama and Guatemala in June of last year. It was subsequently initiated in the other Latin American markets and in Spain. Elsewhere in Europe, existing O2 courses were left in place with the exception of the Czech Republic, where the training initiative began in February 2008.

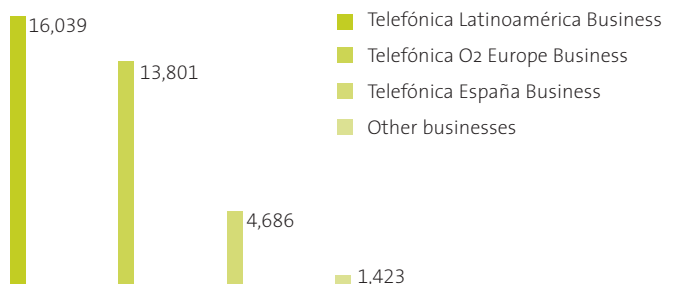
In all, 35,949 Telefónica Group employees had completed the Business Principles training programme by the end of 2007. The idea is that over 80% of the workforce will partake of the programme in 2008 (excluding tele-operations staff).

% OF GROUP COMPANIES THAT HAVE RATIFIED THE BUSINESS PRINCIPLES



Note: The information published on this graph has been obtained from the assessment of the financial report internal control required by Section 404 of the Sarbanes-Oxley Law.

EMPLOYEES TRAINED ON BUSINESS PRINCIPLES



Note: The graph does not include Atento because it has different training plans on business principles aimed to telephone operators.

Related Rules

Telefónica wants the Business Principles to influence and shape the way the company interacts with its stakeholders. Against this backdrop, and in order to distil the principles, in 2007 the Company approved the “Corporate guidelines for extending the Business Principles to the supply chain” as well as the “Responsible supplier contracting guidelines”. The Group is also working on other lines of initiative related to data protection, responsible advertising, environmental protection and encouraging the responsible use of telecommunications by children. At the country level, Argentina published a Manual for Living Side by Side containing rules devised to encourage specific behaviour.

Internal Control

The third and final cornerstone of the Business Principles is compliance monitoring: verification of the degree of implementation of the principles throughout the Group and compliance with the related rules and regulations.

Looking to 2008, the goal is to verify the degree of compliance on the training front and to subsequently check fulfilment of the rules implemented to date.

The Business Principles Office and Mailbox

The Business Principles Office is made up of the Human Resources, Internal Audit, the General and Legal Secretariat and the General Technical Secretariat for the Chairman’s Office departments plus a representative of Telefónica Esaña, Telefónica Latinoamérica and Telefónica O2 Europe, respectively. The office is responsible for disseminating the principles and related policies and monitoring compliance. It also manages employee, supplier and partner queries and claims.

These issues can be raised either anonymously or on a named basis through the Business Principles Mailbox. To date, the service has handled 213 queries, mostly in response to information requests and in some instances to convey inconsistencies observed in customer dealings or supplier contracting. Telefónica O2 Europe has investigated ten claims of breach of compliance and around 300 disciplinary actions have been taken.

In 2007, the Business Principles Office monitored the training initiative, the main claims and queries lodged and the approval of rules, etc.

This mechanism already existed in Europe to monitor o2’s Business Principles. This function was introduced in all significant markets in Latin America. The composition of all the regional offices mirrors that of the corporate Business Principles Office.



Extension of the Business Principles to suppliers

Telefónica’s Business Principles state the following in relation to responsibility throughout the supply chain: “We require our suppliers to develop their businesses by applying similar principles to those highlighted here and will insist on compliance with the laws and regulations of each country”.

To this end, in addition to implementing supplier specific principles, in 2007 Telefónica promoted training and self-assessment for its suppliers to ensure that they share the Business Principles. This led to identification of firms supplying products or services classified as presenting risk in terms of corporate social responsibility – 2,453 suppliers by the end of 2007, less than 5% of the total. The Company plans to evaluate over 1,000 suppliers in 2008.

This self-assessment questionnaire, devised by Telefónica, must be filled out online by at-risk suppliers when they sign up for, or renew their membership of, the Company’s catalogue of suppliers, or when they are awarded a tender for the provision of a risky product/service. The questionnaire enables Telefónica to measure its corporate responsibility risks more accurately.

Where necessary, the company follows up in-person or by telephone. Improvement plans are drawn up with suppliers at risk for breaching the Business Principles. Other risk-management tools used in the supply chain include on-site audits of the installations.

Telefónica proposes offering responsible suppliers rights of first refusal in tender processes (in countries where there is no legal impediment to doing so) and exoneration of commerce platform usage fees.



For more information:
www.telefonica.es/businessprinciples
www.telefonica.es/cro7/businessprinciples

Employee Satisfaction

The aim is to be the best workplace by 2010



For more information:
www.telefonica.es/abouttelefonica
www.telefonica.es/shareholdersandinvestors

The employee satisfaction index in 2007 was 65%, 3 points higher than in 2006

Giving employees a high-value deal that boosts their commitment to the Company. This is one of the aims of the “Employee Promise” initiative, designed to make Telefónica the best workplace by 2010.

In 2007, employee satisfaction improved substantially at Telefónica, by more than two and half percentage points from the year before according to the Employee Satisfaction Survey, which achieved a response rate of 67.6%.

Telefónica has already started to see results in the best employer rankings: Telefónica Colombia is rated as the best workplace in the country. Similarly, Ecuador Móviles, Uruguay Móviles, and the UK all rank among the top five. And in 2007, Telefónica O2 won the “Most Desired Employer” award.

“Employee Promise”: a key project in 2007

As part of its drive to improve employee satisfaction and become the best place to work, last year the Company extended one of its flagship initiatives: the “Employee Promise”. Following a methodology based on research and external best practice, tests began with this initiative at Telefónica O2 Europe. As at the date of this report, each region had its own employee promise, tailored to its own culture and strategy. All the promises start from a common set of priorities:

To consolidate a performance culture

Telefónica wants to continue transforming itself into a company where performance is valued, encouraged and rewarded appropriately. This means having clear and transparent ways of evaluating performance. In 2007, 171,626 employees or 70% of the workforce were assessed against evaluation targets in the Group.

To belong to an international company

The Company wants to make use of its size and international reach, increasing opportunities for mobility as a way to exchange ideas and best practice. In 2007, 200 employees took part in international mobility projects and international rotation reached 1,600.

To encourage global talent

Telefónica lays special emphasis on developing high potential employees, encouraging their development into the future leaders of the Group. In 2007, it invested more than 58 million euros in training. Employees received more than 14.7 million hours of face-to-face training. And over 1,000 participated in at least one strategic programme at Telefónica’s Corporate University.

Challenges for 2008

Some of the challenges in Telefónica’s management as the best workplace in 2008 are to:

- Drive forward an international mobility programme with more than 300 employees taking part, and achieving a 95% retention rate among the Global Talent Group.
- Instill practices that help work-life balance and wellbeing, such as new working practices in Telefónica’s Campus in Madrid, District C.
- Develop a training programme on customer orientation and leadership with Telefónica’s Corporate University.
- Drive the global diversity project and carry out initiatives that boost the inclusion of cultures, ways of thinking, gender, etc.
- Put into practice the professional means of promoting development.

EVOLUTION OF EMPLOYEES SATISFACTION

	Total Company	Executives	Intermediate staff	Collaborators
2005	58%	79%	64%	57%
2006	62%	80%	70%	60%
2007	65%	85%	76%	62%

Customer Satisfaction

Significant progress was made in Latin America



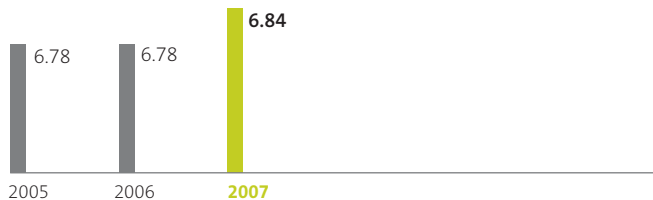
For more information:
www.telefonica.es/cro7/customers

Customer satisfaction reached 6.84 in 2007, up from 6.78 the year before

The Telefónica Group's commitment is to be leader in customer satisfaction in all businesses by the end of 2009. One of the key ways to achieve this is the "Customer Experience" programme, aimed to raising the degree of loyalty.

In 2007, Telefónica's overall Customer Satisfaction Index (CSI) ended the year at 6.84 on a scale of 10, compared to 6.78 in both 2006 and 2005.

GLOBAL CUSTOMER SATISFACTION*



The CSI of Telefónica España in 2007 was 6.67 and included notable improvements among residential wireline and large corporate customers. The wireless business maintained a more than 0.3 point lead over its competitors.

In comparative terms, the highlight is still the satisfaction of European users which rose again last year, driven by the UK which again had the best customer satisfaction ratings in the British market.

In Latin America the CSI improved by 4% over the year. The contribution of the wireless business was essential to this gain, with most operators improving their scores steadily throughout the year. Meanwhile, the fixed-line business posted a modest improvement.

"Customer Experience" a key programme in 2007

In 2007, Telefónica embarked on the "Customer Experience" programme spearheaded by the Executive Committee. Internally, the programme strives to raise customer satisfaction and, in this way, increase loyalty. It is based on best practice at Telefónica O2 Europe and is a global initiative.

Actions in 2007

The key actions in this project include identifying the touchpoint or point of interaction between customers and the Company and defining promises to meet their expectations. Throughout the process, Telefónica uses satisfaction surveys, specialised tracking tools, focus groups, etc.

To fulfil its "Customer Promises" in 2008, Telefónica will rollout initiatives to improve key processes and internal communication plans and will encourage the exchange of best practice between Group companies.

* Refers to the degree of satisfaction of the customer in relation to the service provided by the company, on a scale of 1 to 10, where 1 means not satisfied whatsoever and 10 means completely satisfied.



Telefónica: Corporate Governance and Transparency

The basic rules for Telefónica's corporate governance are set out in its by-laws, in the Regulations for the General Shareholders' Meeting and in the Regulations for the Board of Directors.

Corporate Governance Principles

Regarding the best interests of the company

The Board must act in the best interests of the company. This means acting to guarantee the company's long-term viability and to maximise its value, while also taking account of the various legitimate interests, both public and private, that are involved in the conduct of any business.

Regarding shareholders

The Board, as the link between the owners and the managers of the company, is responsible for providing appropriate channels for shareholders to put forward any proposals they have regarding the management of the company. It also undertakes to guarantee equal treatment in its dealings with all shareholders.

Regarding the market

The Board undertakes to do whatever is necessary to ensure the company's transparency vis-à-vis the financial markets and to promote correct pricing of the company's shares. Specifically, it must not manipulate or abuse privileged information.

General Shareholders' Meeting

The General Meeting is the supreme decision-making forum at which shareholders make their decisions. Its structure and functional rules are laid down in the Regulations for the General Meeting.

Board of Directors

Under its Regulations, the Board of Directors is mandated with the supervision and control of the company's operations. The Board delegates the day-to-day management of the business to the executive bodies and management team.

Nonetheless, the Board of Directors retains exclusive competence for certain matters that cannot be delegated. These include:

- General corporate strategy and policy.
- Evaluation of the performance of the Board, its Committees and its Chairman.
- Appointment of senior management and director and senior management compensation.
- Strategic investments.

The by-laws state that the Board of Directors must have between a minimum of five and a maximum of twenty Directors. In March 2008, the Board of Directors was made up of 17 Directors, comprising 3 executive directors, 4 proprietary directors, 8 independents and a further 2 classed as "other external Directors".

Telefónica wins awards for transparency

- “The Good Corporate Governance prize” awarded by Spanish financial weekly “Mi Cartera de Inversión” in the listed companies category.
- “The Information Transparency Prize”, decided by journalists from more than 100 Spanish media organisations through the El Nuevo Lunes weekly magazine.
- Telefónica was Spain’s top company for CSR according to a study by UGT.
- Telefónica is one of the best three Ibex35 companies at reporting on corporate responsibility, according to a study by Observatorio de RSC.
- Telefónica’s CSR reports were finalists at awards held by Accountability and the Global Reporting Initiative.
- Telefónica stands out as one of the best Spanish companies for the effectiveness of its investor relations, based on rankings drawn up by UK consultants the Institutional Investor Research Group.
- Telefónica del Peru won the “ProCapitales award” for best annual report.

The Executive Committee

The Board of Directors has delegated all powers and attributes to an Executive Committee, which is responsible for taking general management decisions, in compliance with laws in force, except for those powers that cannot be delegated under by-laws or regulations.

The relationship between the Board of Directors and its Executive Committee is based on principles of transparency such that the Board will always be kept fully informed of decisions taken by the Committee. The appointment of members of the Board of Directors to the Executive Committee requires the support of at least two thirds of the Board.

Consultative and Control Committees

Telefónica's Board of Directors has a number of consultative or control committees - currently six - which are charged with examining and monitoring particular areas of importance to the good governance of the company and which can also investigate specific major issues as occasion demands.

The most important of these committees are: the Audit and Control Committee, the Appointments, Compensation and Governance Committee, the Human Resources Committee, the Regulation Committee, the Quality and Customer Service Committee, and the International Affairs Committee.

Directors

Appointment

As required by the Spanish Corporations Law, Directors' appointments are subject to approval by shareholders at the General Meeting and, in accordance with the Board of Directors' Regulations, proposals to appoint a Director must be preceded by the corresponding report from the Appointments, Compensation and Governance Committee and, in the case of Independent Directors, by the corresponding proposal.

Rights and obligations

The Board Regulations set out in full the rights and obligations of Directors, detailing the duties that derive from their obligations to act with diligence, good faith and loyalty, notably as regards possible conflicts of interest, confidentiality, business opportunities and use of company assets.

Policy on compensation

The Company reports annually on the compensation received by members of its Board of Directors in the Notes to the Financial Statements and in its Corporate Governance Report in compliance with the criteria laid down for each of these documents. Also, the company has for the first time drawn up a report on compensation policy setting out the criteria and grounds that determine the compensation paid to Directors for the current year.



In 2007 Telefónica stepped up its commitment to fostering a safe environment for use of new technologies by children

Telefónica is giving parents and children more tools and recommendations to ensure responsible use of its products and services...

In order to foster a safe environment for the use of new technologies, last year Telefónica developed an internal regulation to ensure an appropriate product and service range. It also signed a framework agreement with the other main European mobile operators under which it commits to collaborate on the control and suitable labelling of content provided. The initiative is sponsored by the European Commission.

Products and Services

In 2007, Telefónica worked on the development of mobile handsets, packages and tools designed especially with parents and children in mind:

- Together with toy retailer, Imaginarium, it developed the CAM1, a more advanced version of the Mo1 handset, targeted at children over 6 years of age, including a digital camera and MP3 player.
- It released the fourth edition of Play Pack for children aged 8 to 14. Features include restricted calling lists, reverse charge calling, localisation services, adult content filters, etc. A euro from each pack is donated to the NGO, Aldeas Infantiles.
- Telefónica launched its so-called Family Management mobile telephony savings and management plan comprising one main line and a maximum number of dependent lines (either contract or prepaid). The plan includes features such as the ability to set consumption thresholds and an alert system when they are exceeded and the Mobile Babysitter content filter, among others.



- *Imagenio* continued to offer parental controls over the service (parents have a PIN number with which to block access to adult channels or prevent children from using the PPV service without permission), while Telefónica O2 Europe also offered service control features.
- Telefónica O2 Europe provides its customers with telephone numbers and websites for lodging concerns or reporting on inappropriate third-party use of its services.
- In Europe, Telefónica's Nuisance Call Bureau also provided customers with advice on child bullying and useful information on schools.

Educational Initiatives for Parents and Children

In 2007, Telefónica continued to collaborate on the Safer Internet Plus initiative sponsored by the European Commission. Training provided in Spain, together with the NGO Protégeles (Protect Them), on safe internet browsing and mobile telephony usage guidelines benefited 100,000 children in 400 schools.

In addition, Telefónica O2 Europe collaborates with the NGO Childnet International, with which it launched educational programmes, among other initiatives. In-store the Company provides brochures on handset theft, nuisance calls, prevention of bullying, etc. In the UK, Telefónica O2 Europe has developed its 'Champions' programme, a voluntary training programme to address child protection in the area of new technology usage.

In Latin America, Telefónica launched the "Interactive Generations" project to encourage the responsible use of ICTs among children and adolescents. Underpinning this initiative is the "Interactive Generations in Latin America. Young people in front of screens. Educational and Social Challenges" study, spearheaded by Telefónica and developed by the Navarre University in conjunction with Educared. As at the date of this report, a total of 28,917 surveys had been conducted. In tandem, other initiatives are being drawn up.



Last year, the Company took its first global inventory of greenhouse gas emissions based on recognised standards, such as the GHG Protocol

In 2007, we emitted just over 1.6 million tonnes of CO₂ equivalent, which equates to 7kg of CO₂ per access.

Telefónica's strategy against Climate Change

The telecommunications sector is classified as "Carbon Light" on account of its low greenhouse gas emissions. Factor in the industry's potential to cut emissions by circumventing travel, and it can be said of the industry that it is "part of the solution to the climate change issue".

In this field, Telefónica's strategy is to collaborate actively with the best known organisations such as the European Network Operator Association (ETNO) and the Global eSustainability Initiative (GeSI), in order to pool efforts. In July 2007, Telefónica, along with 152 other companies, joined the "Caring for Climate" initiative endorsed by the UN Global Pact, thereby committing to work actively to fight Climate Change.

To deliver on these promises, the Company launched an in-house strategic climate change plan, a horizontal initiative affecting the entire Group, the targets of which are:

- To compile and standardise carbon emission data in all of Telefónica's operating markets and companies.
- To identify risks associated with future emission limits and opportunities to cut them in order to improve Telefónica's environmental record.
- To elaborate an energy efficiency plan.
- To calculate the carbon emissions prevented by the products and services marketed by Telefónica.
- To raise awareness of the need to fight climate change among social and economic agents.
- To spread a climate change and energy savings awareness culture across Telefónica.

In 2007 Telefónica prepared an in-house work procedure to establish, using benchmark standards (GHG Protocol, IPCC and ISO 14064-1), the methodology for measuring its greenhouse gas emissions. Last year, Telefónica emitted just over 1.5 million equivalent tonnes of CO₂, 7kg of CO₂ per access*.

During the year the Company implemented measures designed to induce energy savings at both the office and operations buildings. These will be reinforced in 2008 under a plan laying out specific targets.

ICTs, part of the solution

Mobile Marketing

- Reduction in paper consumption.
- Elimination of mail marketing campaigns and the associated logistics costs.

Fleet Localisation and Management

- Route and travel optimisation.
- Reduction in fuel costs.

Boosting Productivity

- Reduction in paper consumption.
- Work mobility and tele-working.
- Optimisation of internal management.
- Improvements in commercial management.

Remote and Domestic control Systems

- Reduction in travel requirements.
- Control of natural environment sensors and surveillance devices.
- Rational energy use.
- Renewable energy use instrument.

* The number of accesses is used to obtain a relative value to the activity.

In 2007 Telefónica set up a Corporate Environmental Unit, backed by Regional Committees to ensure implementation of the programme on the ground



For more information:
www.telefonica.es/cro7/environmentalmanagement

More than half of Telefónica’s mobile operations have received ISO 14001 environmental certification

Over the next four years, the Telefónica Group will carry out an environmental action plan targeting five areas: Climate Change, Environmental Management, Waste Management, Responsible Network Rollout, and Telecommunications & Sustainable Development.

Looking ahead to 2008, Telefónica will develop a Global Environmental Management System.

Consistent Practize in the whole Group

To make sure that environmental management policy is developed consistently across the whole of Telefónica Group, in 2007 the Company set up the Corporate Environmental Unit within the General Technical Secretariat for the Chairman’s Office, at the petition of Telefónica S.A.’s Board of Directors. It also developed a functional organisational model with Environmental Committees comprising multi-disciplinary teams in the different countries where the Group operates.

The same year, it approved the Telefónica Environmental Action Plan and Targets 2008-2012, structured around 5 core themes:

- Climate change. Improving the energy efficiency of processes and developing telecommunications services as a way to reduce CO2 emissions.
- Environmental management. Consistent Practice, integrated into all operations and throughout the supply chain.
- Waste management. Through international agreements with accredited organisations.
- Responsible network rollout. Ensuring compliance with environmental standards and taking account of local sensitivities when developing fixed and mobile installations.
- Telecommunications & sustainable development. Developing telecoms services that help with energy saving, atmospheric control, acoustics and the prevention of natural disasters

Environmental management

In 2007, Telefónica made progress on designing internal regulations to ensure environmental management.

The Minimum Environmental Requirement Standard, approved in 2005, was updated, paving the way for the General Environmental Standard and specific rules for business lines, such as the Standard

for Verifying Legal Requirements to identify environmental legislation application to the Telefónica Group’s activity.

In addition, management of operations in Latin America was strengthened during the year: Móviles Colombia was awarded ISO 14,001 certification and Móviles España, Móviles Peru, Móviles México and Móviles Ecuador all passed their follow-up audits.

Control of environmental issues

The biggest environmental issues for Telefónica, in terms of their environmental and social impact, are energy use, waste from electrical and electronic equipment, hazardous waste (batteries), the noise produced by installations, electromagnetic emissions and the visual impact of infrastructure. The Company exercises preventative and corrective control over all these points, with the planning and maintenance of installations playing a crucial role.

CONTROL OF ENVIRONMENTAL ISSUES IN TELEFÓNICA

	2007	2006
Operations electricity (MWh)	3,375,908	3,230,861
Offices electricity (MWh)	925,281	932,290
Water ¹ (MI)	5,508,661	2,354,062 ¹
Facilities fuel (MI)	12,016	12,294
Vehicles fuel ¹ (MI)	67,838	23,905 ¹
Paper consumption (t)	8,131,320	10,549,646
Electric and electronic systems waste (t)	3,251	5,477

¹ No data available in all 2006 operations.
 MWh = Megawatts/hour
 MI = Thousands of litres
 t = tonne

Responsible Network Rollout

The Company carried out 15,167 measurements on levels of radio wave emissions



For more information:
www.telefonica.es/cro7/responsibledeployment

In 2007, the Company invested over 5.2 million euros to minimise the visual impact of its infrastructure

Environmental and sustainability criteria are integrated into the planning, construction and maintenance processes for Telefónica's global network.

Blending into the landscape

Over the last few years, Telefónica has developed practices to reduce the environmental impact of its infrastructure, so that its operations are as environmentally-friendly as possible wherever they are located. The first consisted in leveraging existing infrastructure to avoid new construction. In 2007, this enabled the Company to avoid building 4,688 new facilities.

When new infrastructure is created, mainly telecoms masts, the Company endeavours to blend it as unobtrusively as possible into the landscape. In the mid-1990s Telefónica developed a methodology to evaluate the visual impact of the masts using a parameter called "Visual Fragility" (VF). This determines the need to adapt infrastructure based on its visual impact. Over the course of 2007, 413 pieces of infrastructure considered to be of high impact were adapted, with 5,268,441 euros invested to correct or minimise this impact.

Another common practice is to share infrastructure with other operators. Telefónica currently uses 6,376 shared facilities. The Group also met its legal obligations by carrying out 862 environmental impact studies when installing new facilities in 2007.

Another environmental issue monitored by Telefónica is the noise generated by installations (mobile and fixed telephony networks). In 2007, it carried out 974 acoustic surveys, recorded 38 complaints and took remedial action in 54 cases at a cost of 94,795 euros.

Radio frequency and emission levels

Mobile telephony is a wireless technology that relies on a broad network of fixed masts or base stations that transmit information using signals sent at radio frequency (RF), or radio waves, of between 900 MHz (GSM) and 2,000 MHz (UMTS).

Although this is only 2% of total radio wave emissions in the environment, it has raised popular concerns about the possible long-term health effects of masts and base stations. The World Health Organisation (WHO, www.who.int) has stated that given the very low levels of exposure and based on the results of research trials conducted so far there is no persuasive scientific evidence that the weak RF signals emitted by base stations have any adverse effects on health. They have also set international standards, in cooperation with the International Commission on Non-Ionising Radiation Protection (ICNIRP), for exposure to electromagnetic fields and the power of emissions from base station and mobile handset aerials.

Telefónica controls and monitors levels of radio wave emissions from its infrastructure - in 2007 it made 15,167 measurements - to guarantee the safety of its installations.

Dialogue and transparency

Based on the fundamental principle of transparency, Telefónica is in constant dialogue with stake holders, making available solid and proven information to the scientific community and providing documentation from official bodies responsible for Health and Telecommunications.

The company also responds to requests for information through a number of channels, including, among others, web pages and participation in open days in cooperation with consumer associations and users' groups as well as with other bodies.

Social and Cultural Action

Over 19,000 employees took part in the Company volunteering programme in 2007. Meanwhile, the ATAM association helped nearly 4,000 people living with disabilities



For more information:
www.fundacion.telefonica.com
www.atam.es

Telefónica devoted close to 90 million euros to social and cultural projects in 2007

To better measure and evaluate its social actions, Telefónica adopted the international LBG accounting method last year. This means concepts that had previously been ignored, such as the time contributed by employees, can now be valued.

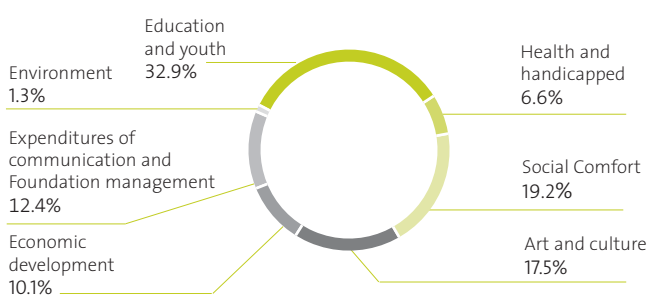
Overall investment in social projects totalled 88,8 million euros. Telefónica Foundation remains the strategic driving force for Group social actions: it channelled 51.1 million euros into more than 700 projects, benefiting 39.8 million people (95% of them from the use of ICT).

TOTAL NUMBER OF PARTICIPANTS/BENEFICIARIES DIRECTLY AFFECTED BY TELEFÓNICA FOUNDATION ACTIVITY IN 2007

Area	Number of people
Educared	35,900,656
Proniño	66,963*
Telefónica Volunteers	246,427
Forum	532,842
Art and Technology	2,112,299
Other programmes	953,309
Total	39,812,496

CULTURAL AND SOCIAL ACTION BY ACTIVITY

LBG methodology



CULTURAL AND SOCIAL ACTION BY REGIONS

LBG methodology



Telefónica Foundation: more than 700 social projects

Telefónica Foundation was set up in 1998 to coordinate Telefónica's social and cultural actions. Its strategic aims, which were revised in 2005, are themed around the use of ICT in education.

Telefónica Foundation operates directly in 8 countries: Argentina, Brazil, Chile, Colombia, Mexico, Peru, Spain and Venezuela. But its work through schemes such as Proniño or Telefónica Volunteers raises the tally to 14, including Ecuador, El Salvador, Guatemala, Nicaragua, Panama and Uruguay. In 2007, work continued on its various programmes, most notably:

- **Proniño**, which aims to help eradicate child labour by getting children into education. In 2007, it provided schooling for over 52,000 children in Latin America.
- **EducaRed**, which seeks to improve the quality of education through new technologies, combining online resources for teachers and students with on-site events that promote and encourage education. Its website received more than 60 million visits in 2007.
- **Telefónica Volunteers**, a programme that seeks to develop employees' participation in social action projects, with more than 164,408 hours in 2007.
- **Forum**, which is concerned with knowledge creation in the framework of the information society and its social impacts.
- **Art and Technology**, a programme to spread contemporary art and culture, linking together cutting edge creation and technological innovation. It also looks after Telefónica's artistic, historical and technological heritage.

In pursuit of its aims, Telefónica Foundation works alongside educational, social and cultural institutions, both public and private: last year it collaborated with 416 organisations.

* 66,963 includes 52,991 children, 6,507 teachers, and 7,465 social agents.

TELEFÓNICA'S CULTURAL AND SOCIAL ACTION

LBG methodology since 2007. Data in thousands of euros

	2007	2006	2005
Telefónica Fundación	51,054	33,015	28,999
ATAM ¹	4,500	4,500	4,500
Social and cultural sponsorships ²	28,988	1,608	2,571
O2 social activities	4,228	2,493	0
Total	88,770	41,616	36,070

¹ On 2007, LBG methodology does not allow counting the contributions of the 60,000 employees collaborating with ATAM nor the expenditure aimed in benefit handicapped people related to employees. Amounts of previous years have been adjusted.

² According to LBG methodology criteria, sponsorships with a positive impact on society, art and culture are considered as social and cultural sponsorships. In 2006 and 2005, amounts have not been readjusted.



The LBG model helps companies manage, measure and report on their community contribution and commitment. It moves beyond straightforward contributions to include a full range community contributions (time spent by employees and contributions in kind or money) and measures the real benefits for the community and the company. The model was developed by a group of companies in 1995 as an internal evaluation tool and a means of ensuring greater consistency and comparability of reported information. Today, over 150 companies around the world use this model.

Telefónica Volunteers

Nearly 19,000 Telefónica Group volunteers took part in community projects last year, in Spain and in 13 countries of Latin America, as part of the company volunteering programme run by Telefónica Fundación. The programme covered more than 443 initiatives, and employees gave more than 164,408 hours of their time. The projects sought to help nearly 246,427 people, including children, the economically disadvantaged, the elderly and victims of natural disasters.

Among the highlights of 2007 was the support given to Proniño: the Euro Solidario campaign collected funds and employees took part in Solidarity Holidays helping out in Proniño schools (the aim in 2008 is to include volunteers from Latin America and O2 in these holidays). This was also the first year that Telefónica's International Volunteering Day had been dedicated to Proniño.

Spain saw the arrival of the cyber-volunteer: people who volunteer to receive training in ICT so that they can subsequently act as trainers. There were also initiatives to support people with disabilities, including sporting activities in conjunction with the "También Foundation" and the Special Olympics, as well as schemes to help young people at risk of dropping out of school, through the "Junior Achievement" educational programmes.

Europe

Nearly 900 workers for Telefónica O2 Europe volunteered in the different countries where the company operates. In the Czech Republic, the O2 foundation focuses on projects to improve the lives of children and young people with mental disabilities as well as on social and environmental initiatives.

Last year, Telefónica O2 Europe also sponsored its fourth "Global Community Awards" designed to encourage and recognise community involvement by employees from across the Group. It presented the "Volunteer of the Year" and "Fundraiser of the Year" awards to those who had made an exceptional contribution to collecting funds for different causes.

ATAM

ATAM is the Telefónica support association for people with disabilities. Sponsored by Telefónica Group and its employees it aims to improve the quality of life for those living with disabilities.

At the end of 2007, the association had over 60,000 members and had received 13.9 million euros in contributions. Each member contributes 0.2% of their monthly salary individually and the company donates another 0.4% for all employees. The organisation helped 3,986 people in different ways over the year. In Spain, it has a network of offices where people can receive help face to face, including direct monetary assistance. It also runs a work integration department (offering general guidance, advice on where to get training and work, plus follow-up support). It has a multidisciplinary team of qualified clinicians, experienced in disability issues, and it runs a number of direct assistance centres.

Milestones in 2007

Extending the support network for members, ATAM opened new offices in Seville and Granada (covering the whole of Andalusia), Oviedo (Asturias), Zaragoza (Aragon) and Palma de Mallorca (the Balearic Islands). It also created a system of quality control using a range of techniques (surveys, suggestion boxes, inspections, etc.).

Development of a new service methodology that incorporates clinical diagnosis.

Agreements with Telefónica Fundación for ATAM to take over technical management of the Mercadis job portal, draw up a training plan for Telefónica Volunteers and help improve the technical aids offered by Retadis, the Spanish network of accessible computers.

ATAM also worked with Telefónica Group to develop a Handbook of Concepts and Methodological Guidelines for Action to integrate employees with disabilities into the company.



Proniño achieved its 2007 target of providing schooling for more than 50,000 boys and girls in 13 Latin American countries

Through the programme the Telefónica Foundation is helping to eradicate child labour. Its guiding principles are child protection, quality of education and strengthening social and institutional commitment to the problem.

Proniño is a social action programme run by the Telefónica Foundation that seeks to help eradicate child labour in Latin America by providing high quality schooling for children. At December 31, 2007, Proniño was directly supporting 52,991 children and teenagers in Argentina, Brazil, Chile, Colombia, El Salvador, Ecuador, Guatemala, Mexico, Nicaragua, Panama, Peru, Venezuela and Uruguay. It more than met its target of educating 50,000 children in 2007 and expects to help 100,000 in 2008.

The development of Proniño in 2007 would have been impossible without the cooperation of NGOs - 93 were involved by the end of the year - who worked directly with the project, and of the schools and public and private institutions working together with the communities where the children live. In a different way, the Telefónica Volunteers also continued to play a key role, giving their time and talents to support a multitude of activities.

Strategic principles

Over the past year, Proniño based its activities around three strategic principles announced in April 2007 in Bogotá and which will continue to guide the project in 2008:

Total protection for minors involved in child labour

Support is offered to children but also to their family and the surrounding community, so that they can stay at school, gradually eradicating the circumstances that drive them into the world of work.

Quality of education

As well as improving the infrastructure at the centres it supports, Proniño uses information and communication technologies (ICT) to familiarise even the smallest children and infuse their environment with digital technology, seeing this as the only way to provide real opportunities for development and dignified access to the world of work.

The aim of providing high-quality education creates ample opportunities for synergies with EducaRed in 2008:

- Experience from EducaRed can be applied to the schools sponsored by Proniño, with free accesses, the creation of Telefónica Foundation classrooms and the development of the EducaRed channel as an aid to Proniño teachers.
- Dissemination of these applications into new social environments to improve education among socially at-risk communities.

Strengthening social and institutional commitment

The Foundation makes use of Telefónica's institutional clout to guarantee the long-term sustainability of actions undertaken:

- To generate and disseminate of knowledge about child labour and its impact on the children involved, their families and the community.
- To raise of social and institutional awareness to achieve commitment to change.
- To support those in the front line of the fight against child labour.
- To create intervention and preventative networks that can respond effectively to the problem.

The biggest milestone for Proniño in this area was the first World Day against Child Labour, which was the focus for activities in all countries.

*A problem for us all ...
Despite the progress made in recent years,
child labour is still one of the most
worrying problems of our society.
According to the International Labour
Organisation (ILO), there are currently
211 million boys and girls aged 5 to 17
working in the world, and some 5.1 million
children working in Latin America and the
Caribbean. The success in reducing child labour in
recent years is due to the work of governments
and of the many social agents involved,
recognised by the ILO, including Proniño.*



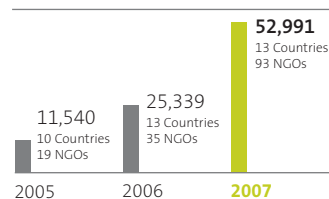
How does Proniño work?

The children who receive support must meet general criteria that apply to all countries where the programme is active, although these are then refined by those on the ground to take account of local circumstances. The general criteria are: **1)** Boys and girls aged 4 to 18. **2)** Minors who are being exploited for work, whether paid or unpaid, inside or outside the home, who are carrying out work that should be done by an adult or which is dangerous, harmful or degrading, which inhibits their normal development and prevents them from learning. **3)** Who are at risk of dropping out of school in order to work. **4)** Whose education has fallen behind or who are underperforming at school for work-related reasons: fatigue, etc. **5)** Children with siblings that have dropped out of the education system. **6)** Willingness on the part of children to take part in the training and teaching on offer. **7)** Children who have parents or teachers, and **8)** Whose family undertakes to cooperate.

Children can be selected for the programme in three ways: **1)** The educational authorities present a list of schools that meet the criteria for the programme. **2)** NGOs, through their field workers, identify cases of children who are working or are at risk and those that could go to school but are too poor. **3)** Institutions, working through child protection organisations in the schools, minors' courts etc. tell the Proniño coordinator or an NGO about a child working or ask that they be admitted to the Program.

Proniño provides appropriate grants, incentives and other forms of support which are followed up by home visits to supervise commitments made, by the NGO sponsors and by Proniño workers. Specifically, they sit down with the parents and children to discuss issues such as performance, attendance, awareness of child labour as a problem, any problems they may have in keeping to commitments, etc.

FAVOURED CHILDREN



CHILDREN SUPPORTED IN 2007

Country	Number of Children	Educational Centres
Argentina	2,968	120 Educational centres
Brazil	8,291	234 Educational centres
Chile	1,364	12 Educational centres
Colombia	6,035	111 Educational centres
Ecuador	5,514	581 Educational centres
El Salvador	2,379	26 Educational centres
Guatemala	3,242	76 Educational centres
Mexico	5,297	39 Educational centres
Nicaragua	2,200	50 Educational centres
Panama	1,000	19 Educational centres
Peru	6,324	82 Educational centres
Uruguay	2,500	33 Educational centres
Venezuela	5,877	46 Educational centres
Totals	52,991	1,429 educational centres (1,119 schools and 310 childcare centres)



EducaRed up and running in seven countries

EducaRed, the Telefónica Foundation's programme to encourage the educational use of information and communications technologies (ICT) as a didactic tool, developed 395,330 hours of onsite, online and mixed format training in 2007 targeted at teachers, pupils, parents and other individuals. Its Spanish, Argentine, Brazilian, Colombian, Chilean, Mexican and Peruvian portals were visited over 60 million times.

Set up in Spain in 1998 together with the main associations in the educational community, EducaRed's objectives are two-fold: to contribute to improving education standards and to use emerging technologies to foster equal opportunities. At the core of the programme lies the EducaRed.net portal, filled with tools, online training and virtual work communities. This programme has been shored up more recently with the addition of onsite training.

EducaRed was established in Mexico and Colombia in 2007. The initiative is now up and running in seven countries. Last year, 35.9 million people benefited from the programme, 10.8 million more than in 2006. Its value added lies with the ability to provide the most innovative tools and resources to teachers, pupils, parents and schools. Last year the movement was focused on the following initiatives and targets:

2007 milestones

To boost innovation on EducaRed.net. using two tools launched in 2008: EducaLab 2.0 (a tool to create a shared knowledge base) and Navegador 2.0 (a management and communications tool). During 2007 the various country portals had almost 60 million visitors (2006: over 40 million).

To increase onsite activities with the rollout of programmes in Spain and Latin America. Here it is worth highlighting EducaRed Innova, designed to provide teachers based in Spain with more in-depth training on the use of new technologies applicable in their fields of specialisation, including subsequent tutoring.

To consolidate EducaRed as an international platform. In addition to launching two new EducaRed portals in Colombia and Mexico, the IV International EducaRed Congress included a guest country participant for the first time and the first international Educared competition was held among teachers and students in Argentina, Brazil, Colombia, Chile and Spain to acknowledge the best projects for integrating ICT in the education field. On a parallel basis, collaboration between all the EducaRed operations was stepped up through strategy and project swapping.

To step up collaboration with educational organisms. This can be achieved through agreements such as those reached in 2007 with the OEI (Organisation of Latin American states) and Universia. It is also worth highlighting the fact that Educared joined the RELPE (network of Latin American portals), which includes the portals for the ministries for education of almost all countries in the region and the agreement with the International Labour Organisation. This year an agreement was signed with Microsoft to extend the Innovative Teachers portal to all of Latin America, building it into EducaRed. This initiative is already up and running in Spain and Mexico to assist teachers leveraging emerging technologies in their teaching.

To cement the Model Schools project. EducaRed works with certain schools - the fourth was added in Spain in 2008 - to boost technological and methodological innovation. Best practice across this network of schools will be gleaned in 2008 for cross fertilisation at other schools.

Looking ahead to 2008, the next challenge is "Global Portal: EducaRed 2.0". The plan is to build in the latest internet technology and to unify all the country's portals into a single site with global and local content and features.

Just one click away...



The EducaRed.net portal includes features for teachers (related news, job exchange, educational software, work tools, experience sharing, etc.), pupils (extracurricular ideas, the EducaRed encyclopaedia, homework, etc.) and parents (information on how to get into university, internet training and tools, etc.).

Social
and Cultural
Action

Other
projects

O2 earmarked 4.2 million
euros to welfare projects in 2007



For more information:
www.fundacion.telefonica.com
www.arsvirtual.com
www.itsyourcommunity.co.uk

Over 2 million people enjoyed the Telefónica Foundation's art and technology activities

In Europe, the Telefónica Group supports more than 500 community and environmental development and preservation projects through the It's Your Community programme.

Art and Technology

The Art and Technology initiative made further progress on its four lines of action in 2007: collections, exhibitions, the Vida awards and arsVirtual. The highlights of 2007 were:

- The Luis Ramón Marín exhibition. This project entailed three years of preparation to bring back a unique archive of photographs. The exhibit received a record number of daily visits - 773. The Nam June Paik retrospective was the first in Europe following the death of the Korean artist and father of video art.
- The international edition of the artificial life Vida awards, created to acknowledge artistic originality in robotics, bio-IT and cinetics, etc., was relaunched. The Foundation took the awards' tenth anniversary as an opportunity to revitalise the Vida prizes and unveil the vision for the future. 172 artists participated in Vida 10.0 from 32 countries.

Heritage

The Telefónica Group's artistic heritage is considered one of the finest in Europe:

- Contemporary Spanish art collection
- Cubist art collection
- Contemporary photography collection
- Telefónica's historic-photographic archive
- The Telos collection

The telecommunications museum, inaugurated in 1992, was closed at the end of 2007 for renovation.

arsVIRTUAL

The arsVIRTUAL programme (www.arsvirtual.com) is a Telefónica Foundation project designed to enable interactive, 3D tours of 50 outstanding monuments of Spanish, Latin American and Moroccan artistic, cultural and historic heritage. Content includes the Burgos Cathedral in Spain and the San Ignacio Mini ruins in Argentina, among others.

It's Your Community

It's Your Community is Telefónica O2's programme supporting community projects in the UK. Through it, the company lends financial support to individual or group initiatives to foster positive change in their local communities. After one year of pilot testing, the initiative was officially launched in July 2007 with an initial budget of £1 million.

It's Your Community encourages citizen initiative with the slogan: If you could change one thing about where you live, what would it be? The programme has already donated £362,947 to over 500 projects (community awards range from £100 to £1,000).

Projects backed include turning derelict sites into community gardens, repair of bicycles donated by neighbours and support of a youth fishing club.

Other initiatives by Telefónica O2 Europe

- The Just Ask Me mentoring programme set up in the UK together with charity organisation Weston Spirit to help youths.
- Support for the Prison, *Me - No Way!* programme targeted at high-risk youths: O2 employees visited 34 schools across the UK in 2007. (www.pmnw.co.uk).
- In Germany the company collaborated with Schola-21, an internet based platform for raising educational standards.
- Collaboration with Irish Autism Action (IAA) which works to improve the lives of people afflicted with autism: the first dedicated diagnostic and assessment centre was inaugurated in Ireland last year.



Our Sector

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Sector opportunities will be generated by the ability to be relevant to our customers, meeting and satisfying their needs



For more information:
www.telefonica.es/informationssociety

Customers, new technologies and the competitive environment are shaking up the telecommunications sector

Every year dedicated telecommunications analysts say that the business is at an historic and fundamental crossroads. 2007 undoubtedly highlighted the accuracy of the crossroads metaphor, marked by expanding customer bases, revolution in handsets and devices, penetration of Broadband and global deal-making.

Customer trends, technological developments and the competitive environment are the vantage points from which to analyse the sector. Increasingly these three factors need to be assessed in relation to each other.

Customers

The number of global telecommunications customers is set to continue to grow. Customers will increasingly adopt emerging technologies and related applications.

More customers

Each year the telecommunications sector adds millions of new customers. In 2H07 alone, the world's ten largest operators added 200 million accesses, bringing the total to 2.1 billion. This reflects two trends:

- First, the incorporation of consumers in new countries. According to sector projections, Latin America is the region set to add most connection per year between 2006 and 2010.
- At the same time, new telecommunications consumer segments are emerging, e.g., the elderly, immigrant populations and single parent homes.

More accesses

Emerging customer demands and requirements are shaping new industry opportunities. Below we list a few examples:

- Customer demands for personalised services will give rise to an explosion in numbers of channels and products.
- Customers will be segmented and even polarised by their usage of basic products versus adoption of the most avant-garde services. This in turn will result in brand and service positioning along the spectrum from premium to low cost.
- User involvement in the creation, distribution and promotion of content and services implies permanent connectivity, the generation of social networks and increased traffic.

More individual

Service provision in today's global market requires segmenting and tailoring services almost on an individual basis.

- Customer demands shift rapidly, requiring firms to structure nimble organisations designed to focus on the customer.
- From the sales and marketing standpoint, it no longer makes sense to plan classic mammoth advertising campaigns or to set price schedules in stone. Campaigns need to be tailored to specific segments that are additionally targeted through sliding price scales and bundled packages.

More demanding

Customer knowledge of products, services, quality standards and prices is expanding vastly, with the onus on the operator to measure up. This pattern is repeated across residential customers, small companies and large corporations:

- All these customers generally know what they want.
- They are free to choose which company will supply them. Switching operator is easier than ever.
- They are increasingly demanding value for their money, especially at the top end of the market.
- They are up to speed on the latest trends in technology.

TOTAL EXPECTED GROWTH OF MARKET PENETRATION 06-10E

	Fixed Broadband	Mobiles
(VI Investor conference – London 2007)		
Western Europe	+22p.p.	+20p.p.
Latin America	+13p.p.	+27p.p.

OPORTUNITIES AND CHALLENGES IN 2008

Macroeconomic environment	<ul style="list-style-type: none"> ■ Positive macroeconomic environment in Latin America . ■ Some uncertainty in Europe.
Customers	<ul style="list-style-type: none"> ■ Significant mobile and Broadband penetration growth. ■ Greater use of telecommunications being, each day, more necessary for society.
Technology	<ul style="list-style-type: none"> ■ Increase of Broadband (FTTH, HSPA, LTE...). ■ More convergent and powerful systems.
Competition	<ul style="list-style-type: none"> ■ More consolidate regional competitors, integrating local competitors. ■ Colaboration with adjacent sectors.

Technology

Ever increasing bandwidth and the emergence of convergent and more powerful devices are handing the sector opportunities for new waves of growth. These waves in turn require still greater innovation.

More technology

There are four trends in the technology environment:

- The evolution of service networks towards All-IP technology. During the last five years the traffic carried on Telefónica's networks has multiplied by a factor of 25; over 90% of this traffic was IP.
- Higher bandwidth: while the number of Broadband accesses multiplied by 13 between 2001 and 2006, service bandwidth increased 60-fold.
- Fixed-mobile convergence: a growing number of applications and services can be accessed using any technology/device enabled for multi-technology connectivity.
- Convergence with IT: there are almost 200 million PCs in our operating markets; telecommunications users are adding multimedia messaging, online communities, games and blogs to the applications used on a daily basis.

More accessible for the customer

Customers are adopting and witnessing these technological trends via specific products and services such as IP digital television, wireless devices to enable laptop Broadband connectivity, video console connectivity and increasing bandwidth.

The most visible feature of technological progress in the eyes of customers is the emergence of new user handsets and devices. These devices, created and marketed under very ambitious marketing strategies, are increasingly raising the bar for customer expectations. It is important to highlight that although from a technological standpoint it is possible to isolate this equipment from the network enabling its use, the end customer does not understand this division, preferring a one-stop solution. New devices open up customer horizons to new services that require increasing cooperation between the manufacturer and the operator to meet the expectations raised.

In sum, technological change will offer increasing opportunities to those companies capable of innovation in:

- New products and services.
- New service development models.
- New sales and operating models.

Net Network Technologies 2007/2008

- HSPA (high-speed packet access) technology extends and complements 3G mobile technology. It is also known as 3.5G. It enables maximum download speeds of 14.4 Mbps and maximum uplink speeds of 2Mbps, depending on the network and implementation.
- Fiber to the Home or FTTH telecommunications technology uses fibre optics to delivery advanced Broadband services.
- Third Generation Partnership Project Long Term Evolution (3GPP LTE) is the name given to the project for the development of mobile communications standards of the future.
- WiMAX (Worldwide Interoperability for Microwave Access) is a wireless transmission standard for the provision of data over long distances (at a radius of up to 48 km) and at speeds of up to 70 Mbps.

A Dynamic Sector



Competition

The ongoing transformation of the telecommunications sector has triggered a shift in the competitive environment. While the classic market configuration focused around traditional access and voice traffic enabled a select number of operators to coexist, the content and service development opportunities created by Broadband are lowering barriers to entry and giving rise to new players.

Increasing competition in the traditional market

Analysis of the competitive environment for access and Broadband services leads us to conclude that the telecommunications operators are moving in global environments shaped by global customers and technologies, while remaining strongly dependent on local markets.

As a telecommunications operator, Telefónica is subject to industry specific regulation, competition rules and a range of other regulations. Fixed telephony tends to be the most closely regulated activity. The scope of telecommunications regulations varies by business in any given country and can have a direct and indirect impact on business development, especially in countries inclined towards greater intervention.

Competition in traditional telephony services is proving intense and market shares are waning; this business continues to constitute a core revenue component.

Related sectors: emerging competition

In 2004 various analysts concluded that companies such as Microsoft, Google, Yahoo, Apple, etc. will represent a series of competitive threats to the telecommunications operators.

These companies have been very adept at leveraging the networks made available to all by the operators to become truly global service and content suppliers.

Operators need to do their homework on retaining control over products and services delivered over their networks in 2008. Recouping investment on the expensive networks rolled out requires that these services and products be spearheaded by the operators themselves, although it is vital to strike a broad range of alliances and agreements in order to be in a position to provide customers with a wide range of products.

The high degree of specialisation of many of the companies offering services over the operators' networks makes direct competition with them a non-starter as the evolution of their own businesses can result in profound changes and even render them irrelevant over short periods of time. However, it will be necessary to implement a policy of agreements and alliances with these companies to enable the operators to regain control of their bandwidth and the products and services carried.

Last year, information and communications technology convergence triggered collaboration between operators and service providers. We have gone from an environment marked by competition and confrontation to a new paradigm shaped by focal points of collaboration in specific services side by side with healthy competition in others.

TELEFÓNICA GROUP MARKET SHARE

By regions		By services	
Spain	53%	Mobile	29%
Europe	18%	Fixed	73%
Latin America	36%	Broadband	20%
		TV	14%

Forum is a Telefónica Foundation programme that fosters and coordinates research, analysis and debate with top level agents to drive the information society.

Forum has also made significant contributions in the publishing arena: the Telefónica Foundation Collection, together with publishing house Ariel, has edited a number of publications on topical issues as well as editing the Telos magazine, a benchmark in communications studies. This journal has been renovated for 2008 and new topics have been added. On the Foundation's website there is also a Forum page which contains the content from all the seminars and congresses it organises as well as the Information Society news bulletin.

www.fundacion.telefonica.com/forum



The Information Society: a task for all

Emerging technologies are playing a vital role in society's development and are proving a key growth driver across all productive sectors, which is in turn making their development a priority in national political agendas.

The company has supported the information society from the outset through multiple development and promotional initiatives, leading to the over 200 new products and services in existence today designed to satisfy demands related to the internet, Broadband, voice and wireless services. In addition, Telefónica collaborates actively with organisms that promote the development of the information society through the publication of studies and analysis and by encouraging debate on the status of emerging technologies.

Spain

The institutional efforts to develop the information society in Spain fall under the umbrella of the Avanza programme (which means progress plan) launched in 2005 within the framework of the INGENIO 2010 programme. The overriding goal of the programme is to encourage the proper use of ICT in order to contribute to a successful model of economic growth based on enhanced competitiveness and higher productivity, the promotion of social and regional equality and improved wellbeing and living standards for Spanish citizens.

Conclusions regarding the information society in Spain in 2007

1. The number of internet users is growing as is service usage
2. Broadband is gradually improving and reaching rural areas
3. There is a wave of M&A activity underway among large media and internet companies
4. The web is going wireless with «mobile 2.0».
5. Manufacturers are concentrated on the search for new handset categories
6. The TV revolution is ongoing and the music sector is undergoing transformation.

Latin America

ICTs are playing a key role in the growth being witnessed in Latin America, driven by growth in mobile telephony and Broadband. Looking beyond overall penetration rates for the various technologies, there are submarkets within the region of significant size (typically cities) with technology implantation indicators on a par with those of developed economies.

According to the DigiWorld study for Latin America (Enter), the positive developments and trends in ICT in Latin America are picking up pace. Digital services are clearly on the rise, in both the corporate and residential segments, although the market's development and dynamism would be clearly aided by increased government intervention.

Europe

The European ICT market represents around 30% of the global market. Following the 2001/2002 recession, the market is currently being reactivated: Community ICT policy includes pan-European initiatives, fundamentally devised by the European Union (e.g., in June 2005, the European Commission launched i2010, designed to promote digital convergence) plus a series of country and region specific measures.

Challenges facing the information society in Latin America (Digiworld Latam; Enter)

1. Regional market integration
2. Development of an adequate regulatory environment
3. Closing the digital divide to unlock development through public-private sector cooperation
4. Commitment by the leading players in the region
5. Development of public policy to underpin progress of ICT

Position of Telefónica

Evident in league tables, acknowledged by analysts and noted for its performance in recent years



For more information:
www.telefonica.es/shareholdersandinvestors

Telefónica is best positioned to spearhead sector progress

The number of customers placing their trust in the Company, together with its excellent financial position and management capacity place Telefónica as the best prepared company to face the future.

On scale and diversity

Telefónica's ability to execute and its vision have ranked it among the industry leaders by market capitalisation and by number of accesses worldwide.

During the last ten years (1997-2007), Telefónica's growth has been spectacular, as highlighted by the following indicators:

- In 1997 it operated in 4 countries; by 2007 in 24.
- Foreign markets account for over two-thirds of revenues.
- accesses have grown by a multiple of 6: from 36 to 228 million.
- The workforce has expanded by a factor of 2.5 from 92,000 to 248,000.
- Revenues have risen four-fold and assets three-fold.

With over 228 accesses managed, Telefónica is the fourth largest global telecoms operator by customers, and is similarly ranked by market value

On earnings momentum

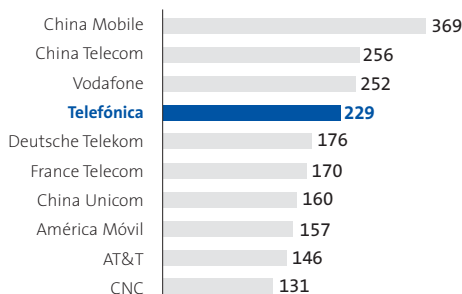
2007 marked another consecutive year of spectacular top and bottom line earnings growth. Revenues rose 7% on 2006, while net profit soared 42%.

On credibility: delivering on its promises

In recent years Telefónica has made a habit of sharing its earnings forecasts with the analyst and investor communities. Despite the level of uncertainty inherent in such a dynamic sector, and in contrast to its peers, Telefónica has consistently beaten the earnings guidance provided. Its credibility is underpinned by ongoing and systematic delivery of the promises made to the markets.

TOTAL ACCESSES

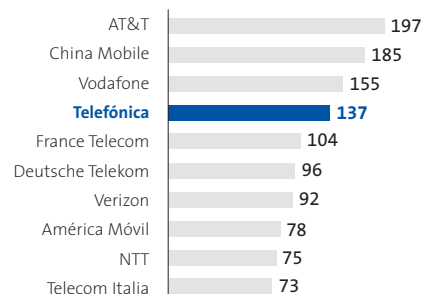
(Data in million euros – 31/12/07)



Source: Reports of the companies

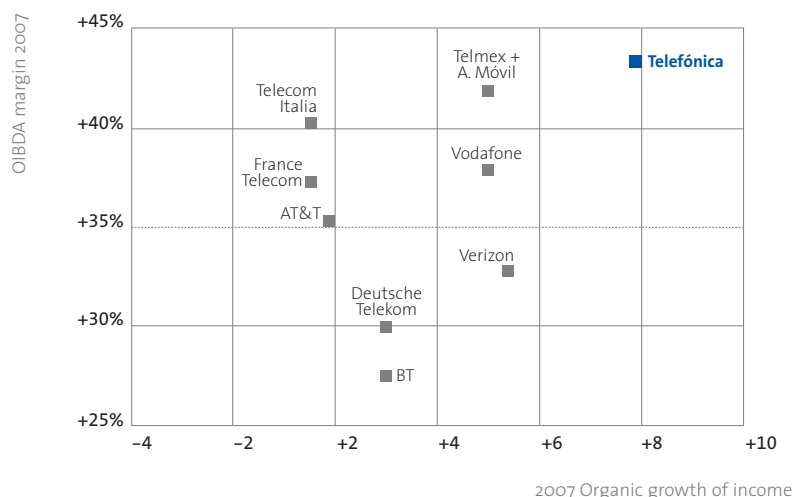
COMPANY VALUE

(Data in million euros – 11/02/08)



Source: Bloomberg

OUR LEADERSHIP IS A SYNONYM OF GROWTH AND EFFICIENCY



Source: Merrill Lynch

Because its leadership is growth based

Telefónica is the fastest growing and most profitable of its peers. Telefónica's relatively faster organic growth has not eroded profitability thanks to the exploitation of economies of scale and ongoing initiatives to boost efficiency

By growth opportunities

Business opportunities in all its markets

Telefónica's management teams in place in the three main regions have demonstrated their ability to execute growth strategies in recent years. And they will continue to tap current growth opportunities.

In Spain, Telefónica will seek to emulate its excellent performance on a long-term and sustained basis. More specifically:

- This is Telefónica's flagship business unit; it is a unit with a clear leadership vocation.
- There is significant demand for telecommunications services in Spain.
- The Company is making important strides in terms of customer orientation.

Telefónica O2 Europe has the opportunity to reinforce its competitive positioning:

- Growth rates are higher than the sector average.
- Scope for leveraging the opportunities derived from being an integrated operator.
- Room to exploit the scale and dimension of the entire group to raise profitability.

Telefónica Latinoamérica is driving growth at the Group, thanks to:

- Growing demand for telecommunications services combined with better than ever macroeconomic forecasts for the region.
- The company is well positioned to capture this growth and pick up market share.
- Operating indicators are improving across all business lines.

Strategic and industrial alliances

Telefónica is tapping new growth opportunities through strategic and industrial alliances, specifically with China Netcom and Telecom Italia.

China Netcom

- Telefónica holds a strategic 7.22% stake in China Netcom. Of this, the investment for a 2.22% interest has yet to be completed.
- China Netcom has over 130 million accesses in a rapidly growing economy with a population of over 1.3 billion.
- The strategic alliance between China Netcom and Telefónica is giving rise to the joint development of new services, entry into new businesses with global customer bases and joint technology purchases.

Telecom Italia

- Telefónica has invested in Telecom Italia as a core shareholder.
- This industrial alliance entails a foothold in 9 European countries and combined market share in the 25 EU member states of 22%.

Leading Progress

Telefónica's goal is to be a more motivating, more personal, more open and more nimble company.



For more information:
www.telefonica.es/shareholdersandinvestors

Telefónica's motto: "Leading Progress"

The Chairman of Telefónica has issued a clear message: "Telefónica is better than ever; we have become a sector leader thanks to our vision and our ability to execute. That is why the challenge we face today is not just to be leader, but to make that leadership sustainable in time".

This strategy requires a strong team that conveys enthusiasm and motivation to customers, getting them involved in the innovation process and capable of providing more products and services in a world where Broadband will increasingly take centre stage.

Leadership strategy

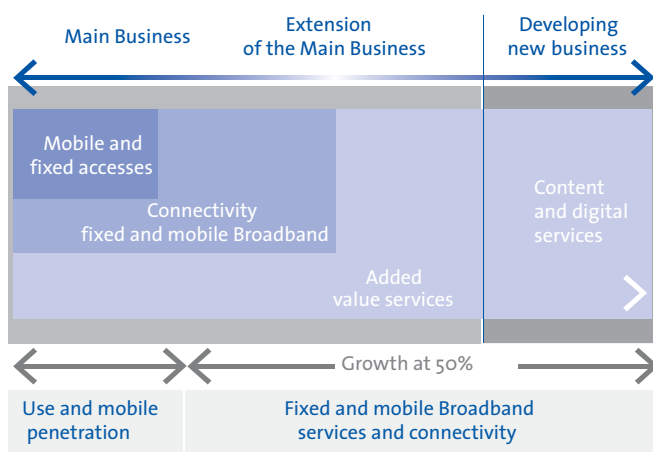
Telecommunications leaders will be able to take advantage of huge opportunities in the coming years, deriving from the increasing tailoring of product and services on offer to an ever growing customer base that is increasingly involved in the generation, distribution and promotion of content.

The customer is the driving force underpinning these opportunities; the key to success lies with remaining increasingly relevant to our customers, raising and satisfying their expectations, with the spotlight on access and voice traffic, defending the traditional business while capturing growth and increasing penetration of wireless telephony, firmly boosting wireless Broadband while continuing to develop the fixed Broadband business and fostering digital services and content to underpin strong positioning in ICT solutions for corporates, PC services, TV services and mobile content activities.

The Company's growth depends on:

- Connectivity (voice and Broadband), the main source of growth.
- New businesses, essentially digital content and services.

LEADERSHIP STRATEGY



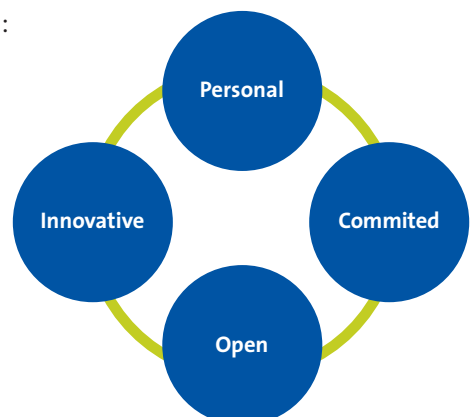
A new type of leadership

All this implies a new type of leadership. A more ambitious vision of the Company we want to become. The Telefónica of 2011 needs to be:

- More personal (knowing our customers better and targeting them with a multi-segmented approach).
- More motivating (committed team; commitment to society).
- More open (implicate our customers in innovation and collaborate with third parties along the value chain).
- More nimble (manage our businesses efficiently and nimbly, making the most of our global scale).

A NEW KIND OF LEADERSHIP

One Telefónica:



*“We want to enhance people’s lives,
the performance of businesses as
well as the progress of the
communities where we operate, by
delivering innovative services based
on information and
communication technologies”*

Spirit of Progress

Strategic priorities

Telefónica is heading into 2008 with clear priorities, in line with its medium term business strategy:

In terms of the customer: meeting their every need and increasing customer satisfaction levels.

In terms of growth: leveraging current opportunities and creating new ones. The Company needs to leverage growth opportunities in traditional sectors while intensifying entry into related and innovation driven sectors.

In terms of efficiency: by continuing to make progress on the operating model to transform the company more rapidly and deliver on the efficiency targets assumed. To this end it will be necessary to move more quickly on operational integration at the local level, to maximise synergies and revise the operating model in order to ensure speedy adaptation to changing customer behaviour patterns and evolving technology.

In terms of human resources: sharing the project with all the company’s professionals and motivating them by so doing. Increasing employee and team satisfaction will have a major impact on customer satisfaction and target achievement.

In 2008 the pace of growth and transformation needs to be stepped up. The targets for the year ahead are:

- To improve employee and customer satisfaction levels.
- To win market share.
- To increase the number of new accesses and meet ARPU targets.
- To enhance productivity.

III Management Summit:

“Leading Progress”

28 and 29 February 2008, Madrid

Telefónica has completed one era and is setting out on another, one in which we will shape the society of tomorrow and remain leaders over time. This is one of the conclusions of the III Management Summit held on 28 and 29 February, which brought together almost 1,500 executives from the company’s 24 operating markets. Telefónica’s goal is to be a more motivating, more personal, more open and more nimble company.

The company’s 2007 results, which Telefónica’s chairman, Cesar Alierta, called spectacular, guarantee Telefónica’s leadership, which is synonymous with growth, efficiency and credibility. They reflect the company’s strength and set the stage for continued growth.

To meet these goals the company needs a strong team that conveys enthusiasm and motivation to customers, getting them involved in the innovation process and capable of providing more products and services in a world where Broadband will increasingly take centre stage. In sum, “customer satisfaction must be our constant guide”.

Throughout the course of the event, in addition to the chairman, the COO and members of the executive committee, took the stage, all highlighting the need to lead progress, to place customers at the centre of everything we do and to improve employee satisfaction with the overriding goal of thereby boosting customer satisfaction.





The four business levers of the business unveiled at the III Management Summit: customers, growth, efficiency and human resources

Personal customer relationships

The key to consolidating Telefónica's leadership in all its operating markets and sustaining earnings momentum is to place the customer at the centre of everything we do and to get closer to them. By placing an unflinching spotlight on the customer it is possible to increase the value of the company to its shareholders and boost earnings.

Telefónica O2 Europe's campaign to "turn its customers into fans" has been adopted by Telefónica as a cornerstone of its business strategy. Telefónica's global vision has two key aspects:

- Happy customers, employees and shareholders.
- Improved contribution to society in all its operating markets.

To put this philosophy into practice, the company's leadership needs to adjust. A 'Turning customers into fans' executive committee was put in place to launch the strategy throughout the entire Group. It is not enough to be familiar with the concepts of this strategy; employees need to be sold on the concept and capable of transmitting it to their teams in their everyday work by:

- Addressing 'the basics' in terms of service offering.
- Delivering on customer promises.
- Sharing best practices.

The overriding goal is to make Telefónica the number one operator in all its markets by December 2009.

Growth and innovation

In all, in 2007 the Telefónica Group spent 4.5 billion euros on innovation-related initiatives and involved over 2,000 professionals in pioneering projects. The innovation challenge lies with bringing more people into the process to harvest new commercial success

Our innovation model, "shared and in each of our DNAs", is developed around four pillars:

- To improve the customer's perception by developing products and services.
- To collaborate with third parties.
- To foster a culture of innovation.
- To reinforce our diversity and scale.

This strategic focus on innovation has enabled us to configure the industry and top the integrated operators in terms of organic revenue growth. Looking to the future, we have set Group level growth targets for 2006-2010 of 5% to 8% in revenue, 7% to 11% in OIBDA and 16% to 20% in operating income.

Telefónica will be better yet in 2010...

What Telefónica should not be

- A company that relies on acquisitions to grow
- A defensive player vis-à-vis its competitors in related industries
- An operator focused on leveraging its regional scale
- A company with a centralised organisational structure
- An efficient company where the sole focus is on defending margins
- A company preoccupied with providing the broadest product/service range
- A highly efficient utility

What Telefónica should be

- A company delivering organic growth in emerging and developed markets
- A company capturing growth opportunities in related industries
- A company capable of leveraging its global scale and not just its regional scale
- A skilled and nimble company guided by an international mindset
- A company able to anticipate opportunities to enhance efficiency and remain more profitable than its competitors
- A group focused on being the leader in customer satisfaction and innovation
- The best combination of growth and profitability in the region

An operating model designed to boost profitability

It is necessary to continue to transform Telefónica's operating model in order to face:

- An increasingly complex and ever changing business landscape in which all participants are more demanding.
- Aggressive competition that is managing better and threatening Telefónica's leadership.
- The need to satisfy shareholders seeking higher remuneration.

To transform its operating model, Telefónica must rely on three levers:

Integration: sharpen the focus on the customer.

- Integrating the fixed and mobile businesses in the countries where Telefónica is present in both segments.
- Integrating the technology, operations and systems divisions into a single area in order to manage technical resources more effectively.
- Integrating cross-departmental processes to give us an end-to-end vision of our interaction with the customer.

The "Single Telefónica" concept: at the regional and global levels, the key lies with identifying shared initiatives that bring us closer to this concept in order to unlock the value inherent in the company's scale and diversity.

The opportunities created by the transformation of our business:

We need to take advantage of the emergence and adoption of new technologies to review our processes and increase the degree of automation.

Commitment to our people

The people at Telefónica are playing a central and pivotal role in the company's business strategy. Against this backdrop, the company set an ambitious target in 2006, specifically to turn its employees into fans, a factor which additionally contributes to improving the customer experience and one which will make Telefónica the best telecommunications company to work at by 2010.

This challenge entails creating a common culture based on a sense of belonging and pride, consistent and effective management, work motivation and teamwork, all underpinned by the values of responsibility, flexibility, diversity and customer focus.

To implement this new culture and leadership style, the company has been developing the Employee Promise, adapted by region, focused on four priorities:

- Turning employees into fans.
- Establishing a performance based culture.
- Fostering a sense of belonging to an international company.
- Leveraging global talent.

A series of initiatives have been launched on each front. At a global level the Business Principles are noteworthy, as are the Reconóceme (Acknowledge Me) programme in Latin America, the Leading for Total Engagement initiative in Europe and ConóceTE (KnowURself) in Spain, the Telefónica Corporate University, the launch of the Commercial Wings initiative and the promotion of e-learning, among other programmes underway.

A series of milestones have been set for 2008. These include making progress on the Integra plan, making international job mobility a reality by upping the 190 long term placements put in place in 2007 and achieving a 95% global talent retention rate at the Group.

In 2007, Telefónica spent a net 161 million euros to make sure telecoms services are accessible to all in Latin America



For more information:
www.telefonica.es/cro7/accessible

Telefónica helps to bridge the digital divide by investing in infrastructure, and services for people on low incomes or with disabilities

Telefónica considers that the main way it can help reduce the digital divide is by doing its job as well as possible. Efficiency, effectiveness, innovation and investment in developing networks are what will ultimately bring more services to more places at better prices.

Meanwhile, the company also contributes, via Telefónica Foundation and the Accessible Telefónica Plan, to schemes for eliminating the barriers that prevent people accessing services.

Accessible Telefónica

One of Telefónica's aims is to turn itself into a fully accessible company in all its processes and to make an active contribution to full equality of opportunity for those with disabilities. Therefore, in 2004 it put in place the "Telefónica Accessible" integrated plan. In 2007, the Company upgraded its Accessible Telefónica Standards, setting minimum accessibility criteria in 13 areas. At the same time it began to implement the policy internally and started applying it to web accessibility, phone handsets, stores and customer service.

With this in mind, last year Telefónica increased its range of accessible products and services, bringing a great many of them into its stores. It also worked on new developments at Telefónica's R&D centres, notably the Granada research unit which is exclusively dedicated to social and health issues.

To make sure that the needs of people coping with disabilities are being well met Telefónica stepped up its work with organisations in the field, carrying out studies, checking products, running training programmes, etc. As well as the collaboration with ATAM, in 2007 the Company signed new agreements with FEAPS, ASPAYM, SERVIMEDIA, ONCE Foundation and CNSE Foundation and renewed existing arrangements with CERMI and FIAPAS.

Meanwhile, in Latin America, Telefónica continued to take forward initiatives under its Accessible Telefónica plan. And in Europe, the O2 *Ability Awards* again recognised Irish organisations with the best practice for inclusion of people with disabilities.

Universal Service

Telefónica's statutory universal service obligations in Spain, originally due to expire on 31 December, 2007, were extended for one year by the Ministry for Industry, Tourism and Commerce.

At the end of 2007, the CMT recognised a total net cost for Telefónica's provision of the universal service in Spain during 2003, 2004 and 2005 of 284 million euros. In addition, Telefónica España puts the 2006 investment at 131 million euros. The net cost for 2007 has yet to be assessed.

In Latin America, Telefónica companies are collaborating with a number of public sector initiatives to provide universal telephony services. In 2007, Telefónica contributed a net 157 million euros to Universal Service Funds in Argentina, Brazil, Peru, Colombia and Venezuela. On this point, Telefónica joined AHCIET and Regulatil at the "Second Latin American conference on ICT and the millennium goals", to underline the urgent need for governments that receive the Universalisation Funds to dedicate them to digital inclusion projects.



Telefónica adhered to the "2007 European Year of Equal Opportunities for All".

MAIN MAGNITUDES OF DIGITAL INCLUSION IN LATIN AMERICA 2007

	Argentina	Brazil ¹	Chile	Colombia	Ecuador	El Salvador	Guatemala	Mexico	Nicaragua	Panama	Peru	Uruguay	Venezuela
Geographical inclusion													
Geographical coverage	30%	13%	32%	8%	20%	80%	15%	27%	49%	60%	12%	65%	17%
Population coverage	88%	91%	93%	70%	85%	77%	65%	88%	80%	68%	68%	80%	94%
Accumulated supply ²	9,745	84,392	-	39,447	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	9,441	n.a.	18,513
Economic inclusion													
% Prepay fixed	25%	22%	7%	2%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	62%	n.a.	n.a.
% Prepay mobile	64%	81%	75%	79%	84%	81%	88%	94%	89%	92%	89%	83%	85%
Public telephones	108,804	251,000	22,209	12,969	52,027	n.a.	n.a.	n.a.	n.a.	n.a.	199,514	n.a.	-

¹ Joint Venture with Portugal Telecom.

² Prepay fixed customers is equivalent to customers by social subscription.

Economic and geographic inclusion

Latin America has one of the highest levels of social inequality found anywhere in the world. In Europe, the population density and level of economic development tends to ensure services are available in all parts of the country. But in Latin America some social groups or rural areas are often left without access to technology.

Telefónica's over 18 years' experience in the region enable it to understand the digital divide in two ways:

- As a barrier cutting off poorer sections of society from mobile telephony, Broadband, handsets, etc. because of the cost of the services.
- As a barrier preventing rural communities from accessing services because of the greater cost of providing services. However, thanks to new technologies and, above all, the rollout of the wireless network, isolated areas are gradually gaining access to ICTs.

Regarding the economic divide, at the end of 2007 more than 81% of Telefónica's 102 million mobile customers in Latin America used pre-pay products that allow them to keep control of their consumption. In addition, the rollout of GSM networks continues to make handsets cheaper.

By the end of 2007, too, the Company had over 6 million pre-pay fixed lines with controlled usage, which made up 25.9% of their fixed-line accesses in Latin America: a unique proportion anywhere in the world. It also provided nearly 595,000 public phones.

Meanwhile, the Telefónica Group developed a number of initiatives in 2007 to expand the availability of telephony in rural areas and to bring people together through communications technology. These included the launch of the ADSL Duo service for rural parts of Spain, the launch in Peru of the Iris Project, which seeks to extend fixed telephony coverage using wireless technology, and the commitment in Chile to install one radio base station every six months until 2010 under an agreement between Telefónica and the Ministry of Transport and Telecommunications.

Initiatives for rural communities

New Broadband service for 100,000 Spaniards

In 2007, Telefónica began to market its rural wireless Broadband service, aimed at customers in isolated rural areas that have no ADSL coverage. The initiative will bring coverage to 6,500 more districts and more than 8,700 scattered population centres with a total of over 100,000 users.

New Broadband service for 100,000 Spaniards.
The new service, based on LMDS/Wimax and satellite technology will allow Broadband at speeds of up to 2Mb to be rolled out in areas where ADSL would not be feasible, due to the low population density, the local topography or the excessive costs involved. The same solutions work for both voice and internet accesses.

Public private partnership brings telephone services to 62,300 people in Peru

"Intégrame" (integrate me) is a programme developed in Peru to extend telephony and internet services to remote rural areas via public-private partnerships. The wider aim of the project is to help rural communities integrate and develop through ICT.

This social initiative of Telefónica's began in September 2006 and has so far brought public telecoms services to more than 180 places throughout Peru, benefiting more than 62,300 residents.

The programme won the 2007 prize for Business Creativity in the public services category, awarded by the Peruvian University of Applied Sciences.