

Corporate Responsibility Report 2006



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

Spirit of Progress





203 million customers accesses

145 million mobile telephony accesses

42.3 million fixed telephony accesses

7.9 million broadband accesses

1 million pay-television accesses

Present in 23 countries

62% of its revenue comes from countries other than Spain

Revenue of more than 52.9 billion euros

31.2% return to shareholders in 2006

Market capitalization of 79.3 billion euros

4.3 billion euros invested in R&D+i

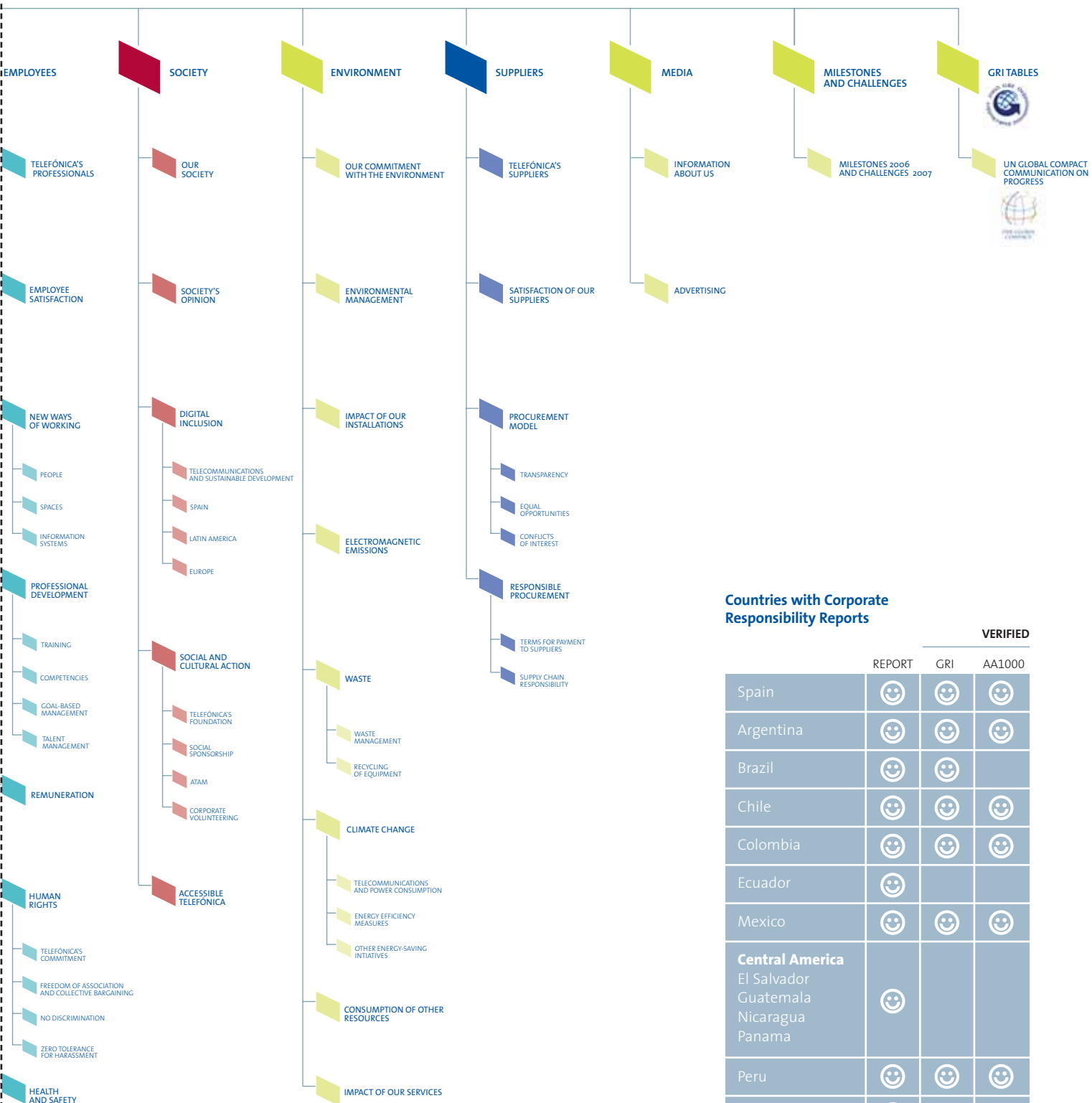
More than 233,000 employees

If you wish further information,
 please consult our on-line report at
www.telefonica.es/cr2006/



Telefónica publishes here its fifth annual Corporate Responsibility Report corresponding to the 2006 financial year. In order to offer an overall view of Telefónica's actions, this report has been published in hard copy. **There is a complete on-line version available** that responds to the needs of those stakeholders requiring greater detail regarding Telefónica's commitment, policies and performance in connection with Corporate Responsibility.

The Corporate Responsibility Report includes Telefónica's actions worldwide and includes numerous case studies describing examples of Telefónica's different businesses or activities in connection with its stakeholders.



Countries with Corporate Responsibility Reports

	REPORT	VERIFIED	
		GRI	AA1000
Spain	☺	☺	☺
Argentina	☺	☺	☺
Brazil	☺	☺	
Chile	☺	☺	☺
Colombia	☺	☺	☺
Ecuador	☺		
Mexico	☺	☺	☺
Central America			
El Salvador			
Guatemala	☺		
Nicaragua			
Panama			
Peru	☺	☺	☺
Uruguay	☺		
Venezuela	☺		
Germany	☺	☺	☺
Ireland	☺	☺	☺
United Kingdom	☺	☺	☺
Czech Republic	☺	☺	



A+

The Global Reporting Initiative (GRI) has verified that the Telefónica 2006 CR Report complies with the criteria stipulated by its G3 guidelines and hereby grants it application level A+. This verification does not imply any opinion regarding the quality and contents of the Report. It refers only to the application of the Reporting Model established by the GRI, as described in the on-line version of the report.

Letter from the Chairman	2
Our Vision	4
Driving Force of Progress	6
Corporate Responsibility Management Model	8
Business Principles	10
Customers	14
Employees	18
Digital Inclusion	22
Environment	24
Mobile Telephony and Health	26
Suppliers	28
Community Investment	30
Milestones and Challenges	32



Independent Assurance

A message from Ernst & Young

We have reviewed Telefónica S.A.'s Corporate Responsibility Report 2006. The Report comprises two parts: this summary and its full on-line version available at www.telefonica.es/cr2006

Our work has involved verifying that the Report's content complies with:

- The principles contained in the AA1000 Assurance Standard issued by AccountAbility, the Institute of Social and Ethical Accountability, for Telefónica's activities in Spain, Argentina, Colombia, Chile, Peru, United Kingdom, Ireland and Germany.
- The principles and indicators stipulated in the G3 reference guidelines from the Global Reporting Initiative (GRI) for all the Telefónica reporting boundary.

Telefónica has also asked us to verify the individual country reports of its businesses in Spain, Argentina, Brazil, Chile, Colombia, Mexico, Peru, United Kingdom, Germany and Ireland. Those reports will be published in the next months and will be available on Telefónica's website.

Our opinion on the application level of mentioned standards was reached through a series of interviews held with the management of relevant corporate areas and countries, a study of pertinent information about the Group and press cuttings, and a review of the processes used for compiling data and a verification of the traceability of information reported against each of the indicators. It is important to mention that we have followed the ISAE3000 indicators for all non financial reporting and assurance.

Our independent assurance report containing details of the scope of the work carried out, the level of verification, and our conclusions, is available at www.telefonica.es/cr2006.

ERNST & YOUNG, CORPORATE SERVICES

Madrid, May 9th, 2007

Letter from the Chairman

Dear friend,

Corporate Responsibility is not a passing fad stirred up by academic debate. It is here to stay. Responsible business practices have become integral to many companies' strategic plans.

Customers, employees and shareholders demand greater integrity from modern companies. Society is also recognising that business is often well placed to be part of the solution and to help create social and economic progress. Beyond headline news, corporate responsibility promises to play a really important role in 21st century enterprise.

At Telefónica we believe that corporate responsibility (CR) must also create value for our company. It must sit comfortably with our overall business vision, influence the way we interact with stakeholders and be absorbed thoroughly in our business structure and strategy. We do not see it as a 'plug-in', but as a way of life that guides our actions every day.

In this, our fifth Corporate Responsibility Report, I am pleased to announce that we took two important steps during 2006. We defined our new corporate vision, published on the cover of this report, and set out the Business Principles that govern the way we work. These Principles, ratified by the Board of Directors, combine our previous Code of Conduct with the Business Principles of O2. By adopting them across the Telefónica Group we aim to build a common culture of integrity wherever we operate in the world.

With this vision and framework in place, our next step is to turn words into facts. How will we do this?

Firstly, we are working to ensure management excellence in all our activities. Our goal is to meet the demands and expectations of our customers and shareholders while also combining our growth with the interests of our employees and the communities we serve.

By the end of 2006 Telefónica was the world's third largest telecoms operator by number of customer access points and one of the world's top three companies in terms of added value. The sheer number of our stakeholders demonstrates our scale: over 200 million customers, 233,000 employees, 1.7 million shareholders, 20,000 suppliers and a presence in 23 countries.

That puts the onus on us to do bigger and better things, responsibly. So we have set ourselves the goal of increasing customer satisfaction levels beyond the 6.78 scored in 2006 and to turn our customers into the most enthusiastic ambassadors of our brands. In addition, we want to raise the satisfaction of our employees above the 62.1% achieved in the last financial year and to become the best company to work for by 2010.

We are also targeting our innovation budget - some 4.3 billion euros in 2006 - more directly to customers' needs.

We want Telefónica, which generated and distributed wealth in excess of 80 billion euros last year, to be seen as a force for social, economic and technological progress.



Secondly, we aim to tailor our social actions as closely as possible to our business strategy. We want the Telefónica Foundation's programmes to connect well with the company's vision of improving people's lives, fostering business growth and contributing to social progress through information communications technology (ICT).

Our Proniño Programme is a great example. It allowed 25,339 children to return to school in 2006, freeing them from the scourge of child labour and enabling them to enjoy the potential of ICT in education. We also want EducaRed, our educational online tool for primary and secondary schools - which already connects over 25 million people - to become a catalyst for the development of technologies in education. In summary: our social actions will grow ever closer to our corporate mission.

Thirdly, our CR strategy will focus progressively on reducing any negative effects of our operations. You will see in this Report that we are developing policies that shape our behaviour and, thus, our reputation. Among others, we have highlighted policies on child protection, the environment, people with disabilities, and supply chain ethics.

Lastly, we are determined to promote social inclusion through ICT and to narrow the so-called digital divide. Telefónica is a major player here. Our business model, particularly in Latin America, is designed to reduce the gaps caused by economy, geography and lack of education. They include specially adapted tariffs for customers with scant resources, the spread of fixed and mobile broadband coverage, and more training in the use of ICT.

Again this year, I would like to emphasize that Telefónica remains committed to the United Nations Global Compact. This initiative reflects our approach to CR: it is multi-stakeholder, global but also local, voluntary, and aimed at achieving business excellence.

During 2006 we collaborated with organizations such as AHCINET [Iberoamerican Association of Telecom Operators] and the SEGIB [Iberoamerican General Secretariat] to find ways in which ICT can contribute to the achievement of the UN's Millennium Goals to build a better world for the next generation. Together with the Corporate Reputation Forum, we launched an unprecedented campaign to promote them through the symbol of Joana.

To conclude, I should like to reaffirm our commitment to continuous improvement in our corporate responsibility report. This would not be possible without the support of our stakeholders, and we welcome and encourage your comments and feedback through the Telefónica CR website.

May I also extend my sincere gratitude to all those who, through their opinions and suggestions, have helped us to move ahead with our vision to be a force for social progress.

César Alierta

Chairman and CEO, Telefónica S.A..



Telefónica’s vision: Spirit of progress

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

Defining a company's vision is no easy task. Firstly, conceptually, there is no academic or business consensus in terms of what a vision represents. Secondly, in practice, it is not always possible to gain a full understanding of the scope and potential provided by having a vision.

At Telefónica, following the acquisition of O2, we began a complex internal process to re-define the Company's vision. This process aimed to find an important value that Telefónica would be able to use as a focal point for people’s conception of the company based on the following initial requirements:

- that it reflects a real different value, proposal from the company;
- that it "speaks" to, or represent, and offer specific meanings for all the stakeholders;
- that it creates a value proposal for all types of Telefónica customer: individuals, homes, the self-employed, small and medium-sized enterprises, big businesses and institutions;
- that it makes sense in all the markets in which the Company operates: Spain, Europe and Latin America;
- that it makes the Telefónica brand a Master Brand for the group; a brand to reflect its position as the world's third largest telecommunications group;
- that it offers support to Telefónica's commercial brands (especially Movistar and O2), standing for attributes of solidity, globalisation and innovation;
- that it acknowledges the diversity of a group; a multi-domestic, multi-product, multi-market, multi-brand and multilingual group;
- that all this ensure a vision that provides goals, whilst being credible, realistic and uniquely applicable to Telefónica.

What does the vision mean for...?



Our values:

Telefónica is...

Innovative

We make technology easy to use and understand. Innovation is the inspiration for everything we do. It allows us to anticipate changes in the market and the expectations of our customers.

Competitive

We think innovation helps us to be more competitive. We are not content with what we have achieved. Our obligation is to strive for continuous success.

Open

We are competitive, but we operate openly and transparently and aim to be accessible to everyone. We are a company that gets involved and learns from the local cultural and social demands of communities we serve.

Committed

We demonstrate our commitment by keeping our word. We know that the way we achieve things is just as significant as the things we achieve. Our goal is to gain everyone's trust.

Trustworthy

Trust is earned by demonstrating our reliability and keeping to our commitments. Being trusted also supports our reputation and helps us to cultivate long term relationships with our stakeholders.

These requirements led to the vision that is presented here.

- What does it mean to enhance people's lives? Taking into consideration the progress of all the people and homes, satisfying all their communication needs, offering a wide range of products and services to improve their quality of life.
- What does it mean to enhance the performance of businesses? Taking into consideration the progress of all the companies: offering complete communication solutions.
- What does it mean to contribute to the progress of communities? Contributing to the development of a country by investing in communication infrastructure and networks, thus becoming a partner and ally for communities in consolidating the telecommunications sector.
- What does it mean to offer innovative services based on information and communications technology? Investing in Research and Development and creating future. It means exploring every last possibility offered by information and communications technology and those offered by fixed and mobile communications... so as to be able to bring voice, data, systems, entertainment, complete solutions, tele-education, tele-medicine, tele-security, domotics, etc... to every last corner of the country.

In these terms, the vision becomes a touchstone of enormous potential for integrating and guiding all activities at a group which, like Telefónica, already has a worldwide scale; above all, it now becomes the backbone for the whole of the organisation, bringing together the different areas, units and businesses at Telefónica.

Spirit of progress:

the equilibrium between body (magnitudes) and soul (how we are)

According to this vision, progress for Telefónica represents an equilibrium between its results and the way it manages itself. Progress for us is an equilibrium between our capacities (financial power, leadership, experience, innovation, international leadership...) and the way we do things (culture, values, principles, motivations...).

Telefónica's progress is its customer's progress, of our shareholders, of our employees and of the societies in the countries in which we operate. And that is what makes us progress. What makes everyone progress.

That is why we say that Telefónica's progress is an equilibrium between our body (magnitudes) and our soul (how we are).

The information about the body and the soul is contained on the Telefónica's Annual Report 2006.



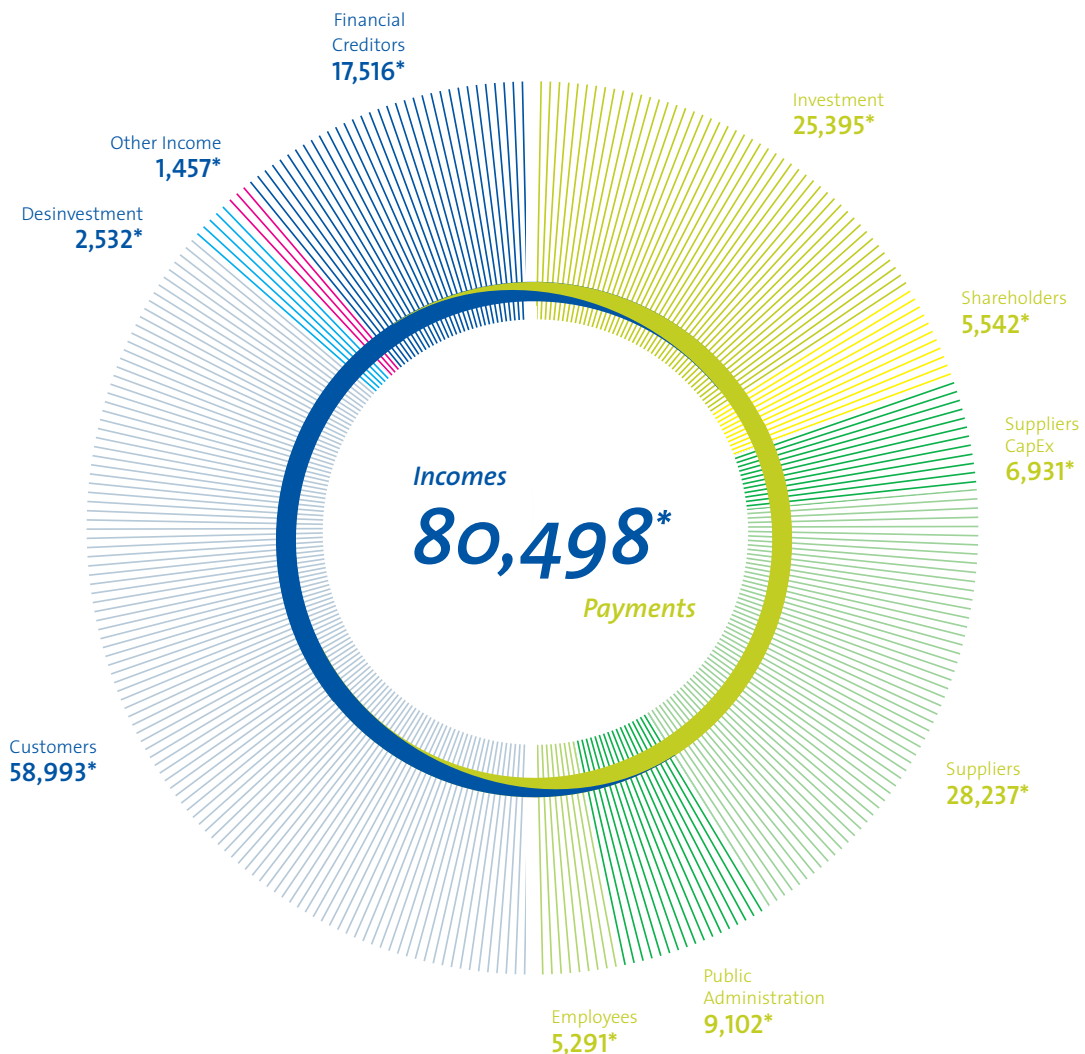
Implementation of a vision: Driving force of progress

Telefónica is a driving force of economic, social and technological development in the countries in which it operates

How much money does Telefónica make? In 2006, Telefónica posted revenues of close to 53,000 million euros, representing on average 1.5% of the GDP of the countries where it has its greatest presence. In total, Telefónica mobilized resources worth 80,500 million euros in 2006.



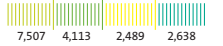


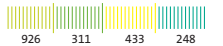


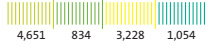


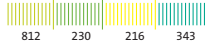





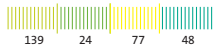























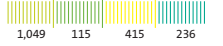











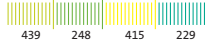
What does Telefónica do with that money?

The resources managed by Telefónica allowed the company to effect payments to employees in the amount of 5,290 million (6.6% of its total outgoings); 9,100 million to the various public administrations (11%); 28,230 million to its trade creditors (35%); 25,000 for investments; 6,931 for infrastructure investments and 5,540 million in payments to shareholders (7%). This is the wealth creation effect.



* Figures in millions of euros

The information published on this page has been obtained from internal cash flow evolution sources of the Telefónica Group, and verified by the independent reviewer of the CR report. The mentioned data could be subject to variations as a result of subsequent events and evolutionary effects that could cause changes in their content. This information has been consolidated on a payments basis, whereas the information on the following page of income has been calculated on an accruals basis. For a detailed analysis of the consolidated financial statements of Telefónica Group, the audited information is included in the annual accounts report.

		Economic Impact		GDP/Country	Magnitudes
Spain					
	Spain	Revenue  20,053 Payments 		2.1%	Employees: 57,058 Suppliers: 4,261 (88.20%) Accesses: 42,621
Latin America					
	Argentina	Revenue  2,259 Payments 		1.3%	Employees: 19,398 Suppliers: 1,577 (94.93%) Accesses: 16,809
	Brazil	Revenue  7,644 Payments 		1%	Employees: 65,993 Suppliers: 3,547 (99.01%) Accesses: 45,728
	Chile	Revenue  1,738 Payments 		1.6%	Employees: 12,541 Suppliers: 1,702 (91.83%) Accesses: 8,538
	Colombia	Revenue  1,196 Payments 		1.2%	Employees: 7,127 Suppliers: 1,471 (92.66%) Accesses: 10,190
	Ecuador	Revenue  282 Payments 		0.9%	Employees: 747 Suppliers: 346 (79.48%) Accesses: 2,490
	El Salvador	Revenue  155 Payments 		1.1%	Employees: 404 Suppliers: 538 (77.51%) Accesses: 953
	Guatemala	Revenue  168 Payments 		0.7%	Employees: 463 Suppliers: 669 (79.22%) Accesses: 1,544
	Mexico	Revenue  1,092 Payments 		0.2%	Employees: 11,485 Suppliers: 840 (92.74%) Accesses: 8,556
	Nicaragua	Revenue  64 Payments 		1.5%	Employees: 304 Suppliers: 387 (71.83%) Accesses: 553
	Panama	Revenue  171 Payments 		1.3%	Employees: 571 Suppliers: 596 (81.71%) Accesses: 939
	Peru	Revenue  1,422 Payments 		2%	Employees: 12,301 Suppliers: 2,190 (89.00%) Accesses: 8,711
	Uruguay	Revenue  82 Payments 		0,6%	Employees: 239 Suppliers: 191 (69,11%) Accesses: 777
	Venezuela	Revenue  2,072 Payments 		1.6%	Employees: 6,882 Suppliers: 1,213 (90.52%) Accesses: 8,826
Europe					
	Germany	Revenue  3,404 Payments 		0.1%	Employees: 5,335 Suppliers: 11,662
	Ireland	Revenue  872 Payments 		0.5%	Employees: 1,787 Suppliers: 1,632
	UK	Revenue  6,787 Payments 		0.4%	Employees: 13,028 Suppliers: 6,171 Accesses: 17,650
	Czech Republic Including Slovakia Capex	Revenue  2,130 Payments 		1.9%	Employees: 9,276 Suppliers: 929 (89.99%) Accesses: 7,841

Revenue, cost of human resources, payment of taxes in the country, purchases and investment (Capex) in millions of euros.
 In the absence of tax information in the country, the figures are consolidated like those in the annual accounts. There is no information on purchases and taxes for the United Kingdom, Germany and Ireland.
 % TEF Revenue / GDP: Ratio of Telefónica's revenues (contribution by the country to the consolidated revenue of the Telefónica Group) and the estimated GDP for the country (Source: FMI).
 Employees: Direct employees of Telefónica Group in the country (as at December, 31, 2006).
 Suppliers: Suppliers awarded contracts in the country in 2006.
 Accesses: Equivalent to the number of fixed + mobile + ADSL + TV accesses (thousands).
 (1)% awarded to local suppliers: percentage of contracts awarded to suppliers with registered address in the country with regard to the total number of contract awards, based on awarding volume.



We strive to include our stakeholders in our business model

Telefónica has rolled out its corporate responsibility management model across the world

Our leadership in Corporate Responsibility is founded on three factors: the consolidation of a reporting model verified by Ernst & Young, the launch of our Business Principles; and the renewal of our presence in the Dow Jones Sustainability Index (DJSI).

How do we view CR at Telefónica?

At Telefónica we understand that corporate responsibility is a way of managing the business in close contact with our stakeholders. If we are able to generate a positive impact through our activities, we are also able to ensure the sustainability of the company and its relations with stakeholders. In short, just as important to us as the achievement of economic and financial goals and targets are the methods by which they are obtained.

For Telefónica, corporate responsibility entails:

- Achieving the highest standards of business management. The main responsibility of any company is “to do well what it has to do”. We aim to conduct our business activity to the best of our ability.
- Minimizing any potential negative impacts of our activities. Our goal is to earn the confidence of all stakeholders by enforcing our Business Principles, which set out our standards of conduct.
- Developing social and community projects that focus on the world of education, through the Telefónica Foundation.
- Maximizing the potential of new services as a tool for social inclusion and sustainable development.

Telefónica Evolution

Scale from 1 to 100	2004	2005	2006
Telefónica	75	80	76
Best in class	83	84	83
Lowest mark	68	71	70

Source: DJSI

Our CR indicators

We have two overarching independent indicators to assess our strategic goal to be a committed and responsible company.

- We monitor the assessments of independent CR experts, analysts and observers. We believe these critiques are reliable appraisals of the issues we face. Among these analyses, a key one for Telefónica is the renewal of our inclusion in the Dow Jones Sustainability Index (DJSI), a worldwide reference for socially responsible investment.
- We carry out surveys into society’s perception of Telefónica and other companies in accordance with the RepTrak® model, produced by the Reputation Institute in collaboration with the Corporate Reputation Forum. Since 2005, 1,000 surveys a year have been conducted for each Telefónica company in Argentina, Brazil, Chile, Spain, Mexico and Peru. During the last quarter of 2006, we extended this methodology to Colombia and we plan to introduce it to Telefónica O2 Europe in 2007.

Telefónica’s reputation with society RepTrak Pulse Index

Scale from 1 to 100	2005	2006
Spain	64	68
Argentina	63	63
Brazil	55	54
Chile	55	50
Mexico	62	63
Peru	52	52

Source: RepTrak Pulse

How did we implement our management model?



Our CR management model

CR management in Telefónica is the responsibility of every business unit and is co-ordinated by the Directorate for Reputation, Brand, and CSR, part of the General Technical Secretariat of the Chairman. Our practices are driven by Human Resources and the CR Committee.

Our CR management is based on a process of continuous improvement. We conduct an initial diagnosis of the different risks facing the business and the expectations of our stakeholders.

With this in mind, we set improvement targets that reflect the unique conditions in each business sector and country of operation. By assessing where we have met, or not met, these targets, we can continue to improve our performance by regularly repeating the process over time.

As a first step to applying the process across the business, we presented the model internally at Telefónica's first CR Forum, held in Madrid in July 2006 and attended by over 100 Telefónica professionals. The model has been developed in consultation with various business functions and corporate responsibility departments across the Group, in different regions and countries. During 2006, we also defined the skills required of Telefónica's CR professionals, establishing the necessary qualifications for a professional career in this area.

After Telefónica's acquisition of O2, both companies set out to integrate their ethical codes, involve O2 in Telefónica's corporate responsibility model, share reputation management tools, combine CR processes and communication tools vis-à-vis the different stakeholders and foster the interchange of experience and policies.

2015, a better world for Joana

On January 11th, 2007, the Corporate Reputation Forum (fRC) held a presentation at Telefónica's head office in Madrid, in the presence of the Royal Highnesses the Duke and Duchess of Palma, to launch '2015, a better world for Joana', a communication and Corporate Responsibility campaign with which Agbar, BBVA, Repsol-YPF, Telefónica, Abertis, Ferrovial, Gas Natural, Iberdrola, Iberia, Renfe and Novartis all intend to inform all their stakeholders about the United Nations Millennium Development Goals as well as the contributions their companies are making to these goals through their Social Responsibility strategies.



The Millennium Development Goals, now subscribed by over 190 states, represent the eight targets that the UN has set itself for 2015.

The companies making up the fRC, through this campaign, are attempting to increase awareness of and sensitivity to the Millennium Development Goals among their almost 730,000 employees distributed over more than 100 countries as well as to disseminate them among their suppliers, shareholders and over 800 million customers.

During the campaign's kick-off event, Telefónica handed on to Repsol-YPF the baton as President and Secretary General of the Forum after being at the helm of the fRC during 2006.

www.2015unmundomejorparaJoana.com
(available in english)





New principles replace our former Codes of Conduct in all Group companies

In 2006, Telefónica adopted Business Principles that apply to all employees worldwide

Do you want to know the ethical principles governing Telefónica?

We aim to ensure compliance with legislation and to fight against corrupt behaviour.

This chapter explains our new Business Principles and the progress we have made in their implementation.

A commitment undertaken in 2005

In our Corporate Responsibility Report 2005, Telefónica undertook a commitment to unify the Group's Codes of Conduct. To this end, we have listened to the concerns of our customers, employees, shop stewards, suppliers, shareholders and representatives of the local communities where we operate.

In December 2006, the Board of Directors of Telefónica, S.A. approved integration of the Codes of Conduct across the Group's companies in the form of new Business Principles. These now apply homogeneously in all 23 countries where we operate and cover all 233,000 employees. The process took account of comments received from professionals in each operation. The new principles replace the former Codes of Conduct of Telefónica, Telefónica Móviles and O2.

Our Business Principles are based on general ethics associated with honesty and reliability, adherence to the law, personal integrity and respect for human rights. In addition, specific principles are now in place to ensure the trust of our customers, professionals, shareholders, suppliers and society in general.

Responsibility for complying with our Principles

All employees will be responsible for taking their own decisions in accordance with company policy and for reporting any signs of non-compliance. In order to ensure full awareness and understanding of the Principles, a mandatory on-line training programme has been implemented.

Telefónica's managers are responsible for informing their teams about the Business Principles, setting an example in terms of compliance and helping their workers resolve any ethical dilemmas that may arise.

Telefónica's workforce has the opportunity to ask questions and raise issues in absolute confidence through the help lines

available on the Business Principles web site. In addition, we have created a Business Principles Office to publicise our ethical guidelines and to review processes, queries, complaints or any allegations of non-compliance by employees, shareholders or suppliers. The Office will also develop policies to supervise and ensure adequate compliance.

The Business Principles Office

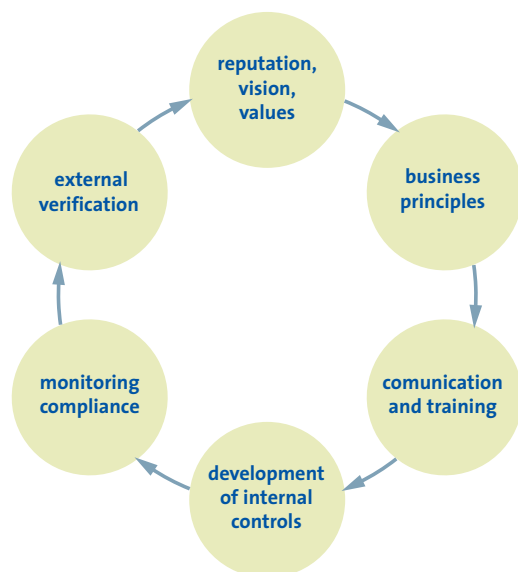
The new text highlights the creation of a "Business Principles Office". This office is seen as a mechanism for implementing the Principles and ensuring their compliance; it has been created with the remit of disseminating, encouraging and supervising the enforcement of Principles.

The Business Principles Office, which reports regularly to the Human Resources and Corporate Reputation Committee set up by the Telefónica Board of Directors, comprises permanent representatives from Human Resources, Internal Audit and the Secretariat General as well as the Legal Office and the Secretariat General of the Chairman's Office. In addition, it will have representatives from Telefónica de España, Telefónica Latin America and Telefónica O2 Europe.

The main functions of the Business Principles Office, through a full-time staff and the employee web channel on the corporate Intranet, are to:

- Communicate the Business Principles throughout Telefónica by means of information, training materials and presentations.
- Continually review the controls, adequacy and appropriateness of Business Principles, to ensure Telefónica meets legal requirements and best practice at all times.
- Answer any questions, complaints or allegations that may be raised by employees, suppliers or shareholders about Business Principles.
- Identify and encourage the development of policies to allow appropriate application and fulfillment of the Principles.

Implementation programme



Confidential help line for queries and reports

We have created a confidential help line for employees to ask questions, seek advice or raise issues associated with meeting our business principles and policies, particularly in cases where there is an indication of failure to abide by them.

Responsibility in the Principles fulfilment

One of the main challenges for companies deciding to abide by a Code of Conduct is that it should go beyond a mere statement of intent.

For this reason, we are developing policies that relate directly to each of our principles in order to improve how we act in all activities covered by the Code. The most significant areas include rules on accessibility and inclusion, the responsible use of services, the protection of minors, the environment and responsible procurement, for example.

These policies must be adequately communicated to each of the areas responsible for their enforcement, and can later be verified through internal audit and controls.

General Business Principles

Honesty and trust

- We will be honest and trustworthy in all our dealings, and keep the commitments we make.
- We will protect the confidentiality of the company information, such as the information related to employees, shareholders, suppliers and customers information.

Respect for the law

- We will comply with all applicable national or international laws, rules and regulatory obligations, as well as our internal policies and procedures.
- We will compete fairly in our markets.

Bribery and anti-corruption

- We will never seek, offer or accept gifts, hospitality, bribes or other inducements to reward or encourage a decision.
- We will avoid or declare conflicts of interest that may lead to divided personal loyalties.
- We will behave with integrity and not seek gain for ourselves or for a third party by misusing our position or contacts within Telefónica. As a corporate entity, we will act with absolute political neutrality.
- We will abstain from any direct or indirect participation that could be interpreted as taking a position in favour of or against legitimate political parties. In particular, we will not make donations of any type, whether in cash or in kind, in support of political parties, organisations, factions, movements, or public or private entities whose activities are clearly linked with political activity.

Human rights

- We will respect the principles of the UN Universal Declaration of Human Rights and the International Labour Organisation's declarations.
- We will foster equal opportunity and will treat everyone fairly, impartially and without prejudice, regardless of race, colour, nationality, ethnic or national origins, religion or religious affiliation, gender, gender status, sexual orientation, marital status, age, disability or caring responsibilities.



Our stakeholders can trust us

Customers

Products and services

- We will provide our customers with high-quality, innovative, reliable products and services at a fair price.
- We will verify and ensure that our products, and those that we distribute, comply with manufacturing standards on safety and quality. We will disclose and resolve any instances in which health risks are detected.

Communications and advertising

- We will always provide truthful, helpful and accurate information when marketing our products and services. We will make sure our products meet all advertised and required specifications.
- If our customers are dissatisfied with our products or services, we will provide them with the information and contact details necessary to make a complaint, should they wish to do so.

Employees

Professional development

- We will communicate our goals and strategies to our employees, to foster their commitment to and enthusiasm for achieving our vision.
- We will encourage the professional and personal growth of our employees, supporting the development of their skills and competences.
- We will ensure that policies on selecting, hiring, training and internally promoting employees are based on clear criteria relating to skills, competencies and merit.
- We will inform employees how their work will be appraised and expect them to participate positively in appraisals in order to improve their work, initiative and dedication.

Compensation

- We will offer our employees fair and just compensation in the context of the labour markets where we operate.

Human rights

- We will not use any form of forced or child labour, nor will we tolerate any type of direct or indirect threat, coercion, abuse, violence or harassment in our working environment.
- We will respect our employees' right to join the labour union of their choice and will not tolerate any type of retaliatory or hostile action towards employees who take part in union activities.

Health and safety

- We will provide our employees and partners with a safe working environment. We will establish suitable mechanisms to avoid workplace accidents, injuries or diseases associated with our work activity through strict compliance with all relevant regulations and the preventive management of workplace hazards.

Shareholders

Corporate governance

- We will manage the Company in accordance with the highest standards of corporate governance and best practice.

Value creation and transparency

- We will manage the company with the aim of creating value for our shareholders.
- We undertake to provide all relevant information for their investment decisions. We will do this promptly in a non-discriminatory way.

Internal controls and risks

- We will ensure that appropriate controls are in place to assess and manage the risks to our business, our people and our reputation.

- We will ensure that business, financial and accounting records are prepared accurately and reliably.
- We will cooperate with our internal and external auditors or any official inspection authority.

Company assets

- We will preserve, safeguard and use our physical, financial and intellectual assets efficiently and for the business purposes for which they are made available.
- We will not tolerate any use of our computers that could damage Company assets or reduce workers' productivity; nor illicit, illegal, or fraudulent activities that could threaten our reputation.

Communities

Development of society

- We will contribute to the social, technological and economic development of the countries where we operate. We will do this by investing in telecommunications infrastructure, generating employment opportunities, and developing products and services that contribute to the development of society.
- Through our skills, products and services, we will seek to work in partnership with civic, community and charitable groups and in public initiatives that aim to bridge social divides in the regions where we operate.

Environment

- We will be committed to sustainable development and environmental protection by minimising the impact of our operations on the environment.

Suppliers

Conflicts of interest

- We will establish controls in our procurement processes to manage situations in which a person with a material financial interest in a supplier, or potential supplier (whether through employment, investment, contract or otherwise) is directly or indirectly involved in a procurement process or decisions relating to that supplier.

Fairness and transparency

- We will guarantee transparent and equal opportunities for our suppliers, fostering competition whenever it is possible.

- We will adhere to strict procurement procedures to ensure we receive services and products under the best possible conditions and will award business solely on merit.

Responsibility in the supply chain

- We will require our suppliers to meet similar ethical standards in their businesses and to comply with existing legislation and regulations in each country where they operate.
- We will fulfil our payment commitments to our suppliers.



Telefónica serves 200 million customers

In 2006 the average satisfaction rating of Telefónica's customers was close to 7 out of 10

At Telefónica we want to improve customer service. We have set ourselves a goal to improve customer satisfaction levels. To achieve it we have put in place initiatives such as the Customer Ombudsman Service in Spain. We are not only striving to improve our service but also to offer more innovative products than our competitors.

Continuous Improvement Plan

In 2006, we became the world's third-largest company by number of customers (203 million). Only two Chinese companies handle more accesses than Telefónica. We want our customers to be more and more satisfied.

We have set up a working party with 30 professionals to identify the demands of customers and to change any aspects of our company that customers say they do not like. We aim to do everything we can to improve the service they receive.

What was customer satisfaction like in 2006?

The company's overall Customer Satisfaction Index (CSI) was pretty stable throughout 2006. The fourth quarter achieved a satisfaction index score of 6.78 out of 10.

Telefónica's customers in Spain scored the company at a very similar level to the group's overall result, a factor that is consistent with the weighting Spain has in the overall index.

In comparative terms, Europe is the region presenting the highest levels of customer satisfaction, a factor associated in part with higher numbers of mobile telephone transactions, which generally present greater levels of satisfaction than fixed telephony.

The Customer Satisfaction Index for Latin America showed a significant increase in the second quarter due to the incorporation of more mobile transactions in the region.

Rates and billing

We offer competitive rates and try to ensure no citizen is excluded from the advantages of telecommunications services for reasons of cost.

The invoice is of great importance for our clients - and for us - As it is a means of permanent contact with customers. We strive to offer clarity and accuracy in our billing and to provide complementary information that may be of interest. We are concerned to make sure that our customers perceive their bills as a faithful reflection of the services they have contracted, and they should also find them transparent.

Advertising

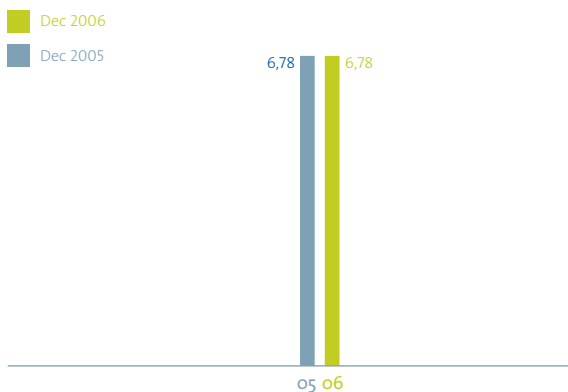
Advertising is the main vehicle we use to inform customers of our services and products. We take steps to ensure it is not too aggressive, misleading, insufficiently respectful or liable to undermine customer trust or have negative repercussions on customers' future purchasing decisions. For this reason, we adhere to our commitment to apply a clear, respectful and legal advertising policy.

To ensure compliance with the law, our advertising goes through a process of approval prior to use. Most of our campaigns in Spain are approved by the heads of the legal department in each company.

To ensure that advertising messages do not contain anything offensive to any particular group, we usually conduct pre-launch tests with different focus groups, that represent a cross section of society as a whole.

Customer Satisfaction Index (CSI) evolution¹

Company and Regional Total



* Index score (0 - 10)



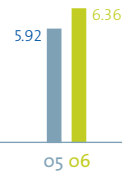
CSI Evolution

Spain



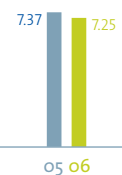
CSI Evolution

Latin America



CSI Evolution

Europe



Main awards recognizing Telefónica's customer service:

- TeleSp Brazil, the company handling most complaints from public service companies (Procon).
- O2 Germany, the top company in the Kundenmonitor Deutschland.
- O2 United Kingdom, leader in the customer satisfaction index (The Mobile News Survey).
- Telefónica Movistar, operator with the fewest complaints (Telecommunications Users Helpdesk).
- Telefónica de España, leader in value for money (UCE).
- Telefónica broadband, the best in Spain (Internaut Association).
- Telefónica Directory Services number, 1004, is the best call centre (CRM Solutions and Salon Call Centre).

Customer Ombudsman Service at Telefónica España

In April, 2006, Telefónica pioneered the creation of an independent department in charge of protecting our customers' interests. In this way, we can respond to their needs and those requested by the market and the regulatory authorities.

Its main function is to provide a means for customers who have previously used the normal channels provided by Telefónica for submitting complaints and to obtain an independent review as a last resort. The actions of the Ombudsman Service will at all times be guided by the principles of objectivity and independence, with a view to defending and protecting the rights of customers.

This service is available to customers of Telefónica de España and Telefónica Móviles España. It is essential for customers to have addressed their complaints first to the 1004 or 609 services; they may appeal to the Ombudsman if they do not agree with the answer received or if no response is obtained within the maximum deadline of 30 days.

We have spent the first few months communicating the service to customers and other stakeholders, as well as handling the first complaints received.

At year end, out of around five hundred complaints received, 63% were deemed to be within the remit of the Ombudsman Service and were admitted for consideration.

Of all the cases involved, the customer received a favourable resolution 83% of the time.

These resolutions are binding on the company and, before handing down its findings, the Ombudsman Service investigates each of the complaints. The specific circumstances and factors affecting each case are also assessed.

The information obtained allows Telefónica to increase awareness of customer needs and to identify improvements in processes and actions undertaken by the group's companies. These improvements are aimed at strengthening the customer-focus of our companies in their activities day-to-day. We aim to share the common goal to meet the needs of our customers and to fulfill our quality commitments.





Key quality of service data*

	Spain	Latin America**
ADSL		
Provision time	10.5 days	6.6 days
% malfunctions associated with provision	3.8%	10.8%
Malfunctions / 1000 lines	1.21	5.8
Billing complaints / 1000 invoices	5.09	28
Average line repair time	12.9 hours	33 hours
Basic telephone service		
Provision time	17.5 days	6.2 days
Malfunctions / 1000 lines	1.6	4.5
Billing complaints / 1000 invoices	3.22	28
Average line repair time	16.4 hours	48 hours
Mobile services		
Effectiveness of the GSM network	98.9%	>96%

(*) Information about Telefónica O2 Europe not available
 (**) These figures consider the residential and PNP segments

Responsible use of technology

New technologies offer countless possibilities to access all kinds of digital services and content. But the spread of networks on a global scale also makes it possible for users to suffer external attacks such as spam, intrusions, illegal downloading of intellectual property, inappropriate content, child pornography, fraud, phishing and insults.

At Telefónica we take responsibility for collaborating with public administrations, non-Governmental organisations, parents and teachers to help foster the responsible use of technology.

Spam

According to the data presented in March, 2007, 84% of all the e-mails transmitted in Spain contain spam, a percentage similar to that of other countries in the world. This traffic means that we have to invest in networks capable of transporting these mails, overloading the capacity available for useful and legal contents.

Spain is in fifth place on the world ranking for the generation of spam, with 5.8% of the total volume. One of the main causes is the lack of security on Spanish computers, due to the increased number of Trojans taking over domestic computers and turning them into spam servers at the command of criminals.

Telefónica's collaboration in the fight against junk mail includes advice to customers about how to use the Internet, channels for submitting complaints and the provision of tools and services designed to protect our clients' equipment. In Spain, Telefónica has introduced the Némesis Project against spam.

Spam leads to the emergence of web sites feigning to be banks and e-commerce sites (phishing). This is an international problem, with, on average, over 120 financial institutions attacked a day.

Finally, in view of the spread of spam to mobile networks, Telefónica Móviles and O2 have signed the GSM Association's Voluntary Codes of Conduct on mobile spam.

Data protection

The regulations and procedures in place at Telefónica companies to protect customers' personal details stipulate that information can only be provided to registered subscribers of telephone lines and requests for service will only be processed if authorised by them directly. Requests for information about clients made by third parties will only be handled if accompanied by a court order or authorized by the competent body in each country.

Intellectual property

The development and protection of artistic creation makes it necessary to collaborate with the public administrations and recognized holders of intellectual property rights in the struggle against improper use of electronic communications networks.

Telefónica believes that this is an essential factor for the balanced growth of the Information Society. We believe it is necessary to adopt a range of measures for awareness, prevention, deterrence and the stamping out of activities that contravene intellectual property rights on the network.

The various activities promoted by Telefónica to boost legal access to the Internet include the provision of legal content to users through our own download services such as Pixbox and Imagenio.

It is need to support citizen awareness and training initiatives designed to reduce and eliminate activities that infringe intellectual property.

Nonetheless, Telefónica believes such measures must be compatible with strict respect for citizens' constitutional



Mo1 telephone by Imaginarium and Telefónica Movistar

rights, privacy in telecommunications and the protection of personal data.

Protection of minors

It is estimated that one in two Spanish children between 8 and 13 years of age has a cell phone. New technologies form a part of these young people's lives and they often know more about them than their parents and teachers. Young people use mobiles mainly to stay in touch with each other and as a source of entertainment.

Through the global application of our regulations on "Adult Contents", Telefónica is promoting the responsible use of its services by minors. The goal is to establish an appropriate mechanism for the safe provision of services with adult contents in all Telefónica's business lines, offering adequate guarantees for limiting access by minors to such services.

Telefónica supports the active role not only of the operators, but also parents and teachers as well as national and regional administrations, non-Governmental organisations and the content providers themselves.

In 2007 Telefónica has intensified its commitment to the safe use of mobile telephony among minors by signing up to a framework agreement with the European Union to increase protection measures applied to minors when accessing content through their cell phones.

Mobile telephony for children

Children are getting their first mobile telephones at an ever-younger age. These devices, received from adults as gifts or hand-me-downs, have more and more possibilities and contents, some of which are inappropriate for minors.

This, together with an absence of training in phone use, may in many cases lead youngsters to make an incorrect use of phones, frightening many parents.

In consultation with Imaginarium, Movistar España launched the Mo1 cell phone aimed at children from 6 years of age. Mo1 has been designed with an appropriate and restricted selection of functions, especially those that are needed, encourage learning and allow our youngest callers to use cell phones properly in future.

Thus, incoming and outgoing calls are limited to the contacts added to the phone book by parents through a restricted-access web site, and the text messages received can also be controlled to avoid any undesired external contact. Moreover, Mo1 includes a "hands-free" loudspeaker that operates automatically and a device location service, as well as a special panic button that is permanently enabled.

In addition, Mo1 has been recommended by "Protégeles", an organization founded in 2001 and devoted to the protection of childhood in Information and Communications Technology.





We want to be ‘the best place to work’ in 2010 The satisfaction and the commitment of our employees was 62.1% in 2006, an increase on 2005 (58.3%)

At Telefónica, we provide employment for close to 233,000 people world-wide. We are driving a new work culture, aimed at turning Telefónica into a company capable of attracting and retaining the best talent, and offering our employees the best place to work in all the countries where we are present. To accomplish this goal we are developing an ‘employee promise’, which is a commitment to all our employees. This will be the basis of Human Resources policies.

Commitment to our employees

The motivation of our employees and their commitment to the company are crucial. So we measure their satisfaction through the “Employee Satisfaction Index”, part of the Working Climate survey. This indicator shows us the perceptions of our employees in relation to their colleagues, their confidence in the management, customer focus, innovation, communication, their view of immediate bosses, personal and professional development and the image they have of Telefónica. For 2006, we set a the goal to increase the Global Satisfaction Index by 5% and this has been exceeded, increasing from 58.36% in 2005 to 62.10%.

At Telefónica O2 Europe, 89% of employees are proud to work for the company and 82% would recommend our company to friends and relatives. Furthermore, during 2007 work is progressing to include Telefónica O2 Europe in the next Working Climate survey.

Professional development

As a leading company in the worldwide telecommunications sector, we want to be the best professionals offering the best services to our customers. Training our professionals is therefore a strategic imperative. We are committed to enhancing and strengthening the development of our people’s professional skills.

During 2006, Telefónica devoted over 54 million euros to the training of our employees*. Our professionals spent almost 11 million hours on training in 2006, an absolute increase of 16.40% compared to 2005*. In addition, over 70,000 of our employees have their own individual training plans.

To help us retain the professionals with the greatest potential, we introduced the Corporate University in Barcelona during 2006.

* Figures do not include operations in the United Kingdom, Germany, Ireland and the Isle of Man.

The University is a meeting point for all of Telefónica’s professionals throughout the world (Spain, Europe and Latin America). Here we share and study best practice, discuss knowledge of the sector and apply ourselves to strategic opportunities for Telefónica’s growth. It is planned that 1,200 of our high-flying staff and management professionals will attend the Corporate University this year.

In 2006, the implementation of a new Professional Development module was completed. This is based on a new corporate skill set shared by all of Telefónica’s businesses and in line with the company’s strategic repositioning. During the year, over 103,000 of our employees were assessed on their skills, without including Atento, accounting for an increase of 30.90% over 2005.

Diversity and equal opportunities

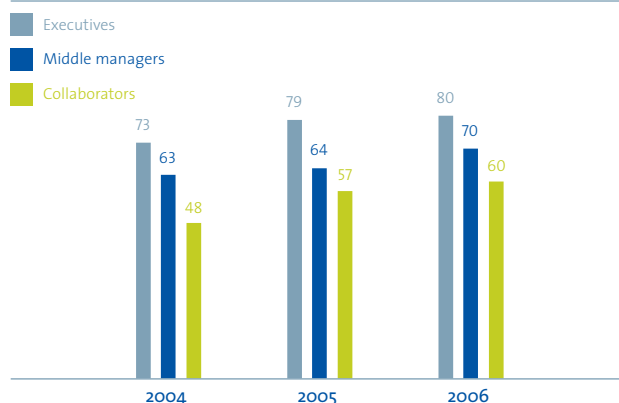
We aim to treat everyone fairly and impartially, without discrimination associated with race, colour, nationality, ethnic origin, religion, gender, sexual orientation, civil status, age, disability or family ties. We believe that diversity is beneficial for our business and we want to make the most of the advantages difference and diversity offers.

With respect to gender, on average, 49.5% of the staff of the Telefónica Group are women. Our company has over 1,900 women in senior and middle management positions, a figure that represents 22.7%.

As for the integration of people with disabilities in our company, there are currently close to 1,400 professionals with disabilities working at the Telefónica Group, representing 0.59% of our staff worldwide.

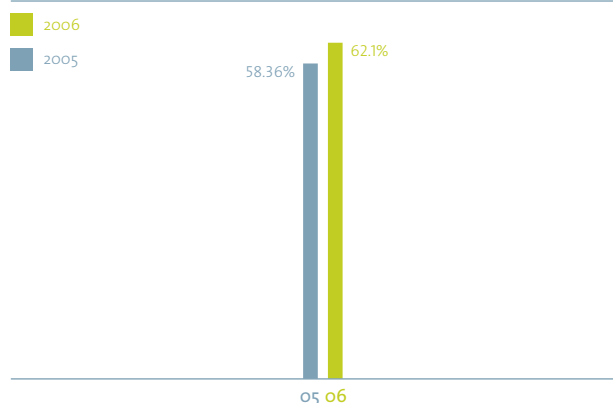
Overall satisfaction

Data in %



Overall satisfaction for Telefónica Group

Results – work environment index



Social dialogue

Social dialogue and collective bargaining are the the main channels we use to manage labour relations and to communicate changes arising in our companies. Telefónica promotes social dialogue at both an international level, through the global framework agreement signed with Union Network International (UNI), and at the national level. For example, in Spain the agreement signed between the Company and the most representative trade unions has turned out to be very effective.

Telefónica Group has close to 50,000 employees who are members of a trade union*, almost 16,000 of who are located in Spain. On the other hand, at the end of 2006, more than 162,000 Telefónica employees had their working conditions regulated by means of Collective Bargaining Agreements, versus 142,700 in 2005.

Health and safety

Ensuring a safe workplace is one of our chief responsibilities. One of our business principles stipulates that we will offer all employees a safe workplace and establish appropriate mechanisms to avoid accidents, injuries and occupational illnesses associated with our professional activities.

During the last quarter of 2006, in order to standardize health and safety practices and metrics throughout the company, we set up a joint working group comprising people from the our different regions. Discussions and decisions are complex because different regulations exist in different countries. The results of this work will be implemented from 2007.

Key Indicators for 2006:

	With Atento	Without Atento
Total number of employees	234,900	128,476
Spain	57,058	42,453
Europe	33,818	33,818
Latin America	142,983	52,205
Rest of the World	1,041	–
Employees with split-shift working ¹	6.75%	5.18%
Job creation²		
Number of incorporations	130,989	13,025
Number of voluntary departures	60,226	5,944
Number of mandatory departures	59,635	6,470
External churn	52.77%	9.7%
Professional development		
Total expenditure on training (mill. €) ³	54.728	49.793
Euros per employee on training (€) ³	260	479
Hours of training (thousands hours) ³	10,882	3,539
% employees with skills assessment ¹	78.88%	83.04%
% employees with variable remuneration ¹	74.09%	59.08%
Diversity		
% women	49.46%	34.00%
% women in middle management and senior posts ⁴	22.74%	22.05%
Nº of employees with a disability	1,388	952
Health and safety		
Accident rate ⁵	–	11.91
Nº of employees with preventive medical examinations ³	147,943	77,590

¹ Calculation excluding physical plant in Holland (Endemol) and Morocco (Atento)

² Sign-up/Cancellation data for Europe calculated based on equivalent staff

³ Figures do not include UK, Germany, Ireland, Isle of Man, Holland

⁴ Figures for Telefónica O2 only consider senior management

⁵ Number of accidents per 1,000 employees. Indicator for Telefónica de España

* Figures do not include operations in the United Kingdom, Germany, Ireland and the Isle of Man.





A more open and flexible working culture

Telefónica's headquarters anticipate the new ways of working that will be introduced progressively throughout the Group

In 2006 Telefónica launched a new culture, based on the reallocation in Distrito C: More than 2,000 of our staff now have mobile workplaces. This change to 'hot-desking' requires management of space and technology to allow employees to work when and where necessary. It also gives them the necessary flexibility to make combine professional activities with their personal lives. Here, we describe the changes and present our new headquarters Distrito C, a historic landmark for the company.

Encouraging flexibility, co-operation and focus

Distrito C's work ethic is a ground breaking project involving our people in new ways to work. It encourages mobility, diversity and collaborative team working where performance is measured on output and creative thinking rather than the time spent sitting behind a desk.

We are convinced that this goal-based ethos increases productivity. It is a way to encourage flexibility while at the same time bringing teams together to work collaboratively. It also allows us to encourage diversity in the workplace, with all the advantages that offers to our organisation.

Senior and middle management are charged to be the driving force behind this transformation, and are required to lead by example.

In this new culture, hierarchy becomes less relevant and relationships are built on shared projects, which can stretch people beyond their own responsibilities.

New technologies are key to gain flexibility

They allow us greater flexibility and creativity in our day-to-day work. Technology provides full connectivity, so our personnel can work whenever and wherever they need.

Over 2,000 employees in the Telefónica Group are already working in mobile conditions. The company's central offices in Madrid provide a clear example of this: the employees at Distrito C with a "hot desk position" have no desk assigned to them in the office. They work with laptops, a PDA and a cell phone, along with their personal ID cards to access the various workspaces available throughout the building. The goal is to have 40% of the employees at Distrito C working in this way in 2008.

In addition, Distrito C is a "paperless office". So the use of available technologies provides environmental advantages too. In 2006, Telefónica in Spain consumed less than half the paper it had used in 2002.

Mobile working, the re-definition of relations between bosses and secretaries, the disappearance of paper and personal printers and the use of virtual "tele-meetings" instead of travel are just some examples of these eco- and people-friendly New Ways of Working.

6.870 employees are already working in **Distrito C**



Distrito C: A new space for a new way to work

Telefónica's central headquarters aims to be the visible project of our culture transformation. Moreover, through building and offices design it encourages new and easier ways to communicate, brings managers closer to their teams and allows everyone to work more closely and transparently.

Distrito C involves a host of innovations. Employees who moved into the new offices between 2006 and 2007 gained a steady flow of information about the changes, as well as the company's strategy, through new flat screens which project the latest news through the company Intranet.

Security is another new feature in the headquarters. To also make things easier for our employees, we use new 'RFID' (Radio Frequency Identification) cards that allow people entering the building and their laptops to be identified remotely by means of sensors. This system removes the time-consuming need to show ID cards or barcodes on computers every time people come into the building.

Finally, Distrito C is an example of Telefónica's commitment to corporate responsibility. The buildings blend in with their surroundings and are designed to minimize physical barriers between people. They also use 'sustainable architecture', including the generation of solar energy, efficient use of resources and appropriate waste treatment.

Adapting to our new headquarters

The transfer to Distrito C is working well. But some employees who haven't been transferred yet can be reluctant to make the change. They feel that there is priority for improvement, such as ease of access by road, public transport, and places to eat.

As our report was being compiled (April 2007) the new underground station 'Ronda de Comunicaciones' had been completed and had the new road access to the M-40. Telefónica invested 14 million euros in the subway.

We are confident that the concerns that still exist will soon pass and that the advantages of flexibility and professional development in the workplace will benefit everyone. We are convinced that this difficulties will pass soon and everyone will start to enjoy the benefits of this new and progressive working culture, characterised by flexibility, professional development and working environment, as new policies are implemented and we all progress in the change of culture that we have started.





Our initiatives to encourage digital inclusion focus on geography, economics and education

Telefónica backs new technologies as a force for social progress

Technology itself does not cause the so-called digital divide. The main triggers of unequal access to digital services is lack of infrastructure, income and education.

Telefónica aims to lead initiatives that combat such social inequalities, particularly in Latin America, where we are working to help improve economic, geographic, health-care and educational access.

Economic inclusion

The growth of telephone services among the most disadvantaged sectors of society in Latin America depends on providing products that match consumers' needs and their economic means.

Of our 83 million mobile phone customers in Latin America, 81% use pre-pay products. In addition, the deployment of GSM networks is allowing our customers to purchase cheaper handsets. Over 6.4 million consumption-capped pre-paid fixed lines, together with 536,000 public use telephones, already represent over 32% of our equipment in Latin America.

We offer pre-pay, post-pay contract and commercial packages, allowing us to reach a wide range of budgets, and to help our customers to optimize their telephone consumption.

Geographical inclusion

Telefónica Móviles has strengthened its position as the main operator in the region, extending coverage in all the countries where it operates. In order to spread our service we are collaborating with the various public initiatives for universal services. The accumulated funding contributed since the creation of service universalization funds exceeds 300 million euros.*

The net cost of the universal service obligations in 2005 amounted to 123.4 million euros according to Telefónica de España, although the figure for 2006 had not been published at the time of reporting. In Spain, Telefónica's investment to extend its mobile and landline coverage to rural areas was more than 336 million euros in 2006.

Educational inclusion

Technological barriers are not the only causes in creating the digital divide. Lack of knowledge and education can generate even greater barriers, particularly in developing countries and among the elderly or disabled. Telefónica, in collaboration with its Foundation, has been carrying out programmes aimed at giving society better skills to use new technologies.

Accessible Telefónica

'Accessible Telefónica' is a comprehensive project intended to make the Telefónica group fully accessible, and creating equality of opportunity for people with disabilities.

Since 2004, when we started working on this programme in partnership with the Spanish Committee of Representatives of People with Disabilities (CERMI), Telefónica's companies have adapted their activities to achieve our goals.

'Accessible Telefónica' was launched in 2006 and the company pledged an investment of 35 million euros between 2006 and 2007. It was recognized as the "Best Initiative to Narrow the Digital Divide on Internet Day 2006."



www.telefonica.es/accesible
Best Initiative to Narrow the Digital Divide on Internet Day 2006.

* This includes fixed telephony in Argentina, Brazil, Peru and Colombia; mobile telephony in Argentina, Brazil (50%) and Colombia.

Digital Inclusion: Magnitudes¹

	Geographical inclusion %			Economic inclusion		Universal serv. ²
	Geographical coverage	Population coverage with pre-payment	Fixed equipment with pre-payment	% mobile equipment with pre-payment	N° of public telephones	accumulated provision
Argentina	-	86	29.1	66	119,000	54.6
Brazil	10	90	18.6	81	250,000	102.7*
Chile	32	93	60.0	79	22,000	-
Colombia	8	69	-	77	-	26.8
Ecuador	20	83	-	86	-	-
El Salvador	68	77	-	88	-	-
Guatemala	15	71	-	93	-	-
Mexico	25	81	-	94	-	-
Nicaragua	32	64	-	92	-	-
Panama	40	56	-	92	-	-
Peru	11	64	59.4	86	144,000	116.4
Uruguay	55	80	-	87	-	-
Venezuela	17	94	-	94	-	-
Spain	98	99	-	43	220,000	123**

¹ This figure does not include any data from Telefónica O2 Europe.

² Millions of euros.

* This includes 50% of the provision from Vivo.

** Cost estimated by TdE for the provision of the Universal Service in the 2005 financial year.

1st Latin-American Meeting on “United Nations Millennium Goals” and Information and Communications Technology.

In September 2006, a meeting was held in Punta del Este, Uruguay, to discuss the UN Millennium Goals and information communications technology (ICT). Organized by the Secretariat General for Latin America (SEGIB) and AHCET, almost 100 participants from the the public and private sectors attended.

Their conclusions highlighted the role ICT has to play in achieving the UN’s stated targets. Investment in ITC drives economic growth and development in the medium and long term. The key to developing ICT in the region will be to invest in infrastructure and to promote efficient use of ICT among citizens, companies and administrations.

To help accelerate economic growth through ICT, it is important to find ways for businesses and agencies to work together to generate consistent long-term policies and a favourable investment climate.

Given this opportunity, and in view of the efforts made by governments as well as the private sector and civil society, the challenge in Latin-American countries is to create a framework that promotes ICT and allows all citizens to share in the consequent social benefits.

The conclusions of this meeting were supported by the Latin-American Summit of Heads of State, held in 2006. They included:

- ICT can be a tool to alleviate the inequalities that exist between urban and rural areas, as well as between different regions and countries in Latin America. It can encourage demographic movement and improve the opportunities and quality of life for people in deprived areas.
- ICT can help to reduce inequalities in education by providing teaching in deprived areas, encouraging equal opportunities for both genders, ensuring the inclusion of indigenous people and improving the qualifications of teachers.
- ICT can be a tool for: (i) improving the management of healthcare systems; (ii) reducing inequalities in access to health services; (iii) citizens’ access to information and contents on the prevention of disease and good practices in health care; and (iv) aiding the integration of people with disabilities into society. All this in turn helps to reduce inequality and social exclusion.

In addition:

- ICT has a positive impact on economic activity, through improved access to markets, greater competitiveness and opportunities for new business ventures in developing countries.
- ICT can improve the efficiency of institutions making closer the State to the citizen, and encourage democracy and transparency in public administration.
- ICT can contribute to improving productivity, by increasing the competitiveness, a key factor for developing countries trying to compete in a global market.





Environmental committees have been formed in each of the countries we serve

Telefónica introduced new “minimum environmental requirements” in 2006

Telefónica is determined to achieve an efficient balance between our activities and our environmental effects. Our practices are guided by an environmental policy that will be adopted by all our operations during 2007. The Telefónica Group signed the United National Global Compact in 2002 and thus undertook to take a preventive approach, to encourage environmental responsibility and to foster the development of environmentally-friendly technologies. In addition, we participate in various international initiatives aimed at promoting sustainable development, such as the Global e-Sustainability Initiative (GeSI) and the sustainability group of the European Telecommunications Network Operators (ETNO).

Environmental management

To ensure compliance with our commitments, we have an internal standard of “Minimum Environmental Requirements”. Our ultimate goal is to achieve environmental certification for all our operations. Through a common methodology we aim to ensure that all the group’s companies behave responsibly in this field. To measure compliance with standards, we have established a five-stage process: commitment, measures, improvement in behaviour, implementation of systems certification.

Compliance with standards is monitored through the Environmental Committees in Argentina, Brazil, Chile, Colombia, Spain, Mexico and Peru. These committees regularly submit results of their monitoring to the Reputation and Human Resources Committee.

A key to ensuring adequate management of environmental issues is training and awareness of our personnel. Over 8,000 professionals received environmental training during 2006.

One of our greatest challenges is to extend our environmental commitment to our suppliers and require them take our own standards on board. As the first step in building appropriate procurement policies, specific clauses on environmental standards will be included in supplier contracts, including all pertinent legislation applicable to the product or service supplied.

During 2007, a standard operating procedure will be approved to ensure that we monitor those suppliers whose actions have the greatest environmental impact. We evaluate the environmental issues of our activity in order to establish a process for continuous improvement through monitoring and auditing. To achieve effective environmental management, we also integrate a range of key environmental checks in our day-to-day activities.

These relate to electromagnetic emissions, visual impact or land occupation by our installations, the waste generated by our actions and the energy we consume.

Electromagnetic emissions

In recent years the general public has become interested in the alleged negative effects of electromagnetic fields. We believe this focus often lacks a balanced scientific and medical view and can distort public perceptions of the risk.

Apart from establishing mechanisms to ensure strict compliance with legislation on exposure to electromagnetic fields, Telefónica has also set up a number of channels through which to respond to requests for information from people interested in these matters.

In addition, we carry out monitoring and metering of the electrical radiation at our installations. In 2006, we measured more than 12,000 sites. All of them complied strictly with the emission levels of all international standards and recommendations.

Impact of installations

The planning, building, maintenance and operation of our network installations entail associated environmental issues such as visual impact or land occupation. The assessment of these, prior to installation, is contained in our environmental impact studies. During 2005, 658 studies were carried out, either in compliance with legal requirements or voluntarily, in protected areas or spaces considered to be of natural interest.

Out of the total of the sites installed in 2006, about 60 were in protected areas or locations of natural interest.

Key environmental impact indicators for 2006

Total electricity consumption (Gwh)	
Europe	303,6
Spain	1,416
Latam	1,737
Office waste (Tn)	
Europe	2,080
Spain	410
Latam	1,668
Diesel Fuel for Power Generators (thousands of litres)	
Europe	161
Spain	5,463
Latam	6,664
Water consumption (thousands of litres)	
Europe	436,431
Spain	1,001,131
Latam	1,511,683

In order to minimize the impact of our installations we pay special attention to the landscape, fitting aerials and equipment on pre-existing infrastructure where possible. We also try to share sites with other operators. We may install new aerials on preexisting telecommunications infrastructures or use dual or triband aerials.

We also measure the noise generated by our installations, working on two fronts: firstly by adapting the air-conditioning equipment to the sites by the installation of metal screens and soundproofing systems. In 2006, about 400 acoustic adaptations took place. Secondly, we monitor the installations by acoustic measurement to verify noise levels and compliance with legal limits. More than 1,000 installations were measured in 2006.

Waste management

Waste is one of the principal environmental issues for companies. Depending on the type of activity, they generate office waste (paper, toner cartridges, office equipment) and other types of waste such as electrical or electronic. The latter represents our biggest waste stream. Occasionally there appear hazardous components for the environment. We work to ensure its correct management.

Consumption of paper

In 2003, Telefónica put in place a plan for the improvement of operational efficiency, mobility and environmental impact through a paper-saving campaign. Between 2003 and 2006, this plan has reduced paper consumption from 232 million to 109 million sheets, representing savings of 56.2 million euros, direct saving of 18.6 million euros and indirect of 37.6 million euros.

In addition, this has indirectly avoided the felling of 46,879 trees and the consumption of 256 million litres of water and 583,000 litres of oil.

Energy consumption

Telefónica has made considerable improvements in energy efficiency at its offices and networks. We have carried out internal awareness campaigns to encourage our employees to conserve. These actions are also linked to reductions in CO₂ emissions.

The positive impact of telecommunications on the environment

Telecommunications contribute to sustainability by acting as a means to convey data and ideas with a low environmental impact. Low impact services include tele-working, remote offices, conference calls and videoconferencing, tele-education, e-commerce, mobile services for consulting personalized information, network-based answering machines and caller ID. The beneficial impact of these services is greater when other factors are taken into account, such as less transport and distribution, energy efficiency in buildings, and savings in paper through electronic catalogues and invoices, otherwise known as dematerialization.

Telefónica publishes monthly articles on its website analyzing the relationship between new technology and sustainability, and this provides a deeper analysis of the environmental impact of telecommunications (www.telefonica.es).





We have measured the electromagnetic emissions at more than 12,000 locations worldwide

Telefónica assures compliance with all regulations and respects each country's power limits

Over the last few years, the debate about the alleged potential effects of electromagnetic fields (EMF) has disregarded scientific and medical opinion, creating some distortion of the facts regarding risk to human health. In many cases, this has hindered the deployment of the infrastructures necessary to ensure quality of service. Telefónica provides open information for customers and anyone interested in this subject.

What is mobile telephony and how does it work?

Mobile telephony allows users to make and receive voice or data communications within the coverage area of the aerial to which the cellular handset is connected when turned on.

In order to be able to provide this service and meet the needs of users, we have to deploy a network of base stations providing coverage of an appropriate quality. Mobile telephony systems require the existence of the cell phone itself, base stations, transmission media and switching centres.

All base stations are installed in accordance with a design drawn up by technicians, ensuring compliance with the rules regarding safety and protection.

Electromagnetic emissions

In order to convey sound, mobile telephony uses radio waves that are in fact electromagnetic emissions of the same type as light rays. These emissions are similar to those generated by a host of applications such as television, radio broadcasting, microwave ovens or radar. The only difference between them is the frequency and power used in each case.

In addition to the artificial sources necessary for the applications described above, there are natural sources of electromagnetic fields. Nature can provide us with many examples of electrical and magnetic changes: lightning bolts are merely electrical discharges triggered by strong electrical fields formed during storms; the earth generates magnetic fields by itself due to the currents created by the movement of masses. A practical application of magnetic fields is the use of compasses (which measure these fields) to determine cardinal directions.

An electromagnetic wave is characterized by its frequency. Frequency is a measure of the number of times that an electromagnetic wave oscillates per second and the unit of its measurement is called a "Hertz".

Radio waves

Mobile telephony uses radio waves at frequencies between 900 and 2000 MHz (million Hertz). Mobile services currently use the following frequency bands. The so-called Global System for Mobile Communications (GSM) uses digital technology and operates in the 900 MHz frequency band. An extension of this system, the European Digital Cordless System (DCS-1800), is very similar to GSM but operates in the 1800 MHz band. The Universal Mobile Telecommunications System (UMTS-2000) technology operates in the 2000 MHz band.

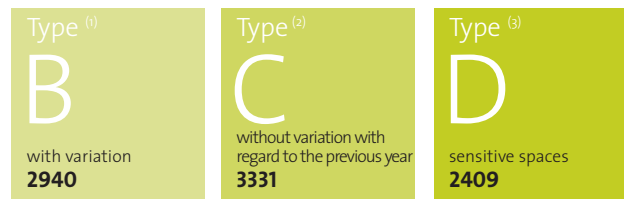
Regulations on electromagnetic fields

The safety of mobile telephony infrastructure is based on the rigorous observation of the limits for exposure to emissions of electrical radiation established by the international reference bodies and by the regulations of each country.

These limits incorporate wide safety margins that are well within the levels at which there could be a risk to health. Both the calculations prior to installation and the measurements made through continuous inspection and monitoring show that mobile telephony antennas generally produce emissions hundreds and even thousands of times lower than the limits established by international regulations.

The current regulations distinguish between two types of limits in electromagnetic fields. On the one hand, they limit the maximum power of a mobile telephony base station and, on the other, the maximum electromagnetic fields to which a person may be exposed.

Sites certifications



1 Facility with variations in the radiating system with respect to 2005

2 Without variations in the radiating system with respect to 2005

3 Facilities sited in sensitive areas (hospitals, school, etc).

These limits are based on the different conclusions of international bodies such as CENELEC (European Committee for Electrotechnical Standardization) or ICNIRP (International Commission on Non-Ionizing Radiation Protection), but mainly on the Recommendation of the Council of the European Union dated July 12th, 1999. These are the same as those established in nearby countries such as Germany, Greece, the United Kingdom, Ireland, Finland, Denmark and Sweden. It is very important to stress that the exposure limits incorporate some additional precautions.

In addition, research has allowed institutions and organizations such as the World Health Organization (WHO), the International Commission on Non-Ionizing Radiation Protection (ICNIRP), the European Committee for Electrotechnical Standardization (CENELEC), the American National Standards Institute (ANSI), the Council of European Union Health Ministers or expert committees of the United Kingdom, France and Spain to establish regulations and issue reports concluding that “exposure to the emissions of electromagnetic waves generated by mobile telephony, within the limits established, has no adverse effects on health”.

Some countries, including Spain, have drawn up complete regulations as shown in Royal Decree 1066/2001 reflecting the Recommendation of the Council of the European Union dated July 12th, 1999. These add planning criteria for new networks, thus ensuring compliance with the limits on exposure to radio frequencies.

In Spain, 100% of base stations comply with the limits stipulated in the legislation. During 2006, external agents certified the compliance of 8,680 sites.

What we do and how we provide information

We not only comply strictly with the regulations on exposure to electromagnetic fields currently in force, we also openly respond to requests for information from the general public. We use a variety of channels to convey the most relevant information to everyone interested in the subject.

Telefónica Móviles España provides a great deal of information on its website. It also works with the Spanish Administration and other bodies to harmonize network deployments and ensure the best and widest distribution of information.

The company has signed several collaborative agreements with town councils, the Spanish Federation of Towns and Provinces, and with consumer associations.

Similarly, we work to organize informative meetings for both citizens and administrations. At the same time we have to answer any social concerns that arise when we deploy the new infrastructures needed to adequately supply the public’s demand for mobile telephony services.





We spend over 18,000 million euros with suppliers Telefónica collaborates with over 19,000 suppliers throughout the world

Through our supply chain, Telefónica has begun to spread ethical and responsible business practices throughout the world. We are using new e-mail tools to increase transparency and equality of opportunity. We strive to have a positive influence on the entire supply chain so that our suppliers incorporate our own corporate responsibility criteria into their actions.

Telefónica's suppliers

We spent more than 18,000 million euros on procuring goods and services in 2006 (13,000 in 2005). Distribution of supplier awards and contracts by country puts Spain at the top of the procurement ranking with Brazil in second place.

We awarded business to 19,079 suppliers throughout the world (18,834 in 2005). The top ten suppliers to the Telefónica Group in the world were: Alcatel, Brightstar, Ericsson, Huawei, LG, Motorola, Nokia, Samsung, Siemens and Sony Ericsson.

Telefónica classifies its procurement in six product lines. The largest item is Market Products (including mobile handsets) which, together with Network Infrastructure and Works & Services, represents over 80% of all purchases. The remainder is accounted for by Information Systems, Marketing & Advertising and Contents.

In order to ensure compliance with our principles on equal opportunities and transparency, Telefónica's procurement model is structured and managed by Purchasing Boards. These meet regularly, take part in supplier presentations, discuss potential purchases and make unanimous award decisions based on merit.

E-commerce increases transparency and competition

We aim to employ innovative supplier-relation systems. It is now common practice at Telefónica to negotiate and agree business commitments electronically, and to transmit and receive orders, delivery notes and electronic invoices over the Internet. These systems are based on a global e-commerce platform managed by Adquira.

As well as improving efficiency, e-commerce increases transparency. All transactions are recorded on the system and suppliers themselves add their tenders to the tool. In addition, any information related to the process can be accessed simultaneously by all participating suppliers.

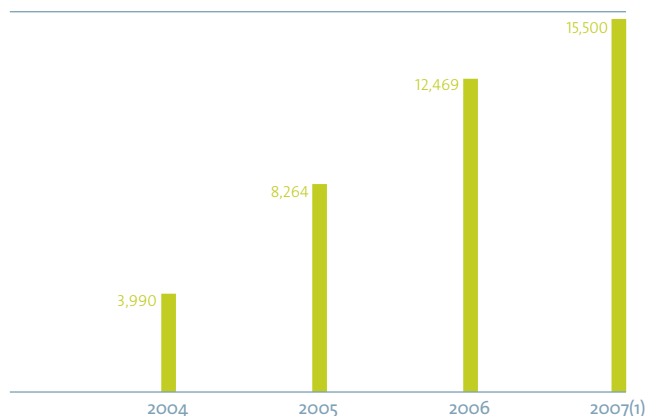
In 2006, e-commerce tools were deployed in nine countries, including Colombia, El Salvador, Guatemala, Nicaragua, and Panama. During the year there was a significant boom in the number of contracts negotiated and agreed electronically:

- Over 12,500 million euros worth of business was awarded electronically. Of this, approximately 1,366 million euros were awarded using the auction system.
- More than 2,400 auctions, up by 61% over 2005.
- Over 82,000 formal electronic agreements (contracts, letters of award and orders).

* Data includes Spain, Latin America and Czech Republic. Not included Uk, Germany or Ireland operations.

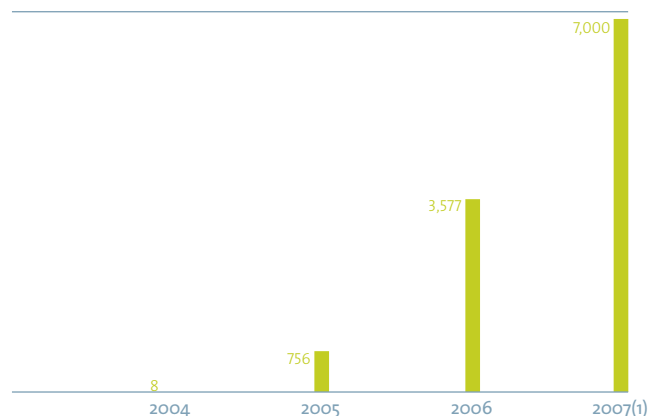
Procurement Volumes Negotiated electronically

Amount in millions of euros



Procurement Volumes Formalized electronically

Amount in millions of euros



(i) Telefónica's target 2007

In 2006 we added new functions to the electronic billing process. This allows all procurement transactions to be carried out electronically so that suppliers can issue their invoices on the basis of a prior electronic or conventional order.

The process also benefits our suppliers, who gain:

- Greater operational efficiency.
- More equal opportunities.
- Objectivity in contract awards.
- Greater flexibility and security in data exchange.
- Accessibility and connectivity to other potential customers (customers of Adqira Marketplace).
- Efficient payment terms.

Ethical standards in the supply chain

Telefónica works with its suppliers in an ethical and responsible manner to promote high employment and environmental standards throughout the supply chain. In our General Terms and Conditions for the Supply of Goods, we require our suppliers to comply with all pertinent legislation on working conditions, health and safety in the workplace, and environmental best practice.

We insist that our suppliers do not: use child or forced labour, accept working conditions that put the lives of workers at risk, or tolerate inhumane treatment in the workplace. We also demand strict compliance with the legislation on environmental matters.

During the 2006 financial year, we carried out risk assessments with specific regard to these matters across our supply chain. We applied the following key criteria to the process: visibility of the product to customers, the reputation of our brands, visibility to the media, suppliers' geographic location; and the nature of the supply. Our risk analysis concluded that suppliers of handsets and telecommunications equipment, installation and network maintenance services, merchandising products and telemarketing activities demand the greatest attention in our supply chain.

Our approach during 2007 includes:

- Building awareness among customers of how corporate responsibility issues influence our procurement decisions.
- Implementing supply chain Responsibility Regulations based on international standards such as the Universal Declaration of Human Rights from the United Nations and the Conventions of the International Labour Organization (ILO).
- Performing audits on CR matters among some of our suppliers.
- Encouraging our suppliers to apply similar measures in their respective supply chains.

Telefónica is not facing this challenge alone. We are members of a sector supply chain initiative through the Global eSustainability Initiative (GeSI). GeSI member companies (manufacturers and service operators) are collaborating to promote best practice developing etools, management practices, processes and systems that enable each participant to better manage the CR risks associated with their supply chain.





The Telefónica Foundation benefits more than 33 million people In 2006 Telefónica allocated more than 50 million euros to community investment

We feel that, apart from acting responsibly in our day-to-day activities we must also devote resources, time and effort to social and cultural projects that support the concerns of the communities in which we work. The Telefónica Foundation, which focuses on promoting education through new technologies, is the main channel of our social commitment.

What is the aim of the Telefónica Foundation?

We collaborate in the global struggle to eradicate child labour through the “Proniño” programme. In 2006, together with 38 non-Governmental Organisations (NGOs), we provided schooling for 25,339 children in Argentina, Brazil, Chile, Colombia, El Salvador, Ecuador, Guatemala, Mexico, Nicaragua, Panama, Peru, Venezuela and Uruguay.

Through this programme we not only help children at school: we also work positively in their communities, particularly with their families.

We are very serious about this commitment because of its humanitarian, social and educational impact. For this reason we have concentrated on giving children ongoing high-quality education in 646 schools and educational centers. That figure increased by 140% in 2006. And it will continue to grow in 2007 and 2008.

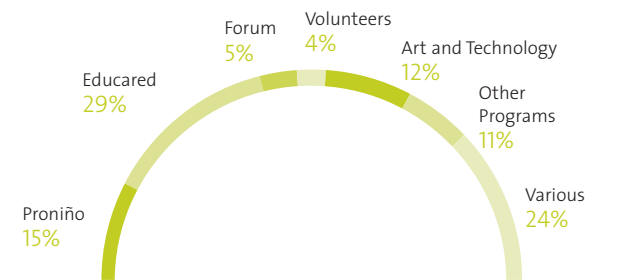
We are also working to promote the use of Information and Communications Technology in education through the EducaRed programme, which starts at infant school and continues through to Universities. More than 25 million people have benefited from EducaRed.

One of our strong points is our Corporate Volunteer programme. It not only involves our employees, but also people who have retired or taken early retirement from the group. The scheme enables people to take part in the network of programmes within the Telefónica Foundation, such as “Proniño. Additionally, they have access to social projects run by several NGOs. In 2006 alone, 12,000 members of our workforce gave their time to help on 321 projects.

The Telefónica Foundation is also engaged in promoting contemporary culture and art, paying special attention to digital art, its access and distribution over the Internet. In 2006 alone, 8,303,588 people benefited from contemporary culture and art activities conducted by the Foundation.

The Magnitude of the Telefónica Foundation

Distribution of resources dedicate to projects and initiatives carried out by Telefónica Foundation in 2006 per activity area.



Total number of participants/beneficiaries directly affected by Telefónica Foundation activity in 2006*

Area	Number of people
Educared	25,076,321
Proniño	25,339
Telefónica Volunteers	12,595
Forum	13,570
Art and Technology	7,302,272
Other programs	1,090,179
Total	33,520,276

* Including direct and internet beneficiaries

Awards to the Telefónica Foundation in 2006



- Prize for the Best International Social Action (Fundación Empresa y Sociedad)
- Prize of the Peruvian Ministry of Education for its support for Education and Culture
- Institution with the best public perception of its social initiative in Spain (Fundación Empresa y Sociedad)
- ASIMELE Prize for dissemination of the information society
- Prize for dissemination of computing applications (Spanish Society for Computing in Health-Care)

How else do we help?

It is now 34 years since Telefónica's employees and subsidiaries first sought to improve the quality of life of people with disabilities through preventive measures and social integration.

We contribute to this through ATAM, a not-for-profit association. Every month ATAM receives contributions made by almost 61,000 of the group's employees in Spain through a small deduction from their salaries. Telefónica then doubles this amount on their behalf.

We offer ATAM donators a wide selection of social protection cover throughout their lives should they face situations of disability and dependency. Therefore, as well as contributing to a very worthy social cause, beneficiaries and their families can be assured of present and future guarantees in the event of any such needs.

Furthermore, we support other charitable projects through institutions such as the Aid against Drug Addiction Foundation, the Spanish Association Against Cancer and the Spanish Red Cross.

In Europe and Latin America we have made it possible for numerous philanthropic programmes to start up. They include the Guri project in Brazil, which aims to promote social integration through music for children and teenagers living in depressed areas.

Telefónica Community Investment

Data in thousands of euros

	2005	2006
Telefónica Foundation ¹	28,999	33,015
ATAM ²	13,605	13,658
Social Sponsorships ³	2,571	1,608
O2 ⁴	0	2,493
Total	45,175	50,774

1 TF Budget.

2 Contributions to ATAM by Telefónica and its employees.

3 Includes social and non-cultural sponsorships.

The real amount was 2.9 millions euros but we took away some sponsorships of Proniño from Colombia Foundation.

4 Data applicable from 2006.

Telefónica Foundation Budget per country

Argentina	7%
Brazil	10%
Chile	3%
Colombia	4%
Spain	65%
Mexico	2%
Peru	5%
Venezuela	3%

"I'd love to be a lawyer"

Jonathan Arana was born in Managua (Nicaragua) ten years ago. At eight years of age he had to give up his dream of being a footballer because he had to work for a living. He got up at four in the morning to deliver his mother's corn cakes around the district. For his unmarried mother, Carmen Aguirre Ponce, and her two other children, it was not an easy decision because she had always been very clear about the principles and values represented by her family, but their economic situation became so difficult that she finally opted to make her eldest son her assistant. Both of them thought it would just be temporary, but Jonathan was working like that for two years.

He bore on his shoulders the responsibility of bringing home the bacon for his mother and siblings while still only a child and he could afford no free time; he was always tired and sleepy.

The arrival of Proniño at the José de la Cruz Mena school in Managua changed the situation. "Now I don't deliver corn cakes and I would like to become a lawyer to help the needy. Now when I get home I have time to do my homework and I can even play football with my brothers and my friends in the block", Jonathan admits.

Jonathan Arana

One of the most frequent demands among our stakeholders is to know what goals we are setting for the coming financial year. Telefónica wishes to abide by its transparency undertaking by publishing our targets for CR issues and, in particular, the degree of their fulfilment.






















MILESTONES FOR 2006 STATUS

EXPLANATION

CORPORATE RESPONSIBILITY	Co-ordinate the CR strategy with O2	Achieved 100%	😊	In 2006, a 10-point integration plan was agreed, all of which have been fulfilled during the 2006 financial year.
	Verify the CR Report to the AA1000/AS standard in the countries	Achieved 70%	😊	The Telefónica CR Report includes verification according to the AA1000/AS standard for Spain, Argentina, Chile, Colombia, Peru, United Kingdom, German and Ireland.
	Pilot projects for dialogue with stakeholders	Achieved 100%	😊	Discussion panels were organized with stakeholders in Argentina, Chile and Peru (and were also repeated in Spain)
BUSINESS PRINCIPLES	Alignment with the Business Principles of O2	Achieved 100%	😊	In June 2006, after reviewing the status of the Telefónica Ethical Code and the Business Principles of O2, it was decided to combine both documents into one. The uniform Business Principles were approved by the Board of Directors in December.
	Implementation of an Ethical Code throughout the Telefónica Group	In progress 2007	😞	The review of Telefónica's Ethical Code has altered the policy timeframe for implementation of the Principles. The Target has been pushed back to 2007.
CORPORATE REPUTATION	Implementation of a corporate model for managing reputation risk	Achieved 100%	😊	RepTrak, already applied in 7 Group countries, is used as the corporate tool for identifying reputation risks. The results are reviewed every three months and are exploited by many areas of the company.
	Improvement of 5% in Telefónica's reputation in Lat-Am on its weakest dimensions	Not Achieved	😞	Telefónica's reputation in the region kept stable in 2006.
ENVIRONMENT	Implementation of the "minimum standards" in environmental management. One step in each company	Achieved 49%	😞	In 2006 we advanced the implementation of the environmental management: we reached ISO14001 certifications in Telefónica Móviles Ecuador and Peru.
	Improvement in the waste management systems in Lat-Am	In progress 2007	😞	During 2006 we encouraged countries to manage environmental issues. Target delayed until 2007.
	Internal rules for the management and monitoring of environmental aspects	Delayed 2007	😞	The approval of corporate policies has been delayed until 2007 to ensure alignment with the Business Principles.
	Establishment of Environmental Committees per country	Achieved 100%	😊	The environmental committees have been set up in Argentina, Brazil, Chile, Colombia, Peru and Spain.
	Publication of an Environmental Policy for the Telefónica Group	Delayed 2007	😞	The adoption of corporate policies has been delayed until 2007 to ensure alignment with the Business Principles.



MILESTONES FOR 2006 STATUS EXPLANATION

		STATUS	EXPLANATION
CUSTOMERS	Establishment of homogeneous metrics to measure the customers satisfaction of Telefónica Móviles Lat-Am	Achieved 100% 	The model has been uniformly established with the measurement of satisfaction made for the Group.
	Customer Ombudsman Service in Spain	Achieved 100% 	Service currently operating and covering customers of fixed and mobile services.
	Progress in ISO 9001 certification	Achieved 100% 	More information in www.telefonica.es/cr2006/customers
	Implement Acceptable Use Policy for Internet Services	In progress 2007 	Delayed until 2007 to ensure alignment with our Business Principles.
	Implement rules for handling of Adult Contents	In progress 50% 	The approval of the rules set June 2008 as the compliance date.
	Manual for customers in Lat-Am to understand mobile telephony	Achieved 70% 	Leaflets for costumers in Argentina, Brazil and Peru.
	Regulations on management of gambling contents	In progress 2007 	The approval of corporate policies has been pushed back to 2007 in order to ensure their alignment with the Business Principles.
EMPLOYEES	To increase employee satisfaction by over 5%.	Achieved 100% 	The satisfaction was increased by 6.1% average.
	Individual development plan for all employees	Achieved 55% 	Actually, more than 70,000 Telefónica employees have individual training plans.
	Third and final phase of the work audit at Telefónica	Achieved 100% 	A new cycle of labour audits begins at Telefónica companies in 2007.
	Homogenization of health and safety processes for the Group	Achieved 50% 	A working group has been created to combine CSR and HR and Health and safety proffessionals in Spain, Latin America and O2.
	Development of the model for the corporate university	Achieved 100% 	The corporate university is now operational in the provisional campus.
	Homogenization of the Group's fringe benefits for managers	In progress 2007 	The project has been delayed due to another priority in HR.
	New ways of working: mobile work, flexibility	Achieved 65% 	Associated with the transfer of professionals in Spain to Distrito C (mobility, flexible working hours, tele-working, ...). There are currently 6,800 professionals in Distrito C.
	Implementation of the 2006 Internal Communication Plan in Lat-Am	Achieved 100% 	The internal communication programmes are operating in Lat-Am, with integration of fixed and mobile telephony.
SUPPLIERS	Publication of a responsible purchasing policy for the Telefónica Group	In progress 2007 	The adoption of corporate policies has been delayed until 2007 to ensure alignment with the Business Principles.
	Purchasing Policy for social suppliers	In progress 2007 	The adoption of corporate policies has been delayed until 2007 to ensure alignment with the Business Principles.
	Participation in the GeSI Supply Chain Working Group	Achieved 100% 	The co-ordinator of the Working Group is the head of responsible procurement at O2 UK.
SOCIETY	Encourage corporate volunteering projects	Achieved 100% 	Review of the strategy and team responsible for corporate volunteering at Telefónica Foundation.
	Telefónica Accessible projects (2 countries in Lat-Am)	Achieved 70% 	Launch of projects associated with Telefónica Accessible in Chile and Colombia (named differently than Telefónica Accessible).
	Encourage the "Digital Inclusion" project in Lat-Am	Achieved 100% 	Leadership of the "1st Latin-American Summit on ICT and Millenium Goals". Strategic line for Telefónica International.

CHALLENGES

CORPORATE RESPONSIBILITY AND BUSINESS PRINCIPLES	<ul style="list-style-type: none"> • Implementation of the Business Principles in all of the Group's companies (scheduled for 2006) • Perform the CR Diagnosis for Telefónica's companies • Establish key performance indicators linking CR diagnoses with compliance of the Business Principles • Publication of local CR reports in all the countries where operations are carried out • Extend dialogue projects to 3 countries of Latin America and 2 in Europe and consolidate dialogue in the rest of the countries
ENVIRONMENT	<ul style="list-style-type: none"> • Implementation of a uniform system of management throughout the group • Definition and implementation of a corporate strategy to fight climate change • Homogenization of operational control systems in Latin America • Progress with ISO 14001 certification for the Environmental Management Systems • Improvement in waste management systems in Latin America (scheduled for 2006)
CUSTOMERS	<ul style="list-style-type: none"> • "Customer Experience" Project in all regions, with the aim of satisfying customers needs in their relations with Telefónica • Publish information for "a responsible use of ICT" on the company's web pages and at sales outlets • Implement the Acceptable Use Policy for Internet Services (scheduled for 2006) • Implement Childhood Protection Policy, including the management of gambling (scheduled for 2006)
EMPLOYEES	<ul style="list-style-type: none"> • To increase employee satisfaction (target: reach the satisfaction of 65% of employees) • To encourage the 'new ways of working' project • Consolidation of the Model for the Corporate University and the launch of the virtual campus • Uniform the index the frequency of accidents at work • Development of the 'employee promise'
SUPPLIERS	<ul style="list-style-type: none"> • Publication of a Responsible Purchasing Policy for the Telefónica Group (scheduled for 2006) • Implementation of the CR self-diagnosis for suppliers at risk • Implementation of the selective audit phase for suppliers at risk • Purchasing Policy for social suppliers (scheduled for 2006)
SOCIETY	<ul style="list-style-type: none"> • Definition of products aimed at fostering "Digital Inclusion" in Latin America • Approval of 5 policies associated with the Telefónica Accessible Project (realms of accessibility) • Fostering of corporate volunteering projects integrating the approaches of the Telefónica Foundation and Telefónica O2 Europe • Aligning the sponsorship policy towards favouring the social use of ICT • Double the number of children benefited by Proniño

TELEFÓNICA, ACKNOWLEDGED BY CORPORATE RESPONSIBILITY SPECIALISTS

Dow Jones Sustainability Index	Telefónica, included for the third year running on the European and worldwide Dow Jones Sustainability Indices (DJSI). The score of 76 points obtained places Telefónica among the top 10% of sustainable companies in the world telecommunications sector.
FTSE4good	Telefónica has once more renewed its presence on the FTSE4good index and this, together with the DJSI and other analyses places the company among those preferred by investors with sustainability criteria.
The Good Company Rating	Telefónica was the fourth European company in CR according to the “Good Company Rating” performed by Deloitte and Kirchoff. With a score of 63.4 out of a hundred, Telefónica was ranked first among Spanish companies, the top of the field in the telecommunications sector.

THE TELEFÓNICA CORPORATE RESPONSIBILITY REPORT, AMONG THE MOST TRANSPARENT

Fundación Entorno	Telefónica received the European Environment Award in the category of “Communication for Sustainable Development”.
PwC	Telefónica is among the 46 companies in the world with the best reporting standards (according to the report entitled “Trends in Corporate Reporting”).
Observatorio de la RSC	The 2005 Report obtained the third-best consideration among Ibex35 companies, with a score of 1.81 out of 4.
The UGT trade union’s CSR Observatory	The 2005 Report obtained a score of 79 points out of 100 and was the best of those from companies within the Ibex35 index, with a 7-point lead over the second and third companies.

AWARDS OBTAINED BY TELEFÓNICA IN SPAIN

Príncipe Felipe Business Excellence Award	Telefónica was awarded this prize in the category for the Information Society and Information and Communication Technologies. It was also a runner-up in the Brand Renown category.
Fundación Empresa y Sociedad	Telefónica received the Foundation's International Prize for the Best Social Action, one of the awards given annually by the Company and Society Foundation to recognize those companies that stand out with regard to social actions. Their Royal Highnesses, the Prince and Princess of Asturias took part in the awards ceremony.
Fundación Empresa y Sociedad	Best International Social Action, according to the annual survey of 275 experts in companies, savings banks, social organizations, universities, business schools, the Public Administrations and the mass media.
Merco	Among Spanish managers, Telefónica is ranked third as the company with the best reputation.
Ipsos	Telefónica is the top-ranking Spanish company with a “very favourable” image among communications professionals.
Esade	Telefónica received the Esade Award for the best brand management in the 2006 financial year.
“Diario Médico” newspaper	The Movistar video-game entitled “Emergencia 112” was chosen as the Best Idea of the Year, within the section for Solidarity and Patronage.
Spanish Health-Care Computing Society	Telefónica Foundation received the award for the best work done in the dissemination of computing applications in health-care.
Autelsi	Movistar’s Solidarity project was recognized as the best social initiative at the AUTELSI awards ceremony.
Internal Communication and Corporate Identity Observatory	The intranet for Telefónica R&D is the one that “best fosters participation and accessibility”. The awards are organized at the initiative of the Instituto de Empresa, the magazine Capital Humano and the Inforpress consultancy.
Internet Day	Accessible Telefónica: Best Initiative to Reduce the Digital Gap on the 2006 Internet Day.

ACKNOWLEDGEMENTS FOR TELEFÓNICA O2 IN EUROPE

Best Company to Work for (Irl)	Telefónica O2 Ireland won the 2006 “Best Company to Work for in Ireland” award.
Chambers Ireland	O2 Ireland won the prize for the “Best Project performed in the Workplace presented by a Multinational”.
Best Company to Work for (Sunday times) (UK)	O2 UK was awarded the first prize in the “Best Place to Work awards” for 2007 organized each year by the Sunday Times.

AWARDS OBTAINED BY TELEFÓNICA IN LATIN AMERICA

Latin American Businesswomen's Association	The Latin American Businesswomen's Association distinguished the Telefónica Group for its corporate social responsibility. The award highlighted the company's policies on equality of opportunities and CSR.
Businesswoman Citizenship Prize - AmCham 2006 (Arg)	Telefónica Argentina has been recognized with an honourable mention in the “Businesswoman Citizenship Prize - AmCham 2006” for its “Interactive Classrooms” programme.
2006 Communicative Social Responsibility (Arg)	The Telefónica Volunteers Programme was honoured in Argentina.
Mario Covas Awards (Bra)	The projects under the Foundation's “good things from my country” umbrella were the winners of the award in the category for Use of Information and Communications Technology.
“Merit at Work” Award (Ec)	The Ministry of Labour and Employment in Ecuador awarded Telefónica the National “Merit at Work” Medal for its commitment to the eradication of child labour.
Connections 2006 (Chi)	The Centre for Education and Technology at the Ministry of Education in Chile has honoured Telefónica Chile's programme promoting access to new technologies in the country's schools.
We are all Chile (Chi)	The Telefónica Chile Foundation has won first prize in the 2006 National Campaign “We are all Chile” in favour of Diversity and Against Discrimination”.
Socially Responsible Company (Mex)	Telefónica Móviles Mexico and Atento Mexico and Central America received the “Socially Responsible Company” award.
Ethics and Values in Industry (Mex)	Telefónica Móviles Mexico received the honour in the CSR Good Practices Implementation category awarded by the Confederation of Industrial Chambers of Commerce in Mexico (Concamin).
Peru 2021 CSR Award	The Telefónica Foundation in Peru has been honoured with the “Peru 2021 Corporate Social Responsibility and Sustainable Business Growth Award” for its activities devoted to encouraging the “Educational Classrooms in Hospitals” programme.
Best Corporate Governance in a Privatized Company (Peru)	Telefónica Peru has obtained the prize for the Best Corporate Governance in a Privatized company.
Award from the Ministry of Culture (Peru)	In 2006, the Peruvian Ministry of Education recognized the work carried out by the Telefónica Foundation in support of education and culture.



Telefónica S.A.
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www.telefonica.es/cr2006/
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