Annual Corporate Responsibility Report Telefónica S.A.

2008

GRI REPORT
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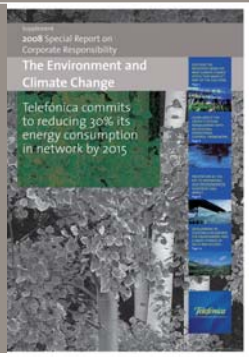


Letter from the Chairman

Dear Friend,

For the seventh year running, Telefónica presents its Annual Corporate Responsibility (CR) Report to its stakeholders. This Report does not set out to present an account of the Company's economic results – these have been faithfully recorded in the Annual Economic Report – but rather to describe, with complete transparency, the way in which we achieved our financial objectives in 2008.

In terms of CR, 2008 was a good year for Telefónica in many respects. First of all, as outlined in our last Managers Summit, because we set ourselves the goal of becoming leaders in our sector by 2011 based on three key initiatives: more innovation (new drivers and growth engines); more transformation (maximum operating efficiency throughout the business); and a significant contribution to environmental sustainability.

The goal of incorporating sustainability into our 2011 strategic focus areas is our way of integrating our commitment towards society into the Company's core business and firmly linking responsible behaviour with management processes and the balance sheet. In 2008, this link allowed us to improve our customers' satisfaction index, which stood at 6.92, an increase of 0.15 points compared to the previous year. It has also enabled us to improve our Employee Satisfaction Index, which averaged 69%, 3 points higher than in 2007. Finally, there was a 4% increase in our global corporate reputation index thanks to improvements in all categories (products, innovation, good place to work, honesty and the support given to social causes and protection of the environment).

Secondly, the year was good in terms of CR because we made significant progress putting in place systems and internal processes aimed at ensuring management integrity. The Human Resources, and Reputation and Responsibility Committee, attached to Telefónica S.A.'s Board of Directors, was responsible for driving and overseeing all these processes. Over 60,000 employees received training on our Business Principles; action was taken in 360 cases to

enforce fulfilment of our Principles; and we signed the 'Human Rights; a call to Action' declaration, promoted by the Global Compact of the United Nations to coincide with the 60th anniversary of the Universal Declaration of Human Rights. We also implemented internal procedures to extend our ethical principles to the supply chain and protect children and adolescents when using technologies and approved new processes to regulate risk management, data protection and the integration of disabled people into the workplace...these are all examples of how Telefónica is making progress through measures designed to guarantee the integrity of our management. This has been acknowledged by the two most important indices that measure socially responsible investment: the Dow Jones Sustainability Index (DJSI) and the FTSE 4Good.

The third important point to note in 2008 was that we placed particular emphasis on the positive impact that our products, services and solutions have on society. This 2009 Report has devoted a chapter to describing the programmes (numbering over 60) put in place by the Company that aim to reduce the digital divide – or the inequalities that arise between people and communities who use Information and Communication Technologies (ICT) on a daily basis and those who either have no access to these technologies or lack the skills to use them. We grouped Telefónica's programmes into four main categories: the economic divide; the technological skills divide; the geographical divide and the health and disability divide.

To support this work, Telefónica invested over 370 million euros to reduce the digital divide. Around 275 million was directed to the resources used to maintain the Universal Service provision (104 million euros was the net cost of the Universal Service provision in 2007 by Telefónica España); 15 million euros were set aside for training initiatives in Information and Communication Technologies and over 80 million euros went to projects aimed at reducing the economic and geographical divides.

Additionally, we remained highly committed to social and cultural programmes in 2008. According to the LBG measurement model, the Company invested about 115 million euros in these programmes during the year. I would particularly like to single out 'Proniño', the Fundación Telefónica programme, which for the third year running has managed to double the number of children receiving schooling and so contribute to the struggle against child labour: today, over 107,000 boys and girls can look forward to a brighter future thanks to the combined efforts of the Fundación Telefónica and over 100 NGOs operating in Latin America. Alongside 'Proniño', the Foundation is actively promoting 'EducaRed' (aimed at improving the quality of education through the use of ICT) and corporate volunteering (in 2008, around 22,000 employees across the Telefónica Group volunteered some 340,000 hours).

By way of conclusion, I think 2008 has been a good year in terms of CR because we have continued to improve the way we report and communicate our achievements. We are proud to say that Telefónica does not merely devote a report to CR; but has a whole management system dedicated to its effective management.

The Telefónica S.A. CR Report stands at the fore of the reports we publish in 17 countries, putting into practice our strategy: with activities at a global (the aim of the United Nations' multilateral initiative, GRI or indices such as the DJSI) and local level (responding to the needs of stakeholders in each country). We have also relied on the external verification provided by our auditor in order to guarantee the materiality and accuracy of the information and have adhered to the strictest standards available worldwide: GRI and AA1000AS. Finally, we have, for the first time, jointly published the Telefónica CR Report and the Report issued by the Fundación Telefónica, highlighting the impact our Group has on society.

Furthermore, once again this year, I would like to reaffirm Telefónica's commitment to the Global Compact of the United Nations and to the fulfilment of its principles. This initiative reflects what Corporate Responsibility means for Telefónica – multi-stakeholder, global and local at the same time, voluntary and in pursuit of entrepreneurial excellence. This year we have published a supplement detailing how we're fulfilling these principles, in addition to two more special publications that aim to provide specific answers to matters of particular importance such as our environmental performance and climate change, and the projects put in place to contribute to the Millennium Goals.

I hope you find this report interesting. You will see to what extent we have fulfilled our CR objectives for 2008 and those we have set ourselves for the period 2009-2011. We believe that we are making progress every year. We achieve this progress largely thanks to you, and the confidence you place in us, which inspires us to do things better each day. Please receive my heartfelt gratitude.

César Alierta Izuel
Chairman of Telefónica, S.A.

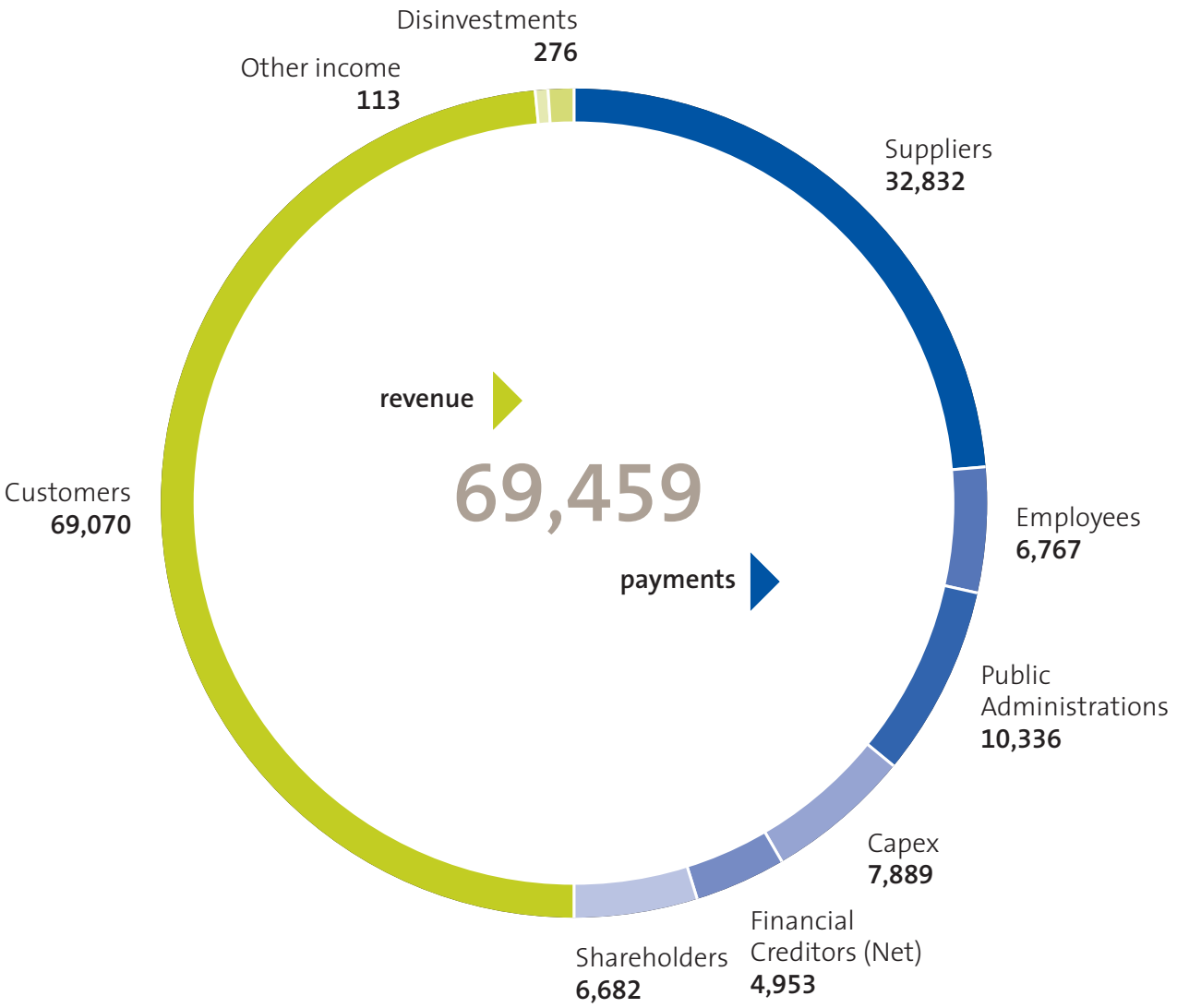
Driving force for progress

In 2008, the Company created wealth valued at 69,459 million euros

Telefónica is a driving force for economic, technological and social development in the countries where it operates[1]

In 2008, the Company earned more than 69,000 million euros in revenues. These revenues allowed it to pay out 6,767 million euros to its employees (5% more than in 2007); 10,336 million euros to Public Administrations (4% more than in 2007); 32,832 million euros to its suppliers (2% more than in 2007); and about 6,700 million euros to its shareholders (22% more than in 2007). This is how the Company allotted the wealth it created.

In 2008, Telefónica set aside over 4,600 million euros for technological innovation, which represents an increase of 6% with respect to 2007. 668 million euros of this amount was invested in Research and Development (R&D), making Telefónica the sixth largest company worldwide in this category and the first amongst Spanish companies, with an amount dedicated to investment that is 4 times that of the runner-up in this ranking[2].



1 Figures in millions of euros
2 Source: 'The 2008 EU Industrial R & D Investment Scoreboard'.

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

For more information: www.telefonica.com/about_telefonica

Contribution to Progress

	Economic Impact					Revenues/GDP	Key Figures	
		Revenue	Payments					
Spain	Revenue	20,943				1.8%	Employees	52,576
	Payments	7,963	2,303	2,686	3,005		Suppliers awarded contracts	4,212 (88.0%)
							Total Accesses	47,350
Morocco	Revenue	67				0.1%	Employees	2,096
	Payments	248	1	4	12		Suppliers awarded contracts	341 (73.0%)
							Total Accesses	7,434
Germany	Revenue	3,561				0.1%	Employees	4,805
	Payments	1,654	924	47	351		Suppliers awarded contracts	1,527 (94.2%)
							Total Accesses	15,542
Ireland	Revenue	929				0.5%	Employees	1,538
	Payments	270	82	112	91		Suppliers awarded contracts	672 (80.2%)
							Total Accesses	1,728
Czech Republic + Slovakia	Revenue	2,556				1.7%	Employees	9,563
	Payments	462	293	482	288		Suppliers awarded contracts	394 (72.9%)
							Total Accesses	8,609
United Kingdom	Revenue	7,207				0.4%	Employees	13,133
	Payments	3,243	861	840	628		Suppliers awarded contracts	7,487 (55.3%)
							Total Accesses	19,811
Argentina	Revenue	2,627				1.1%	Employees	21,550
	Payments	1,033	379	563	408		Suppliers awarded contracts	1,510 (94.1%)
							Total Accesses	20,727
Brazil	Revenue	9,132				0.8%	Employees	82,288
	Payments	5,274	1,653	3,657	985		Suppliers awarded contracts	3,541 (98.5%)
							Total Accesses	60,739
Chile	Revenue	1,942				1.6%	Employees	13,712
	Payments	1,010	452	221	245		Suppliers awarded contracts	1,838 (90.2%)
							Total Accesses	10,014
Colombia	Revenue	1,496				0.9%	Employees	6,108
	Payments	858	426	293	137		Suppliers awarded contracts	1,155 (86.1%)
							Total Accesses	12,803
Ecuador	Revenue	307				0.8%	Employees	1,083
	Payments	188	133	34	26		Suppliers awarded contracts	430 (80.2%)
							Total Accesses	3,212
United States + Puerto Rico	Revenue	103				0.0%	Employees	810
	Payments	38	6	2	31		Suppliers awarded contracts	245 (71.8%)
							Total Accesses	n.a.
El Salvador	Revenue	120				0.8%	Employees	398
	Payments	67	20	15	15		Suppliers awarded contracts	447 (73.8%)
							Total Accesses	1,202
Guatemala	Revenue	178				0.7%	Employees	4,572
	Payments	111	40	22	26		Suppliers awarded contracts	547 (81.0%)
							Total Accesses	2,433
Mexico	Revenue	1,776				0.2%	Employees	17,768
	Payments	929	354	37	180		Suppliers awarded contracts	1,153 (92.1%)
							Total Accesses	15,464
Nicaragua	Revenue	84				1.9%	Employees	313
	Payments	51	27	20	6		Suppliers awarded contracts	362 (69.6%)
							Total Accesses	1,006
Panama	Revenue	188				1.2%	Employees	495
	Payments	74	39	33	14		Suppliers awarded contracts	487 (79.1%)
							Total Accesses	1,517
Peru	Revenue	1,615				1.8%	Employees	15,213
	Payments	1,072	293	375	215		Suppliers awarded contracts	2,083 (87.4%)
							Total Accesses	14,983
Uruguay	Revenue	161				0.8%	Employees	615
	Payments	141	23	3	9		Suppliers awarded contracts	654 (72.8%)
							Total Accesses	1,421
Venezuela	Revenue	2,819				1.2%	Employees	8,089
	Payments	1,239	310	718	166		Suppliers awarded contracts	1,125 (89.0%)
							Total Accesses	11,905

Telefónica Revenue | Volume of contracts awarded | Investment in Capex | Tax payments | Salaries

- Economic data in millions of euros (revenue, personnel expenses, payment of taxes, purchases and investment (Capex))
- Revenue: the figure for consolidated revenue refers to all the Telefónica business units in the country in question.
- Revenue TEF/GDP: ratio between Telefónica revenue (contribution of country to consolidated revenue of the Telefónica Group) and forecast GDP for the country (source IMF)
- Capex figures expressed in ordinary euros.
- Employees: number of people directly employed by the Telefónica Group in the country (headcount on 31 December, 2008).
- Suppliers: number of suppliers awarded contracts in the country in 2008. The % of local suppliers represents the proportion of contracts awarded to suppliers domiciled in the country /total awards in country in terms of volume.
- Accesses: represents the sum of the number of fixed accesses + wireless + broadband + Pay TV (per thousand).

Milestones 2008

The management achievements of the Telefónica Group in the area of Corporate Responsibility in 2008

Significant progress in some areas and the need to improve implementation in others, together with the goals set for 2011, form the basis for the goals in 2009.

Corporate Responsibility and Business Principles		Degree of fulfilment
1 Business Principles training	At the end of 2008, about 50% of employees in the Group (excluding Atento teleoperators) had received training in Business Principles, which represents 60,219, twice the figure for 2007.	70%
2 Promote dialogue with employees on Business Principles	The goal of promoting dialogue with employees on Business Principles was achieved through the development of internal forms of communication such as publications (e.g. the magazine 'Somos'), various presentations in different forums and banners.	30%
3 Promote dialogue with interest groups	• Methodology and training initiatives were launched for employees in Ecuador while CR continued its process of consolidation in the remaining countries where it had begun to be applied in 2007. • Thematic panels were promoted in Peru on 'Social Inclusion in Telecommunications', 'Intégrame Project' (Integrate Me) and '1st Forum on Antennae and Health – the reality behind the myths'. • Telefónica O2 Germany confirmed its best practice status within the Company in the area of online dialogue.	70%
4 Develop the guidelines for implementing CR in each country	In order to encourage initiatives aimed at guaranteeing responsible conduct by interest groups and helping to consolidate society's good perception of Telefónica, CR guidelines were developed for the 10 countries included in the 2008 goals.	100%

Environment*		Degree of fulfilment
5 Design a standard Environmental Management System for the entire Group, bringing together fixed and mobile operations	An Environmental Management System was developed for the entire Group based on the ISO 14001 Standard.	100%
6 Climate Change: develop a low-carbon procurement model	A model which places emphasis on energy efficiency in equipment and products was developed as part of the suppliers working area in the Climate Change Office.	100%
7 Climate Change: develop an Energy Management System	Measures aimed at improving energy efficiency, promoting the use of renewable energies and Green IT models, were developed and implemented as part of the Operations working area in the Climate Change Office.	100%
8 Develop and implement an Environmental Performance Index for Telefónica	2008 saw the development of Telefónica's Environmental Performance Index based on a balanced scorecard of environmental indicators.	100%
9 Define, standardise and apply environmental criteria when rolling out networks	The rules that are due to be implemented in 2009 and 2010 in all operations were designed in 2008 as part of the Global Environmental Management System. These rules cover aspects such as waste management, noise pollution control etc.	70%
10 Develop and implement an Environmental Communication Plan	Communication initiatives were developed but no specific plan was drawn up.	30%
11 Implement management systems for regional waste	Work was carried out on a system for recovering equipment in Latin America due to be implemented in 2009 and which will be incorporated into the Global Environmental Management System.	60%

* Telefónica has published a special 2008 supplement about environment and climate change. The online version is in www.telefonica.com/cr08/environment

Customers		Degree of fulfilment
12 Increase our Customer Satisfaction Index by 4%	The efforts invested in the 'Customer Experience' methodology, which has been in development since 2007, resulted in an improvement in the Customer Satisfaction Index bringing it to 6.92%. This is a 2% improvement.	50%
13 Implement programmes aimed at ensuring compliance with competition standards	The online Compliance Programme was implemented in the Czech Republic. The compliance initiatives that currently exist in Spain are being renewed and updated.	30%
14 Campaign: 'Responsible use of technology'	In accordance with a pre-established working plan, during 2008, advice was dispensed to customers and the general public regarding the responsible use of technology, including recommendations on safety and security, recycling, the use of technologies by children, intellectual property and the use of technology in public places.	100%
15 Develop the project 'Interactive Generations' in six Latin American countries designed to defend and protect children and adolescents when using ICT	The analysis included surveys involving about 85,000 children from 800 schools in Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela. The conclusions of the analysis, which were recorded in the White Book, will lay the basis for developing future educational initiatives.	100%
16 Implement the Responsible Advertising policy	The 10 principles that make up the '10 Golden Rules of advertising' were defined. These principles are included in the 'Agencies Evaluation Model' and are applied as part of the contractual conditions with these agencies.	50%

Employees		Degree of fulfilment
17 Improve the employee satisfaction index by two percentage points	The initiatives under way led to an improvement in the Employee Satisfaction and Commitment Index, bringing it up to 69%, three percentage points higher than in 2007 and with participation in the survey amounting to 70.4%.	100%
18 Diversity Project	Progress was made in the tasks of dissemination and implementation within the internal areas that will make up the future Diversity Committee.	60%
19 Health and Safety	The procedure 'Analysis of workplace accidents in the Telefónica Group' was developed, the aim of which is to lay down a series of common operating criteria in order to analyse workplace accidents in all the companies that belong to the Telefónica Group.	100%

Suppliers		Degree of fulfilment
20 Implement the Supply Chain Evaluation Programme using CR criteria	Telefónica more than fulfilled its target for 2008 of evaluating the supply chain risk of 1,000 suppliers and carrying out 50 audits, attaining figures of 1,100 and 55 respectively.	100%

Society		Degree of fulfilment
21 Reach the figure of 100,000 children directly benefiting from the Proniño programme	107,602 children began receiving schooling in 2008, doubling the previous year's figure for the third year running for those benefiting from the scheme in Latin America. The EducaRed model was used to make available to teachers, pupils and families alike the technological tools required to guarantee access to quality learning and teaching processes.	100%
22 Digital inclusion strategy for Latin America	Telefónica defined its strategy aimed at reducing the geographical, educational, economic and technological skills divides. Over 60 initiatives in Spain and Latin America are included in this model.	100%
23 Accessible Telefónica Plan	Progress was made in the following areas covered by the Accessible Telefónica Plan: Accessibility of Telefónica handsets; Accessibility of the process of Workplace Integration; Accessibility of the Procurement process; Accessibility web; Accessibility in shops; Accessibility of Digital TV; Accessibility of hardware (adapting computers). Besides these achievements, actions involving education, communication, raising awareness, maintenance and consolidation of the collaborative network were started as well as support for innovation initiatives.	85%

Strategy

The Company has set up a Committee on the Board of Directors whose remit is to promote Reputation and Corporate Responsibility, and is the first company to do so amongst those included in the Ibex-35

Corporate Responsibility for the Telefónica Group is an integral part of its goals and the way it conducts its business

The Company's CR strategy is based on doing business the right way.

Its CR initiatives are carefully balanced between positive impacts and preventing negative impacts from affecting the value chain for each stakeholder.

For more information: www.telefonica.com/cro8/crstrategy

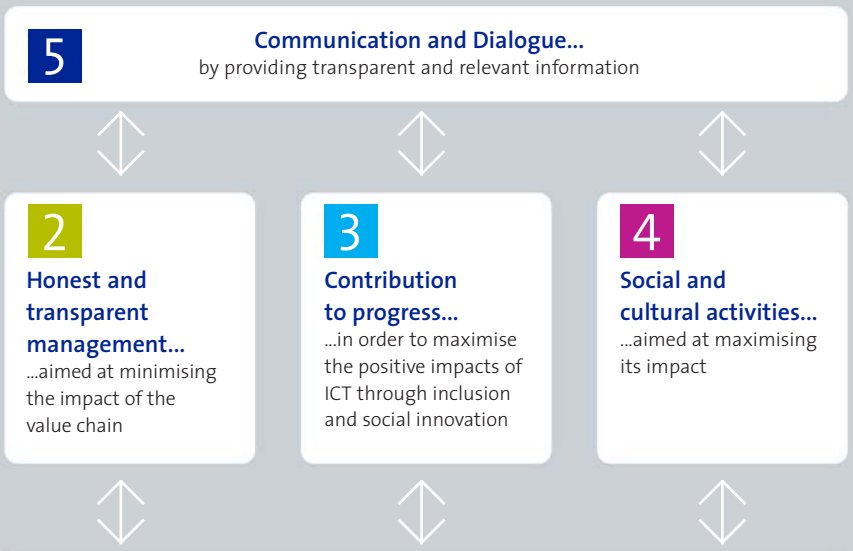
Telefónica's vision, 'we want to enhance people's lives and the performance of businesses, as well as the progress of the communications where we operate, by delivering innovative services based on Information and Communication Technologies' lies at the root of the Group's strategy of Corporate Responsibility (CR) and is an integral part of its goals and the way it conducts its business.

The positive and negative impacts, which are economic, social and environmental in nature, caused by its business activities or which may be generated by its value chain, all fall within a common strategic framework of corporate responsibility and are uniformly integrated into the business processes of its different operations.

Sustainability

The objective of Telefónica's CR strategy is to contribute to the sustainability of its business in the long term by implementing policies that foster ethics and honesty which, in turn, help improve the satisfaction of customers, employees, shareholders and, above all, society.

Framework outlining how Telefónica manages its social impact

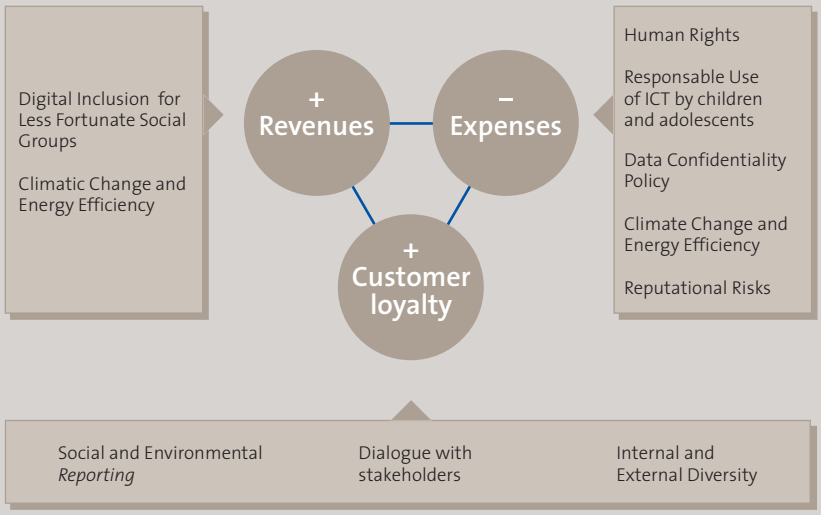


Management framework

1. **Business excellence, 'doing business the right way',** is the underlyng principle of Telefónica's CR policy and underlies the rest of its strategy. The Company employs various indicators in order to measure its degree of implementation: the Customer Satisfaction Index, the Employee Satisfaction Index and the RepTrak™ reputation index which tellus the fact that the supply of our products and services have the greatest impact on how the general public percives us, highlighting the need to maintain focus on service excellence and fulfilling our commitments to our customers.

2. **Honest and transparent management: 'aimed at minimising the negative impact of the value chain',** through commitment to ethics and honesty. The basic set of rules represented by the Group's Business Principles generate, in turn, the particular policies and regulatory frameworks required to fulfil these very Principles when dealing with the Company's various stakeholders. The body charged with communicating these Principles, making sure the right processes for implementing them have been put into place, dispensing advice and dealing with complaints lodged by various groups and drafting policies and regulations is the Business Principles Office, which reports to the Human Resources, Reputation and Corporate Responsibility Commission. Some examples of regulations that have been drafted include the Extension of Business Principles to the Supply Chain; Buying from Social Suppliers; Protection of Data and Adult Content or the Global Environmental Management System.

CR 2.0 – The link between 'public and social aspects' with the profit and loss account



Telefonica´s actions in the area of Corporate Responsibility are linked to the balance sheet in that as they generate revenues in the business units and increase customer loyalty due to good management of the Company´s reputation.

This is Telefónica's CR 2.0 strategy which goes beyond defining our position on its socila, economic and environmental impacts and looks instead to clearly define and implement proyects to meet our CR goals. We publich these goals in our annual CR reports to ensure complete transparency.

3. **Contribution to progress: 'maximise the positive impacts of the business'** and thus make a contribution to improving people's lives, developing business and social progress. This is concerned with inclusion projects aimed at narrowing the geographical, economic, educational, health and disability divides by applying ICT (Information and Communication Technologies) solutions. These consist of inclusive business ventures that have been integrated into ordinary business operations because they have been singled out as 'growth engines': educational programmes on the use of ICT; services for people with disabilities, etc. ICT also have a positive impact on the environment and the productivity of companies because of their capacity to help reduce consumption of natural resources and fight against climate change.

4. **Social and cultural activities: 'maximising the impact of our social action',** through activities based on ICT that allow anybody, regardless of their social or cultural condition or situation, to enjoy the benefits of progress. Telefónica's social and cultural activities are carried out through the Fundación Telefónica, ATAM, the sponsorships policy and Telefónica Europe's social action plan. The Proniño, EducaRed, Telefónica Volunteering, Debate and Knowledge and Art and Technology programmes or 'It's Your Community' are just a few examples.

5. **Communication and dialogue: 'enhancing the benefits of CR initiatives through transparent communication and constructive dialogue with stakeholders'** that help define Telefónica as a driving force for economic, technological and social progress. Telefónica publishes annual CR reports in the 17 countries where it operates, which are compiled using the GRI standard. 12 of these reports also comply with the AA1000AS standard. Social and cultural action is assessed using the LBG standard.

In order to ensure that the initiatives keep in step with the expectations of these stakeholders, dialogue with these groups is essential. The overall aim is to move away from a multi-stakeholder strategy to a mono-stakeholder strategy that allows the Company to develop a closer understanding of the interests of these groups and identify the most significant aspects, which in turn will help the Telefónica Group readjust the focus of its CR strategy.

Supplement 08: Environment and Climate Change

The aim of the Supplement to the CR Report is to highlight areas of particular relevance within Telefónica's Corporate Responsibility (CR) strategy in keeping with the priorities of its stakeholders.

During 2008 in the CR area, environment and climate change were the most important aspects on the political, economic, scientific and public agendas worldwide.

The increased weight accorded to the company's climate change strategy in the Dow Jones Sustainability Index in 2008 (6%); the call of the Secretary General of the United Nations Ban Ki Moon to spur economic recovery around the world through a 'New Green Deal', that is to say, investment in the green economy; the European Union's recognition that climate change is a priority and its goal of reducing greenhouse gas emissions by 20% before 2020, improving energy efficiency by 20% and increasing the energy generated using renewable sources by 20%; the United States' decision to finally joint the Kyoto Protocol and its goal of reducing emissions by 80% before 2050...all of these are reasons enough to include this special supplement in Telefónica's CR Report.

This supplement is the first in a series over the coming years that will focus on subjects of particular relevance for the Company and its interest groups.

Customer satisfaction...

Telefónica Europe attained a score of 7.50 points; the largest increase within the Group, 7.7%, was achieved in Latin America

Customer satisfaction was 6.92[1] in 2008 as compared to 6.77[2] the previous year

Among other things, the Company worked to improve complaints management and front line staff service.

For 2009, it is estimated that a score of 7.24[3] will be attained through the implementation of local plans inspired by the 'Customer Experience' methodology.

In 2008 at the end of the fourth quarter, Telefónica's global Customer Satisfaction Index stood at 6.92 out of 10 in comparison to 6.77 for 2007.

Evolution of global Customer Satisfaction*

2008	6.92[1]
2007	6.77[2]

* Scale of 1 to 10 where 0 means not at all satisfied and 10 means completely satisfied.

The evolution of this indicator, which measures the degree of satisfaction expressed by clients of the Company in general in relation both to their expectations and to their notion of what constitutes an ideal company, was monitored in detail by the Service Quality and Customer Service Committee of Telefónica S.A., which is a consultative committee attached to the Board of Directors.

The improvement in the Customer Satisfaction Index reflects the quality plans launched by each company in the Group. The reference methodology used by these companies was, once again this year, 'Experiencia Cliente' ('Customer Experience'). This methodology, which has been successfully used in Europe, is a tool now being rolled out in other regions to help desing improvement plans locally.

Priorities

On a general level, apart from launching new products and attractive tariffs, Telefónica sought to improve those aspects that are considered crucial by customers such as the service provided by the different customer service channels, the reduction in the number of complaints and the time taken to deal with them, especially those concerning invoicing. Another priority in many countries was the continuing modernisation and extension of existing networks. At the end of 2008, the number of faults per 100 telephone lines[4] stood at 4.6.

The common objective shared of a local quality plans is to make progress towards the goal of leading, or consolidating our lead in terms of customer satisfaction..

This was the case in Ecuador, Spain, Mexico, Nicaragua, United Kingdom and Uruguay where Telefónica was the leader in Customer Satisfaction.

Regional evolution

The Customer Satisfaction Index of Telefónica España was 6.32. Telefónica's corporate customers positively evaluated this aspect (6.35) and the Company likewise maintained its position in mobile telephony.

Telefónica Latin America also continued progressing in terms of Customer Satisfaction. The indicator rose from 6.62 in 2007 to 7.13[5] in 2008 thanks to the improvement registered in the Customer Satisfaction Index for wireless and fixed-line businesses, which stood at 7.96[6] and 6.24 respectively.

Telefónica Europe also saw improvements in its Customer Satisfaction Index: it achieved the figure of 7.50 compared to 7.37 in 2007. Once again, the performance of Telefónica O2 United Kingdom should be highlighted. It ended the year as the company with the best evaluation by its customers in a highly competitive market.

Telefónica improved its service provision in 2008. The figure for lines connected on time was exceptional in almost all countries.

Exchanging better practices

In 2008 Telefónica took advantage of Commercial Wings (CW), the programme of exchange of commercial and marketing knowledge participated in by 5,400 users, which is aimed at promoting interregional collaboration and improving the experience of users, amongst other aspects. This was one of the subjects dealt with in one of its more than 65 communities of experts and will play an even greater role in 2009. The 'Customer Defense Service' of Telefónica España or the online channel in the United Kingdom, www.o2.co.uk are just two examples of experiences that could be shared.

1 This figure does not include Vivo. If Vivo is included, the figure is 6.97.
2 The global Customer Satisfaction Index figure for 2007 has been adjusted to take into account the project designed to standardise measurement methodologies throughout the Group. This project allows the scale and the questions relating to customer satisfaction to be unified, amongst other aspects. The global unadjusted Customer Satisfaction Index for 2007 was 6.84.
3 This estimate does not include Vivo. If Vivo is included, the figure rises to 7.27.
4 Includes fixed lines and ADSL for Spain, Argentina, Brazil, Chile, Colombia and Peru.
5 This figure does not include Vivo. If Vivo is included, the figure rises to 7.27.
6 This figure does not include Vivo. If Vivo is included, the figure rises to 8.01.

For more information: www.telefonica.com/cro8/customers

...quality and 'Customer Experience'

Telefónica improved the quality and coverage of its network in order to increase its efficiency

Customers identify quality with the availability of a telecommunications service, its proper functioning and resolution of complaints.

In addition to the amount Telefónica set aside for investing in its network during the year in order to improve capacity and introduce new technologies, 2008 also saw initiatives that were put into place by all the operators aimed at optimising service provision. This was borne out by the figure of 92% for line connections carried out within the stipulated deadline according to type and region.

For example, the percentage of fixed-line telephony connections was 99.3% in Spain and 83.2% in Latin America.

In order to maximise efficiency, the decision was made to employ tools and systems such as GAUDÍ and SIGRES, regional projects for fixed telephony operators in Latin America:

- GAUDÍ is a tool used for responding to service requests at customers' homes. It simplifies the tasks of technicians by storing information and automating the conclusion of the service call-out through the use of a PDA terminal. Gaudí already operates in Peru and is being implemented throughout the region.
- SIGRES (Integrated System for Managing Networks and Services) which has been implemented in Argentina, Brazil, Chile, Colombia and Peru allows the tasks of installing and operating new broadband services to be managed and eliminates manual processes.

Telephone connections carried out on time 2008

	Spain	Latin America*
Fixed-line	99.3%	83.2%
ADSL	97.0%	80.6%
Pay TV	98.4%	91.9%

* Includes Argentina, Brazil, Chile, Colombia and Peru. Pay TV service not available in Argentina. The figures for Spain and Latin America cannot be compared since they were obtained using different methodologies.

GSM network efficiency

	Spain	Latin America	Europe
2008	99.1%	97.0%	98.6%

Chile, fixed-line telephony 'If no service is provided then no service will be charged for'

Last year, Telefónica managed 22 initiatives in fixed telephony services in Chile aimed at improving the service provided by customer service channels when resolving complaints and technical support, widening the accessibility of call centres and reducing invoice-related complaints. The progress attained was reflected in the significant improvement in the Company's Customer Satisfaction Index: it rose from 5.78 at the end of 2007 to 6.64 at the end of 2008.

Within the programme, which is part of the regional strategic plan AHORA, the operator promised its customers three things: 'If I fail to install the line on time, I will give you one month's free service'; 'if no service is provided, then no service will be charged for'; 'If I make a mistake, I will recognise this proactively and reimburse you'.

Some of the actions put in place to achieve these promises include the following: the Company improved the service offered by call centres and encouraged automatic service response through IVR and increased proactivity when resolving service incidents. It furthermore improved the clarity of the information provided on invoices regarding the price of promotions and service packages offered by the Company.

Some of the main achievements in 2008

Fixed-line and mobile telephony

- The Company improved mobile coverage in Germany – the GSM network now covers 99% of the territory – and this was extended to transport.
- The wireless fixed-line telephony service began in Peru. The goal is to install over 1,200,000 lines in four years.
- Mexico and Central America launched the prepay roaming service.
- Telefónica Móviles Argentina enabled the 3G roaming service in Uruguay and Chile.

Broadband

- The speed of ADSL in the Czech Republic increased fourfold.
- Telefónica Chile tripled the speed available to its broadband customers.
- The VPN IP MPLS Internacional service was launched for global and multinational customers.

Fibre optic

- Super broadband via fibre optic was launched in Brazil.
- In Spain, Telefónica launched Trío Futura, its first pre-commercial service offer for fibre optic.

Submarine cable

- The submarine cable reached Ecuador and Colombia, increasing Internet access in the latter by 50%.

...customer service

The Customer Defence Service in Spain and the Ombudsman in Brazil responded to 3,157 and 165,103 complaints respectively

In 2008, Telefónica answered over 490 million calls at its contact centres

71% of calls were answered after between 10 and 20 seconds.

According to the Telecommunications User Service Office in Spain, Telefónica was the operator with the lowest percentage of complaints concerning fixed telephony, internet access and data and voice packets in 2008.

The Group's sales network at the end of the year numbered 26,000 sales outlets.

Telefónica responded to over 490 million telephone calls in 2008. The Company developed initiatives covering all segments with the aim of improving the services managed at call centres. Special mention should be made of those projects geared towards the general public in the three regions.

In Spain, the creation of CSI or Dissatisfaction Monitoring Centres, which contact those customers who are either dissatisfied with some aspect of the way their query was handled by the teleoperator or who get into contact once again with the call centre, was just one of the initiatives aimed at improving the quality of the response to queries made by private customers.

All it takes is one telephone call

Telefónica Europe continued to focus on its goal of resolving customer queries with a single telephone call thus sparing the customer further time and trouble and also reviewed automatic service response systems employing IVR, increasing or decreasing the role played by 'the machine' according to particular market needs.

Telefónica Latin America concentrated on transforming its telephone service response model as part of its strategic regional programme AHORA in Argentina, Brazil, Chile, Colombia and Peru with particular attention to the following points: sales and service response strategy; technical solutions and management systems; internal corporate culture and employee skills. The tangible results of these efforts were increases of 12 percentage points in Chile and 15 points in Argentina in the degree of satisfaction at the way queries were dealt with by commercial call centres.

* Requests for information, consultations or reporting faults are not included in this category in Latin America.

Calls answered at customer service centres

Per thousand	2008
Spain	104,692
Latin America	323,369
Europe	63,251
Telefónica Group	**491,312**

Movistar Argentina: improving the quality of customer service

COPC is the international quality standard that has been selected by Telefónica in Argentina to raise standards of excellence in all processes involving customer service. This model includes both contact areas with the user and with the supplier.

Movistar Argentina was, in 2007, the first company in the Group to obtain the COPC certificate and in the space of just over a year, it had extended its application to ten Customer Experience Centres, to the way telephone queries made by skilled professionals and high-value private customers are handled and to the response to telephone queries and the back office in the Corporate segment.

Likewise, an assessment of the service provided at Commercial and Technical call centres in the residential and business segments was carried out in 2008 in the fixed telephony sector to prepare the ground for the application of COPC.

Telefónica creates a dedicated team charged with speeding up the resolution of technical incidents

In July, Telefónica España set up the CSI (Dissatisfaction Monitoring Centre) in order to improve satisfaction ratings amongst private customers by thoroughly investigating their complaints and speeding up their resolution.

The CSI was set up as part of the 1004 telephone service operated by the Company on behalf of residential customers and it works by collaborating with other areas such as Operations, Invoicing, Complaints and Information Systems amongst others.

In 2008, the CSI resolved over 142,000 technical incidents and in 2009, it will be incorporated into the Company's strategic project for Spain, GPS, in pursuit of its goal of improving customer satisfaction ratings.

Complaints

Reducing and properly managing complaints was another area of crucial interest for the Company in 2008 during which over 11,8 million technical incidents* were recorded. Hence the importance of the Ombudsman in Brazil - which responded to 165,103 queries, an increase of 54% - and the efforts in Spain to improve awareness of the Customer Defence Service and thus increase its use: this service received 3,157 complaints, 144% more than in 2007. According to the Spanish Telecommunications User Service Office, which depends on the Ministry for Industry, Tourism and Commerce, Telefónica was the operator with the lowest number of complaints in fixed telephony, Internet access and voice and data packets in 2008. This fact is all the more significant if we bear in mind that during 2008, the Office received 24% more complaints than in 2007.

The attention focussed on complaints also lies behind the regional project that Telefónica has launched in Latin America aimed at

For more information: www.telefonica.com/cro8/customerservice

fostering an exchange of better practices between fixed operators, with a reduction in invoice-related complaints of almost 30%[1].

During 2008, Telefónica worked to modernise its network of retail outlets and face-to-face service, made up of 26,000 points of sale. These stores have become spaces where the visitor, in addition to shopping, experiences the benefits of new technologies. This idea is based on the existing model of stores in Spain, which numbered 80 at the end of 2008 including the flagship store on Gran Vía 28, Madrid, open since July.

Over 180,000 people visited the new Store on Gran Vía 28 in Spain

On 11 July, 2008, Telefónica opened the store Gran Vía 28 at its historic headquarters in Madrid, the flagship of the Company's distribution network in Spain. Covering an area of over 2,500 square metres, it is the largest telephony and leisure store in the world and by January 2009 it had been visited by over 180,000 people who not only came to do shopping but also to enjoy online games, high definition TV, the home of the future...

The shop, staffed by about 70 employees, provides a personalised service to the customer who is free to try out products and enjoy the latest innovations on the fixed and wireless telecommunications market.

Gran Vía 28 joints tradition and vanguard.

Gran Vía 28 also hosts musical, cultural and leisure events aimed at giving different sections of society the opportunity of getting to know the Company, and the Telefónica brand, better.

Commercial outlets

	2008
Spain	7,874
Latin America	16,706
Europe	1,439
Telefónica Group	**26,019**

The idea of giving customers the opportunity to take a technological plunge and interact with applications was also behind the opening of centres in Latin America. The new Customer Experience Centre (CEC) in Mar del Plata (Argentina) or the 'technological plaza' in Santiago de Chile are just a couple of examples.

Consultants and self-service

In 2008, the Company conceived a number of innovations that will be developed further in the near future aimed at preventing customers from being daunted by the complexity of new products. One example in the United Kingdom is the 'O2 Gurus', specialists who provide detailed information on products and carry out live product demos. The UK has also introduced the concept of self-service, a sales method that already operates in Latin America (the first mobile telephone outlet in this region, which opened its doors in 2008 in the Argentine city of Córdoba, works on a self-service basis).

Internet

Telefónica sees the Internet as an opportunity both for spurring sales and for simplifying customer-related tasks by using automated services such as electronic invoicing. With this in mind, the Company continued to strengthen its online presence, led by the British and Spanish websites in view of the fact that they have been operating for longest: www.telefonicaonline.com for fixed telephony[2] and www.movistar.es for wireless telephony totalled 87.7 million unique visitors; www.o2.co.uk registered 65 million visitors. Last year, the Company's websites received a total of 420 million unique visitors.

1 For residential and business customers, the reduction refers to the last six months of 2008.
2 The websites www.telefonica.es and www.telefonicaonline.com have merged. Upon visiting www.telefonica.es, Telefónica España's single online Internet page is displayed as well as references to institutional information regarding the Company.

Cultural transformation

Last year, Telefónica intensified its initiatives for cultural transformation in order to support its employees to meet the needs of its customers.

In Latin America, the 'Integra' initiative became a reference point for this cultural change. This project, which is part of the AHORA programme, is designed to raise the awareness of employees and motivate them through the use of specific workshops called 'Inspira'. After being applied for three years in Chile in 2008 where 3,000 employees are involved, the workplace indicator 'Great Place to Work®' improved by 46% (Telefónica Móviles Chile was the fifth best company to work at in 2008 compared to its ranking of 32 in 2006) and customer satisfaction went up by 23%.

Amongst the initiatives in Europe, the 'Customer Experience Trail' at Telefónica O2 Germany stood out, a course designed to reinforce the emotional conection between employees and users. During the training course, employees take on the role of customers in order to raise their awareness of the importance of 'going out of their way to help the customer'.

In 2009, Telefónica will reinforce programmes throughout the world with the goal of strengthening its service culture. When this Report was published, Spain was actively involved in various initiatives as part of its strategic plan (GPS): the project 'Te escucho cliente' aimed to put managers in closer touch with users at call centres, in store and at home, as well as publishing a set of ten internal commitments to users, etc.

This image taken from the training video used in the 'Customer Experience Trail' shows the huge amount of information available to customers when it comes to selecting a telecommunications provider.

Employees...

In 2008, the number of employees working for the Company increased by about 8,500

Telefónica directly employs 257,000 people and indirectly employs an additional 333,000 people

Telefónica Latinoamérica experienced the largest increase in employee numbers, 5.3%, and it now accounts for 67% of the total. Spain is the second region in terms of headcount numbers with 20% while Europe represents 11%.

Partner companies involved in installing and maintaining public telephone equipment and in the provision and maintenance of telecommunications products and services account for the indirect job numbers.

At the end of 2008, 257,000 people were employed by the Telefónica Group, an increase of 3.4% with respect to the previous year. Latin America, where employee numbers rose by about 5.3%, was the region with the largest increase in comparison with 2007.

Atento, employing over 132,000 people, was the company that made the largest contribution to the Group in terms of employee numbers.

Headcount trend

The most important factors affecting the size of Telefónica's workforce were the following:

- The creation of new jobs at Atento (+7%) and *tgestiona* (+16%) accounted for the increase in the total number of employees at the Company
- During 2008, Telefónica took over the Brazilian companies Telemig (1,280) and TVA (253) in Latin America and Atento Czech Republic (456) in Europe.
- In Spain, the workforce fell by 1.4% as part of the ongoing redundancy programme initiated by Telefónica Móviles España, Telefónica Soluciones and TID.
- In Europe, employee numbers rose by 0.1%.

Professional profiles

Excluding Atento, 41% of our workforce is employed in sales, 46% in service provision and 13% in support services.

On average, employees of the Telefónica Group have been with the Company for 6.1 years and the average age is 35.6 years[1]. At Atento, where these figures are lower due to natural turnover, employees have been with the company for an average of 1.8 years and the average age is 28.

49% of the Company's employees are women and this figure rises to 61% in the case of Atento.

Within the Telefónica Group, 97% of the workforce either has a permanent or indefinite employment contract (84% in the case of Atento). The proportion holding management or executive posts in the Group is 7.1%[2] (4.1% in the case of Atento).

Employee indicators 2008

	Excluding Atento	Including Atento
Total number of employees	125,022	257,035
Spain	40,201	52,576
Latin America	55,928	173,014
Europe	28,893	29,349
Rest of the world	–	2,096
Employment evolution		
Number of new hires	14,477	148,519
Voluntary redundancies	6,696	93,508
Mandatory redundancies and severances	9,297	48,579
Incorporations following acquisition of companies	1,643	2,099
External rotation	12.8%	55.3%

Workforce per region

	2008	2007	2006	Change 08/07
Spain	52,576	53,300	57,058	–1.4
Latin America	173,014	164,231	142,983	5.3
Europe	29,349	29,310	33,818	0.1
Rest of the world	2,096	1,646	1,041	27.3
Total Group	**257,035**	**248,487**	**234,900**	**3.4**

1 This figure does not include Atento.
2 This refers to the proportion in percentage terms of managers and middle management staff compared to the total workforce. The 2008 figure does not include Telefónica Europe.

For more information: www.telefonica.com/cr08/employees

...Index of Employee Satisfaction and Commitment

Last year, this indicator stood at 66%[1]

The Index of Employee Satisfaction and Commitment was 69%, 3 percentage points higher than 2007

The greatest degree of satisfaction in the Employee Satisfaction Survey last year was registered by employees in Latin America and Europe, where it exceeded 75%. In Spain, this perception improved by five percentage points.

In order to continue improving its performance, the Company will deploy a tool in 2009 designed to manage the degree of commitment of its employees: detailed measurements will be taken that will then be used to monitor improvement plans.

Telefónica's vision of its employees consists of 'encouraging their professional growth, development and well being; fostering their talent; recognising diversity, initiative and innovation and remunerating them in a way that is both fair and transparent'.

Strategy

In order to achieve this goal and become the best place to work, in 2007 the Company launched the 'Employee Promise' initiative based on four cornerstones:

- Improving employee satisfaction by providing employees with the best possible workplace. Progress towards this goal was achieved by realising the promises made to employees at the Group's various operators. Just one example of the success obtained with this initiative is Telefónica O2 Germany, recognised as a 'Great Place To Work®' in 2009, which drew up a series of promises on subjects such as remote work, time optimisation and reconciling family life with work based on the opinions of its employees.

  Other global activities were aimed at optimising the relationship between employees and managers and using 360° feedback as a tool for managment and junior managment levels aimed to improve team confidence.

- Constructing a high-commitment culture, by highlighting individual commitment and recognising the best contributions to innovation and efficiency. This pillar was developed through online training initiatives and which the idea of encouraging and rewarding the contribution of employees.

- Operating as an international company that understands and manages diversity through policies and processes that promote internal movement and exchange of experiences worldwide. With this in mind, a new model for managing international job rotation was launched in 2008 with the aim of reaching over 300 people, an increase of 67.5% compared to 2007. In addition, maximum advantage was taken of Universitas Telefónica, the Company's corporate university, which received students from all regions.

- Sharing talent, by placing the best people in the best jobs, and establishing a stream of talent throughout the organisation. This was achieved in 2008 through a new leadership model, based on global growth; exchange of knowledge was encouraged through the collaborative tools e-kiss, which recorded 250,000 document downloads and 'Commercial Wings' (CW), centred on sales and marketing experiences and used by 5,400 people.

Evolution of employee satisfaction

The initiatives that were put into place resulted in an improvement in the Employee Satisfaction and Commitment Index in 2008, which reached 69%, three percentage points higher than in 2007 and with a participation rate in the survey of 70.4%.

The main improvement was registered by the relationship with colleagues; here, the satisfaction index was 68.9%, 4.8 percentage points higher than in 2007. In general, the aspects that were most appreciated were the Company's image, the pride of belonging to the Company and the leadership qualities of immediate superiors.

In spite of the progress registered in career development (+3.7 points), the Company nevertheless still sees room for improvement in this area.

A further step in monitoring employee commitment

The challenge for the coming years is to progress from simply measuring employee satisfaction ratings towards the goal of comprehensively managing their degree of commitment. With this aim in mind, in 2008, 14 Telefónica companies implemented the tool Measurecom, which incorporates all those aspects concerned with employee commitment (measurement, communication of results, recording and monitoring action plans).

This system, based on a successful experience at Telefónica Europe, will increase response levels at all stages of the cycle and will facilitate the participation of the whole organisation in the process of transformation and improvement.

Index of Employee Satisfaction and Commitment (ICC)[1]

	ICC 08	ICC 07	Change 08/07
Managers	83.36%	84.32%	–0.96pp
Middle managers	79.59%	76.64%	2.95pp
Staff	68.92%	64.15%	4.76pp

1 The figures correspond to the new Satisfaction and Commitment model. The results for 2007 have been adjusted to reflect the change with respect to 2008. The ICC Index records the average number of favourable replies ('I agree' and 'I completely agree') to the 33 questions contained in the annual survey of Employee Satisfaction and Commitment in which all Telefónica employees participate.

For more information: www.telefonica.com/cro8/employees

‘Employee Promise’

During 2008, over 142,000 employees were evaluated in the light of these goals. This represents 55% of the workforce

The Company invested over 64 million euros in training, about 10% more than in 2007

In 2008, 316 vacancies all over the world (138 for middle management posts) were published on the Intranet, which is the channel used to afford all employees the opportunity of gaining access to job postings.

Telefónica intensified its e-learning initiative with over 1,200 courses on its Internet website and elsewhere, personal training plans were drawn up for over 103,000 employees after 149,000 employees had been evaluated with regard to their particular areas of competence.

a+ courses improve areas of competence such as leadership.

In 2008, Telefónica set aside more than 64 million euros[1] for training its workforce. As a result of this investment, employees received approximately 11 million hours of training[1].

The Company reinforced online training as opposed to classroom training in order to optimise this investment and train the greatest possible number of employees.

Likewise, it held training courses for 1,574 employees (managers, middle managers and high-potential employees) at the Corporate University. 44% of pupils came from Spain, 39% from Latin America and 17% from Europe. The participants rated the training courses with an average score of 8.3 out of 10.

The new a+ website: more *‘e-learning’*

In June 2008, Telefónica launched the new version of its e-learning website, a+, based on the opinions of users, in order to make it more friendly, responsive, flexible and easy to use. The following aspects of the a+ are worth mentioning:

- A single training catalogue, made up of over 1,200 courses for all Telefónica companies plus support material: articles, books, links, tests and videos.
- A virtual classroom that encourages mixed training programmes (a combination of online and classroom training).
- Content for mobile phones and TV with training ‘modules’ aimed at the families of employees.

The number of active users of a+ increased by 11% last year, reaching 61,952 employees with a usage figure of 7.55 hours and an increase of 38% in the number of courses passed.

These initiatives, together with greater transparency when publishing vacancies in the organisation, positively affected the evaluations recorded by employees in the employee satisfaction survey: evaluation of professional development improved most of all with respect to 2007, increasing by 3.7 percentage points.

1 Does not include training of teleoperators.

The new University buildings.

A new campus for Universitas Telefónica

In 2009, Universitas Telefónica will continue its activities on its new campus. Situated in La Roca del Vallès (Barcelona), it covers an area of 10 hectares. The University will train 1,823 employees during the new academic year.

Goal: the best place to work

In 2008, after examining workplace ambience and the management methods applied to people, Telefónica Móviles Ecuador and Telefónica Móviles Uruguay were singled out as the best places to work in their respective countries. Likewise, the companies in Colombia, Chile, Argentina, Peru and Mexico stood out in the *‘Great Place to Work®’* (GPTW) ranking. In 2009, Telefónica O2 Germany had already secured the third place in the GPTW ranking.

Elsewhere, Telefónica was designated one of the TOP employers to work for in Spain according to the international organisation CRF.

Handing over the GPTW award to Telefónica Móviles Ecuador.

For more information: www.telefonica.com/cro8/employees

In 2008, the Company unveiled the 'Spanish Diversity Charter' in Brussels, which represents a commitment to equal opportunities

46.6% of middle managers and 16.9% of senior managers at Telefónica are women[1]

At the end of 2008, the number of employees working under flexible working conditions exceeded 8,200[2], which represents 6.6% of the workforce.

Over 1,500 people employed by the Company had some sort of disability and 20% of these people worked in the Atento Group.

Flexible working

By way of innovation, Telefónica encourages flexibility, tele-working and collaboration networks. It achieved this in 2008 by continuing to adapt technologies and working spaces and by encouraging a culture of trust. The following initiatives, which are already under way, are worth mentioning:

- Increased employee evaluation using the 360° feedback method. This was used for managers in Latin America while in Telefónica Europe, Telefónica S.A. and its subsidiaries, it was applied both to junior and senior tiers of management.
- Pilot schemes encouraging mobility and flexibility in Educaterra, *tgestiona*, Atento España, Telefónica O2 Germany and Telefónica O2 Ireland.
- Specific training modules aimed at confidence building in the Corporate University and on the training platform a+.

Diversity

In 2008, the Human Resources and Corporate Reputation and Identity Committee worked to draw up a programme aimed at fostering diversity from within – different teams – and towards the outside world – different customers.

This plan also sets out to exploit the Company's capacity to identify specific communication solutions for different market segments.

The programme will be structured around a high-level Monitoring Committee and a Diversity Committee whose task will be to ensure its implementation. Progress was achieved in some aspects during 2008:

- The number of employees whose working days were reduced amounted to 10,000.
- The number of women in the Company was 124,000, 49% of the Group total and 0.7 percentage points higher than last year (excluding Atento: 44,258, 35.9%, similar to 2007).

Health and safety

During implementation of Telefónica's Preventative Policy in 2008, the Servicio Mancomunado de Prevención (Joint Health and Safety Service), an organisational unit that forms part of Human Resources, was designated as an internal centre of competence. Its role is to look after the people that make up the Company.

It pursued this goal by continuing its collaboration with different units and business areas in order to improve working conditions by integrating workplace safety into all working procedures and staging health promotion campaigns. Thus the number of emergency drills, about 700 in total, was increased by 40% and approximately 2,600 risk assessments were carried out. In addition, 30% of the workforce benefited from health monitoring (figures for Atento are not included).

Similarly, uniform guidelines were drawn up for the whole Company allowing information to be collected regarding accident indices and the number of workplace accidents both in Group companies and in partners and contractors with the aim of identifying areas for improvement.

Social dialogue

Social dialogue within the Group is governed by Telefónica's Business Principles together with the Protocolo Social de Acuerdos Internacionales (Social Protocol of International Agreements) and the Code of Conduct, the latter two concluded between the Union Network International (UNI) and the Company.

The Collective Bargaining Agreement for Telefónica, Spain 2008-2010 has also been signed. The agreement, signed by the Company and the overwhelming majority of unions, CC.OO., UGT and STC-UTS, guarantees employment for all the Company's workers.

Women holding managerial posts within the Company

	2008	2007
Senior managers	16.9%	19.7%
Middle managers	46.6%	41.8%

Note: this calculation represents the proportion of the total number of women per type of managerial position with respect to the total number of managers and middle managers. The figures do not include Telefónica Europe since the aforementioned categories in Europe are not comparable with those in the rest of the Group.

In 2008, Telefónica also presented the 'Spanish Diversity Charter' in Brussels, a document that recognises the value of diversity in organisations and the need to actively pursue policies than favour the lack of discrimination in employment, training and promotion and the absence of discrimination towards less favourable social groups.

Finally, the UK team's initiative consisting of the launch of an online training programme concerning diversity is worth mentioning. At the time this Report was published, 70% of employees had completed the course and the aim is to raise this figure to 90% in the near future.

1 The figures do not include Telefónica Europe since the aforementioned categories in Europe are not comparable with those in the rest of the Group.
2 The figure does not include Atento and represents an increase of 15% with respect to the figure for 2007, 7,196.

For more information: www.telefonica.com/cr08/employees

Corporate Governance

In January 2009, the Board of Directors of Telefónica was composed of 17 Directors

Corporate Governance Principles of Telefónica

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

The relationship between the Board of Directors and its Delegated Commission is based on the fundamental principle of transparency.

General Shareholders' Meeting

The General Meeting is the supreme decision-making forum at which shareholders and investors have a right to intervene in the taking of Company decisions. Its structure and functional rules are laid down in the Regulations for the General Meeting.

As a result of their General Meetings, Telefónica gives special attention to shareholder rights regarding information, and their assistance and participation in discussions and voting.

On the 22nd of April 2008 the last Ordinary General Meeting was held, at which a considerable number of people attended representing 57.11% of the stock capital, indicating a large level of participation taking into account the elevated free float of company (85% as of that date).

Management Board

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

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

- General corporate strategy and policy (among others, strategic plans, corporate governance and shareholder remuneration).
- Evaluation of the performance of the Board, its Committees and its Chairman.
- Appointment of senior management, director and senior management compensation.
- Strategic investments.

Self-evaluation of the Board and its Committees
The Management Board and its Committees undertake detailed periodic evaluations of their activities, in order to determine how the governing bodies are working and to establish any relevant improvement processes.

Board of Directors

The by-laws state that the Board of Directors must have between a minimum of five and a maximum of twenty Directors. In January 2009, the Board of Directors was made up of 17 Directors, comprising 3 executive directors, 4 proprietary directors, 8 independents and a further 2 classed as 'other external Directors'.

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

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

Policy on compensation
The Company reports annually on the compensation received by members of its Board of Directors both in the Notes to the Annual Financial Statements as well as in its Corporate Governance Report in compliance with the criteria laid down for each of these documents.

Also, Telefónica, S.A. draws up annually a Report on Management Board Compensation Policy, in which they set out the criteria and grounds that determine the compensation paid to Directors for the current year. The aforementioned report, which is available to the Company shareholders, also includes a global summary of the compensation policy for the previous year.

The Delegated Committee

The Management Board has all of its powers and functions delegated, except those of a legal or statuary nature, or regulations that can not be delegated, to a Delegated Committee with general decision making powers.

The Management Board and its Delegated Committee are based on the fundamental principle of transparency; in such a way that Management is constantly aware of the decisions taken by this Committee.

For more information: www.telefonica.com/publications | www.telefonica.com/shareholdersandinvestors

The Consultation or Control Committees

The Board of Directors has eight Consultation or Control Committees which are charged with examining and monitoring particular areas of importance for the proper management of the Company, and which can also investigate specific major issues when required.

During 2008, the Board proceeded to establish two new Consultation Committees: the Innovation Committee; and the Strategic Committee, strengthening the support given to the Board in matters related to their respective areas of competence. At the year end, Telefónica had the following Committees: the Audit and Control Committee, the Appointments, Compensation and Governance Committee, the Human Resources Committee, the Regulation Committee, the Quality and Customer Service Committee, the International Affairs Committee, the Innovation Committee, and the Strategic Committee.

Regarding the maximum number of members that each Committee should provide, Telefónica approved during 2008 a new modification to its Board Regulations in order to provide it with greater flexibility.

Development and Activity Plan
As well as the Management Board, all the Committees provide, at the beginning of the year, a Development Plan in which they detail and date the issues to develop during the course of the year, based on the attributes and authorities to which they have been assigned.

At the same time, each one of the Committees provides an internal Activity Report which details the principal activities undertaken during the year, detailing the areas examined and dealt with in the meetings, and reviewing aspects related to their function, authorities and structure.

The Company provides more detailed information in the Annual Corporate Management Report and in the Report covering the Management Board Compensation Policy. These documents can be viewed in: ***www.telefonica.com/shareholdersandinvestors***

First company in the Ibex-35 with a CR Committee on the Management Board

Since June 2002 Telefónica has had a Committee on the Management Board which is dedicated to promoting Corporate Responsibility and Reputation (CR). This Committee has, amongst its functions, the responsibility to analyse and examine questions related to Human Resources (HR). The HR, Corporate Responsibility and Reputation, Committee met together on five occasions during 2008.

The functions of this Committee, which is composed of 6 Directors (4 independents and 2 nominees), is to look at the following areas related with responsibility and corporate reputation:

1. **Promote and develop the Corporate Reputation Project:**
   - Monitor the risks to reputation.
   - Monitor the perception of interest groups.
   - Move the results of reputation studies to the Management Board.
   - Boost the participation of Telefónica in initiatives and forums, especially in the monitoring of Company presence in socially responsible investment indices.
2. **Promote the deployment of Company values:**
   - Promote the correlation of the values with the identity of Telefónica.
   - Supervise the incorporation of the values in operations, especially in the areas linked to the management of intangibles.
   - Be aware of the level of identification of interest groups with the values.
3. **Ensure ethical and responsible behaviour at Telefónica:**
   - Supervise the sharing and deployment of the Business Principles in all of the business lines and countries in which the group operates.
   - Promote the adoption of common corporate policies in CR matters that derive from the Principles.
4. **Be aware of and promote the verification of the CR Report or the intangible asset balance sheet of the Group:**
   - Activate performance measurement of Telefónica in the management of intangible assets (ethics, values, sustainability, identity...).
   - Promote transparency through the CR Reports, monitoring the indicators that affect Telefónica's relations with its interest groups.
   - Inform the Management Board of the results achieved, as well as reporting them to the management bodies.
   - Receive from external assessors their opinions regarding the verification of the CR reports.

Directors

Mr. Javier de Paz Mancho*
Mr. Antonio Massanell Lavilla
Mr. Alfonso Ferrari Herrero
Mr. Gonzalo Hinojosa Fernández de Angulo
Mr. Pablo Isla Álvarez de Tejera
Mr. Vitalino Manual Nafría Aznar

* Committee Chairman.

Business Principles

The policies are approved by the departments responsible for managing the aspects regulated and ratified by the Business Principles Office

Telefónica approved new regulations for the development of its Business Principles, in which it trained up to 60,219 employees[1]

During the current year, the Business Principles Office approved policies regarding Data protection and Risk Management; and agreed on basic measures for the development of regulations for Promoting the Integration of People with Disabilities.

In 2008, Business Principles channels received 169 communications from employees. As a result of investigations undertaken to determine possible lapses in observation of the Principles, 358 disciplinary actions were taken.

Telefónica relies on the Business Principles Office to ensure the company-wide implementation and compliance with its code of ethics, which establishes the guidelines for relations with group stakeholders.

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

During 2008, it centred its efforts on: improving the training of employees; identifying and developing policies and regulations; and helping employees and suppliers by answering their questions, complaints or claims about the Business Principles.

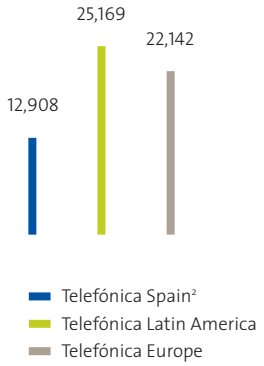
Training

In 2008, the Company continued support for the online course launched in 2007 in order to improve employee awareness about Business Principles. The regional and local Business Principle offices in Europe and Latin America were crucial in this collaboration. On the 1st of March 2009, 50% of the employees had received the required training:

- In Spain[2], more than 12,900 professionals have already taken the course, and are included in the General Training Plan 2009, with the Company attaching the same importance to matters of integrity as to competent business practice.
- In Latin America, the number of employees trained rose above 25,100. Since 2008, the training in Business Principles has also been included in different local 'induction' programmes for new professionals.
- In Europe, the number of employees that have received this training was above 22,100, which equates to more than 77% of the total.

The Business Principles web page also served as an area for internal sharing of information, receiving 1,430 visits in 2008 and registering 16,500 downloads of the information leaflets.

Employees trained using the Business Principles[1]

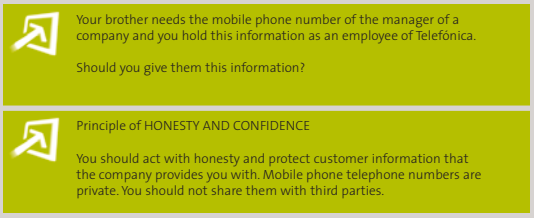


1 Employees trained to 1st March 2009. Call Centre personnel have been excluded.
2 Includes the Business Contents, tgestiona and other businesses.

Communication

In 2008, employees of Telefónica Argentina received, together with their salary, a booklet of the Business Principles.

The intranet in Peru launched banners with examples of each of the Principles.



Telefónica Europe emphasises to all its employees the most relevant aspects of the Business Principles through their online course.

For more information: www.telefonica.com/cro8/businessprinciples

Regulations Deployed

Last year the office identified new business matters that required regulatory support and drove forward, together with different areas of the Company, the development of the necessary corresponding policies for the appropriate application and compliance with the ethical code. With these regulations, Telefónica established standards that on occasions require the need to go beyond current local legislation, and even to permit the setting of minimal guidelines on areas where no local regulation exists. These standards incorporated the best business practices and recommendations of international bodies. To be precise, in 2008 the Regulations surrounding Risk Management and Data Protection were approved, thereby establishing the bases for the development of the Rules for Integration into the Workplace of People with Disabilities.

Telefónica plans to intensively deploy ten policies in the next three years: Defence and Protection of Children and Teenagers and Responsible ICT use, Data Protection Policy, Environmental Management System, Climate Change and Energy Efficiency, Digital Inclusion of Underprivileged Groups (older people and people with disabilities), Diversity, Corporate Responsibility in the Supply Chain, Human Rights, Dialogue with Interest Groups and International Social Dialogue, and Social and Environmental Reporting.

Confidential Mail

The Business Principle channels open to employees, received during 2008, either anonymously or personally, a total of 169 communications. The information sent related to the interpretation and application of the Principles. As a result of the investigations taken to manage poor observations taken, 358 interventions were undertaken to strengthen future compliance.

Human Rights Commitment

In 2008, as part of the initiative put into place by Global Compact as a result of the 60th anniversary of the Universal Declaration of Human Rights, Telefónica wanted to highlight the importance of respecting Human Rights in the workplace, through the following statement:

Telefónica officially declares its commitment to Human Rights through its Business Principles that take into account not only the Universal Declaration of Human Rights, but also the declarations of the International Labour Organization (ILO).

As a signatory company of the Global Compact, and being aware of the importance of respecting Human Rights in the development of its activities, it endorsed at the end of 2008, 'Human Rights: A call to Action' an initiative promoted by the Global Reporting Initiative (GRI), Global Compact, and the Ethical Globalization Initiative, that calls on companies to evaluate and publicise reports whose aim is to respect Human Rights, as an additional business element, reporting in an analytical and detailed manner on the measures to be taken to ensure observance of Human Rights (more information on this initiative is available in www.globalreporting.org/currentpriorities/humanrights)

The Colombian example

The work conducted by Telefónica Móviles Columbia both in 2007 and 2008 is one of the best examples of the efforts taken by Telefónica to put into practice its commitment to Human rights.

In fact, its activity in favour of eliminating child labour was supported by bodies such as the ILO and the Social Protection Ministry.

At the same time, the Company set up collaborations with NGOs and the media in order to conduct initiatives with the aim of informing society of the problems surrounding the exploitation of children and teenagers.

Additionally, the company conducted Health and Safety at Work campaigns directed at all employees, which was supported by the Professional Risk Administrations. On the other hand, the active rest periods, the recreational activities conducted through the Family Compensation Societies, and the extension of dialogue with its interest groups in cities other than Bogotá, clearly indicate the concerns the Company has for the welfare of its professionals, and its interest in being aware of and satisfying expectations.

Furthermore, last year, in the project framework of the Extension of the Business Principles to the supply chain, in Columbia, Telefónica evaluated under CR criteria, 254 suppliers and audited 7, while emphasizing the need to respect Human Rights (more information available in www.telefonica.com/cro8/suppliers).

Responsible Procurement

Telefónica will deal with more than 350 audits in Latin America managing HR, and Health and Safety, and will launch improvement plans.

Telefónica exceeded supplier assessment objectives for 2008 by 10%, carrying out more than 1,100 evaluations and 55 audits.

The combined work of the areas of Procurement, Corporate Responsibility, Environment, Human Resources and Corporate Health and Safety areas, the Business Units and local countries, has been very important in the successful extension of Business Principles to the supply chain.

In 2008, the development and rollout of a new regulation to promote the integration of people or groups with disabilities into the supply chain was approved.

Rollout of the Regulation for Responsible Procurement

In 2007, Telefónica committed to the evaluation of the risk associated with the non-fulfilment of its Business Principles in the supply chain aiming to evaluate 1,000 suppliers, and carry out 50 audits during 2008. At the end of the year, more than 1,100 evaluations and 55 audits had been carried out among the providers in the different countries where the Company operates. This figure represents approximately 50% of the Telefónica Group's high risk suppliers. In 2009, it will continue evaluating supply chain risks, optimising processes, designing improvement plans with their providers, and promoting sustainable procurement.

Through the evaluation process, Telefónica searches for ways to consolidate a transparent and collaborative relationship with its suppliers in matters of Corporate Responsibility, by providing an identification of the risks, while managing the setting up of improvement plans. The rules for extending the Business Principles to the Supply Chain, while maintaining a collaborative relationship, aim to suspend suppliers in the case that they do not complete the questionnaires, or repeatedly forget to send the required information, or do not adopt the corresponding improvement plans.

The improvement plans, which result from the evaluations, and are tailor made to the needs of each provider, promote the adoption of better practices among providers.

Evaluation process
The suppliers that provide products considered as risky should complete the online questionnaire offering self-evaluation.

The questionnaire is available on the website as a part of the subscription application process. It is composed of approximately 50 questions regarding CR aspects, ethics, health and safety and environment. The questions are based principally on the standards found in the UN Declaration of Human Rights, the Conventions of the International Labour Organization (Child and forced labour) and environmental legislation.

As an alternative to the Telefónica questionnaire, 14 global suppliers opted to complete the questionnaire on E-TASC, developed by GeSI using the Electronic

Principal conclusions of the evaluations and audits.

Suppliers evaluated:

- 319 suppliers, approximately 29%, required a second evaluation stage to review the evidence.
- 84% of all suppliers evaluated showed low or moderate risk in the areas analysed.
- The main area of improvement for 74% of low-risk suppliers is the application of CR. Telefónica will continue to promote CR in its supply chain and provide training to its suppliers.
- Of the 380 moderate-risk suppliers (35% of the total number evaluated), the areas with the lowest assessment score, in 56% of cases, is that of environment.

Suppliers audited:

- 100% did not demonstrate any risks regarding child labour.
- 96% of the suppliers audited showed negligible development of CR. Telefónica will continue promoting CR in its supply chain and provide training to its suppliers.
- Recruitment companies and the sectors of service installation, maintenance and safety demonstrated best practices in environment, work conditions and health and safety. No high risk issues were identified in any of the businesses.
- The suppliers at highest risk in environmental issues are found in Brazil, Colombia, Mexico and Venezuela, with a combined risk level of 62% of the total risk detected in area of environment during the audit. It is important to highlight that in many cases the local legislation in these countries does not reach the same high standards as the practices defined in the Telefónica's Business Principles.

For more information: www.telefonica.com/cro8/responsiblepurchase

Supplier evaluation process

Type of suppliers evaluated in 2008

- Electronic and audiovisual equipment 15%
- Recruitment consultants and direct search 4%
- Instalation and maintenance sercices and equipment safety 8%
- Property and fixture and fittings upgrade 8%
- Marketing 22%
- Others 43%

Industry Code of Conduct (EICC). This form enables a sector supplier to respond to various customers simultaneously.

Audits
The suppliers classified in the 'high risk' category by the questionnaire are liable to on-site audits with the aim of evaluating their procedures and policies. In 2008, these audits accounted for 55 suppliers.

Training and circulation
Telefónica collaborated in programmes to promote and assess the integration of good CR practices, having trained 68 small and medium sized suppliers to date. This initiative, incorporating 16 hours of classroom training, involved the Global Reporting Initiative, the GTZ, and the Business Forum in Latin America.

Integration of people with disabilities in the workplace

At the end of 2008, after receiving a favourable report from the HR, Corporate Responsibility and Reputation Commitee, for we developed a policy to promote the integration of disabled people into the supply chain. This activity is in line with the Telefónica Group's general guidelines for action in disability matters, such as promoting the direct recruitment of disabled people in workplace, and the procurement of assets and services from social suppliers.

This policy will be subject to development to enable its application in each one of the countries in which the Group operates, with Spain the first region where it will be launched in 2009.

Invoices paid late

	% Invoices	% Amount
Spain		
2007	4.85	12.34
2008	5.81	16.51
Latin America		
2007	21.50	24.40
2008	13.99	14.60

Payment Commitments

The Average Time of Theoretical Payment by the Telefónica Group to its suppliers is around 113 days*. 94.2% of the invoices in Spain were paid on time (83.5% of the total amount) and 86% in Latin America (85.4% of the amount). In Spain, 5.8% of invoices were paid late (16.5% of the amount), 1 percentage point above the figure for the previous year's number of invoices, and 4.2% of the amount. In Latin America, 14% of invoices were paid late, 15% of the amount. With respect to 2007 the ratios are an improvement of more than 7 points in invoices and 10 points with regards to the amount.

Progress was affected by delays due to the internal management of invoices, incomplete supplier documentation, Public Administration processes, and internal management process adjustments as a consequence of the integration of Telefónica Móviles España with Telefónica de España SAU.

Telefónica continued implementing solutions to improve the management of invoices. In Spain during 2008, the total number of electronic invoices reached 18,000. On the other hand, there is great hope of new progress with the future Enterprise Resourcing Plan (ERP) a unique software tool to be used by the main Companies within the Group.

* Data obtained from the Group consolidated accounting sheet, applying: PMP = 360/Purchase Turnover, where Purchase Turnover = Supplies+CapEx/average supplier balance.

Training programme

Countries	Nº of suppliers and small & medium companies trained
Argentina	8
Chile[1]	22
Colombia	32
Peru	6
Total	68

1 In Chile's case, part of the training was conducted at the end of 2007.

CR training for 68 small and medium sized companies in Latin America

In 2008, within the framework of the small and medium sized companies training programme, 3 suppliers were selected from the 22 participants that attended the workshop in Chile, for 6 months of specialised consultancy. The result was the creation and the publication of the corresponding sustainability reports in the GTZ (German Cooperation Agency) headquarters in Berlin.

Privacy

Fixing minimal rules based on the European standard for all companies.

In 2008, Telefónica approved a policy on data protection across the entire Group

From a technical perspective, it is complemented and supported within the framework of the Corporate Information Security Guidelines for Company Information.

The company is developing tools to help control and supervise the application of the guidelines applied within the different businesses of the Group.

For more information: www.telefonica.com/cr08/privacy

In September 2008, Telefónica approved, through the General Legal Secretary and the Board, the Corporate Policy regarding the Protection of Personal Data across the entire Group. The aim was to define concepts and fundamental principles, establish procedures and essential protection levels.

The Policy, ratified by the Business Principles Office, permits the Company to establish the basis to guarantee an adequate level of protection of personal data in all companies, across any country, independently of their respective legislations

Policy elements

The Principles of Data Protection in the Telefónica Group have been established on the basis of the following elements:

1. Minimum standard rules that aim to create a framework to guarantee a standard level of security regarding personal data independent of the existence or otherwise of an applicable legal framework.

2. An implementation project that defines the phases for applying the minimum standard rules in each company.

3. Development of IT tools that allow a controlled application of the rule.

4. Implementation of the technical and organisational measures established in the Corporate Information Security Guidelines surrounding Information Security which guarantees the application of defined security levels.

Regulated aspects

The starting point for regulation is the establishment and definition of standard concepts that assure its uniform application.

The essential principles on which the policy is made, is the protection of personal data, as a fundamental right, especially with regards to respect for privacy and the ability to control and access this data.

The contents of the minimum standards are based on the following points:

- **Data Base Count:** Identifying in each company the databases with personal data content, and with the aid of IT tools, construct an internal record with the aim of controlling them and carrying out the corresponding actions with the appropriate authority in each case.

- **Security of records of a personal nature:** Technical and organisational measures are adopted which are bassed on the Corporate Information Security Guidelines, with a prior classification of the appropriate security levels for each file based on the quality of data. There are three general levels established: high, moderate and basic.

- **Procedures:** the basic procedures for data protection are defined and regulated as well as their collection, loan and international transfer, treatment by third parties, storage and deletion.

- **Owner rights:** recognising the owners of the personal data, regulating the procedures and times for their use, the right to information, access, correction, deletion and objections. .

At the same time, Telefónica promises to establish the appropriate contractual mechanisms so that the data protection regulations are complied with by sub-contractors and suppliers.

As of the date of this report, the Group is extending the policy and will report on progress in its 2009 Report.

Essential principles in Data Protection

The minimum regulation revolves around certain important criteria:

- The legal and lawful collection of the data, the obligation of information and of consent, except where legally exempt.
- Qualitative proportionality with regard to the purpose of the data.
- Quantitative proportionality of the data with regards to the area and determined end purpose.
- Accurate data.
- Limited storage of the data depending on of its purpose.
- Physical and logical security of the data.

Respecting sector regulation and competition rules

The Group provides specific training to its teams regarding the principles surrounding competition and telecommunications regulations

Telefónica's average market share is 51.7% in Spain, 17.7% in the rest of Europe, and 30.4% in Latin America*

The level of application of the telecommunication regulations depends on the position held by the Company in each county and of the activity developed, with the traditional fixed telephone being subject to the toughest regulation.

In 2008, the Group increased the preventative measures to detect possible infringements of competition regulations.

Market Share*

	%
Spain	51.7
Latin America	30.4
Europe	17.7
Global	29.0

Telefónica and its competitors compete in the market and are subject to the different telecomunication sector regulations at a national level in the different states and on a transnational scale, as is the case of the European telecommunications framework, which is currently under review. In addition, they are also subject to competition regulations.

Telefónica's Business Principles recognise its commitment with respect to the law, and the Company has adapted its internal structure with a clear focus on the observance of the regulatory framework surrounding the competition rules. This commitment is even more significant when it applies in those countries where the company enjoys a leading market position.

Telefónica has a Regulation Committee composed of 6 Directors, the majority of whom are external, and whose aim is to understand and analyse the most relevant Company facts in relation to the regulatory framework. This Committee held four meetings during 2008. Also, in place are units focused on regulatory management that have the support of specialised legal units in telecommunications law and competition, in order to guarantee that the decisions combine the ability to satisfy customers needs while also respecting the telecommunication and competition framework.

Training and prevention

In 2008, the Telefónica Group continued providing specific training on the principles of competition and telecommunications regulations at senior and middle management levels. We have established training programmes on Competition Law in our European operators which are also being implemented in Latin America.

At the same time, preventative measures have increased the detection of possible infringements of the competition rules.

* Internal Source. Market share calculated from the number of times a client accesses.

Sector Regulation

Spain

- Declared the leading operator in various markets, although regulation is starting to disappear in the retail sector.
- Obligation to provide a Universal Service until 2010.
- Monthly subscription subject to the maximum price regulations. The wholesale termination prices on fixed and mobile phone networks are approved by the regulator.

Europe

- Termination prices in regulated mobile phone networks.

Latin America

- In general, the termination prices in regulated fixed and mobile phone networks and retail prices, subject to maximum prices.
- Obligation, in some countries, to contribute to the Universal Service.
- New legislation in some countries for creating a competitive market analysis framework.

Proceedings

The Telecommunications Market Commission gave judgement in 4 proceedings against Telefónica (Spain) for reasons involving non-fulfilment of the regulations regarding the provision of loop access services (OBA), with fines of 36 million euros. All the decisions have been challenged.

In Brazil, the National Telecommunication Agency imposed different disciplinary measure against Telesp for a sum of approximately 50 million euros. The penalties were incurred due to delays or undue compliance with information requirements. The Company has appealed against these decisions.

Proceedings in competition matters

In 2008, as a result of its business activity, Telefónica found itself in legal proceedings regarding competition issues:

In Spain, the Madrid Civil Court N°26 rejected the charges brought by Vodafone against Telefónica, S.A. in which it demanded 670 million euros of compensation for damages caused by Telefónica. Regarding the open investigation in Spain by the National Competition Commission (CNC) against Telefónica, Vodafone, and Orange with regards to their prices for establishing calls (Investigation on 'Rounding Up'), in December 2008 the Investigation Management of the CNC announced a Resolution Proposal in which they proposed a declaration of the existence of a violation of article 1 of the Law of Competition. The proceedings are currently in the resolution phase before the Board of the CNC, which will determine an outcome during 2009.

For more information: www.telefonica.com/cr08/respectregulation

Responsible use of ICT: children and adolescents

It extended its Code of Conduct for mobile telephony to all European countries

In Latin America, the company audited its compliance with its adult content regulations

Telefónica has launched an initiative to standardise the use of OPT-IN, an option which is already implemented in Germany, Spain, Ireland and the United Kingdom, and which compels customers who want to access to adult content to identify themselves as adults.

In these countries, about 44 million customers have access to adult content blocked by default.

The strategy developed by Telefónica to promote the safe and responsible use of new technologies in childhood and adolescence is based on four pillars: self-regulation; specific products and services; alliances; and education.

Self-regulation

The Regulation on the Provision of Adult Content sets the basis for the way in which Telefónica treats content classified as over 18, through procedures to control access to said content (for example, OPT-IN) and the fight against illicit material.

To reinforce implementation of this Regulation, the Company carried out an audit, in 2008, in Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela, to define improvement plans to be implemented in 2009, a year during which, it will also extend the process to the rest of markets.

Code of Conduct
To comply with the commitments in the European Framework sponsored by the European Commission in 2007, Telefónica signed national Codes of Conduct with mobile operators in the European countries in which it operates. To give children safer access to mobile telephony, measures were adopted to regulate the categorisation of adult content, reinforce relationships with the state's security and police forces, and foster both educational activities and activities to raise awareness. Spain stood out in this process, where Telefónica together with the other operators, managed to implement the Code's commitments in only nine months.

Against child pornography
At the same time, in February 2008, Telefónica presented, together with the main mobile operators, an alliance fostered by the GSMA to fight against child pornography on the internet, thus committing to block this type of content in its networks. Since then, the company has been working in all the countries to make this block a reality in 2009. The United Kingdom, where this commitment is already being applied to both the mobile business and broadband, stands out in this regard.

Products and services

Telefónica's constant development of terminals and tools specifically designed for children and adolescents and their families, resulted in various innovations in 2008:

- **Help lines:** Germany followed the United Kingdom's lead and developed a help line to provide customers with information and advice on children's and adolescents' use of products and services. The help centres in Ireland and the United Kingdom also have people trained in giving support in cases of school bullying, and other circumstances.

- **Mobile devices:** in Spain, during 2008 Telefónica launched two new editions of the Play Pack, and continued selling M01 and CAM1 handset in Imaginarium shops.

  And in Peru, it launched Movistar Kids, mobile phones personalised with Disney characters and exclusive functions.

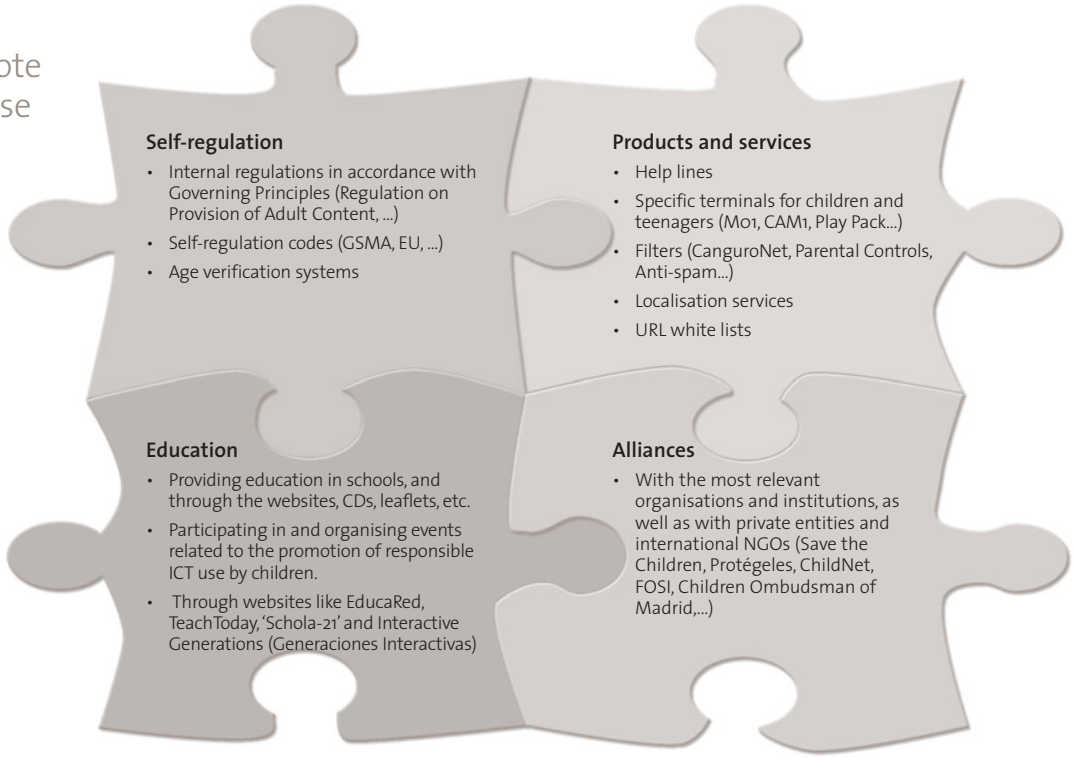
Additionally, the Company offered optional functions for all its terminals, which allow parents and educators to block adult content with an easy call to the Customer Relations Centre, manage expenditure, etc.

- **Parental control tools:** in 2008, Telefónica had parental control tools in practically all of the countries where it operates. On the Internet, these tools, as well as controlling access to undesirable content, control pop-up blocking, connection times, and access to chatrooms. In turn, Kangaroo Mobile (Canguro Movil) - in Spain, with nearly 11 million users - allows the user to filter the Internet contents they can access through their mobile. Furthermore, Telefónica offers controls that enable parents to configure the content, categorised by age, that children and adolescents can see on digital television.

Terminals M01, CAM1 and the 2008 edition of Play Pack, with Shrek contents.

For more information: www.telefonica.com/cr08/responsibleICT

Key points of strategy to promote the responsible use of ICT



Education

During 2008, the Company promoted training aimed at enjoying new technologies safely, raising awareness in children, parents and teachers. Alongside the websites with recommendations on intrenet and mobile use, it added more specific initiatives:

- **In schools:** Telefónica O2 Czech Republic is an example of best practice in the fight against bullying on the internet. Its initiative 'Minimization of Bullying' (MOB) provides training and support to children, parents and teachers o help them manage the problem. Since its launch in 2005, the O2 Foundation has assigned more than 13 million Czech Koruna (more than 500,000 euros) to this project, which received two awards in 2008, a 'Golden Effie' and the 'Via Bona Award'.

  In Spain, at the end of 2008, more than 110,000 people benefited from training that has been carried out in schools by Telefónica and the NGO 'Protégeles'. Qualifed employees from this NGO visit education centres to give recommendations on the good use of ICT, as well as warn about activities that could be considered criminal.

- **In families:** also in Spain, Telefónica and the Cybervolunteers Foundation launched the Family Internet (Internet de Familia) initiative to promote ways of safe surfing. After a pilot in Las Rozas (Madrid), with the municipal Council for Minors and Families, the project will be extended to the rest of the country.

- **Interactive Generations (Generaciones Interactivas):** is an ambitious programme started by Telefónica in Latin America, aimed at raising awareness, educating and training children, parents, educators and society in general, on how to use ICT responsably.

The project's first landmark was a study entitled 'Interactive Generations in Latin America. Children and adolescents in front of screens. Educational and social challenges', sponsored by Telefónica and developed by the University of Navarra (UNAV) and the Fundación Telefónica's EducaRed programme.

This analysis, based on surveys completed by nearly 85,000 children in more than 800 educational centres in Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela, between September 2007 and June 2008, will serve as a basis to develop training activities. The following are included amongst the conclusions of the White Book:

- 73% of the children surveyed surf the internet on their own.
- Only 10% have a content filter installed on their home computers.
- 82.8% of the children surveyed aged 10 to 18 had a mobile phone.

In order to generate improvements in the project over time, Telefónica, UNAV and the Inter-American Organization for Higher Education (IOHE) established the Interactive Generations Forum (Foro Generaciones Interactivas) in 2008, which is open to public and private entities.

The use of ICT in Latin America

'Interactive Generations' Study (www.generacionesinteractivas.org)

	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Venezuela
Children surveyed	8,005	8,647	7,093	12,229	36,967	8,224	3,637
Have a mobile	94%	79%	92%	72%	83%	81%	93%
Have a PC	79%	69%	82%	43%	69%	52%	68%
Surf the internet at home	59%	60%	54%	30%	50%	36%	51%
Surf the internet at school	42%	23%	39%	46%	20%	31%	13%
Surf the internet in cyber cafes	44%	33%	46%	40%	53%	62%	55%
Chat	13%	30%	12%	27%	13%	14%	24%

For more information: www.telefonica.com/consejosparapadres | www.generacionesinteractivas.org | www.protectourchildren.o2.co.uk

Responsible Use of ICT: children and adolescents

Most notable alliances:

Aldeas Infantiles SOS
Barnardo's
CyberVoluntarios
Childnet International
Children Ombudsman of Madrid
Federación Española de Familias Numerosas (Spanish Federation of Large Families)
FOSI (Family Online Safety Institute)
ITU-COP (International Telecommunication Union-Child Online Protection)
IWF (Internet Watch Foundation)
OUI-IHOE (Inter-American Organization for Higher Education)
Protégeles
RED.ES
Save The Children
University of Navarra

Alliances

Telefónica is aware that in order for children and adolescents to use new technologies safely and responsibly, all sectors of society need to cooperate.

For this reason, the Company always counts on the support and collaboration of other social partners, to help develop the right activities.

Telefónica works at different levels - international, regional and local – with a variety of stakeholders including governmental institutions, non-profit organisations, and social partners, in the academic and education sector, the state's security services, and other companies from the telecommunications sector.

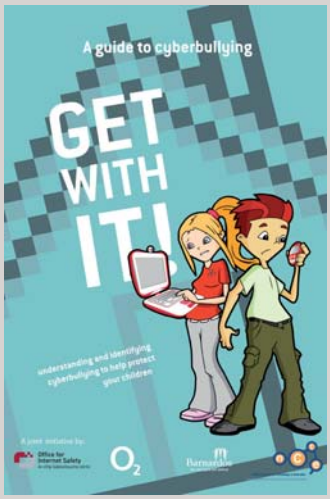
Partnerships
The initiatives that Telefónica develops with other partners extend throughout its value chain to minimise the possible negative impacts and to maximise positive impacts by contributing to the development of a safe environment. Self regulation is one of the Group's biggest areas of collaboration with a good example being the launch and monitoring of the Code of Conduct, signed by mobile operators in the European countries in which Telefónica operates.

Additionally, the specific phones that the Company sells have guarantees from the most prestigious institutions dedicated to products for children and adolescents.

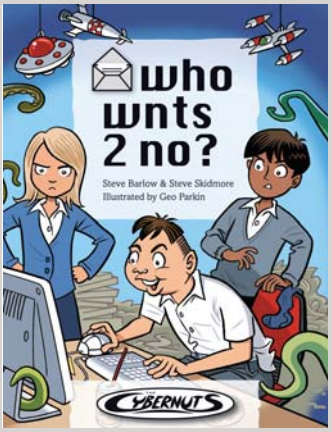
The awareness-raising initiatives are another field in which Telefónica works with numerous institutions to offer training in schools; edit publications; and create new channels of communication to show teachers all aspects of ICT.
This is precisely the goal of the Teach Today website that the Company presented in Brussels in 2008 jointly with Europe's leading new technology companies.
Likewise, special mention should be made of the collaboration with the University of Navarra in the 'Interactive Generations' project that will reach Spain in 2009 after being developed last year in Latin America.

Educational initiatives with social institutions

Last year, Telefónica O2 Ireland launched the 'Guide on Cyber Bullying', in collaboration with the Office for Internet Security, Barnardo's and the National Centre for Technology in Education. The goal is to help parents to understand new technologies and encourage them to interact with their children.



In the United Kingdom, the Company published, in February 2009, the story 'Who Wnts 2 no?' written by two renowned children's book authors: Steve Barlow and Steve Skidmore, to make children and adolescents aware of Internet safety. During 2009, the book will be given, free of charge, to English libraries and schools.



Responsible Use of ICT: customers and security

This initiative, launched in Spain, will be extended to the other countries

Telefónica launched an anti spam project, reducing customer incidents by 78%.

Adding to the usual audit based on new systems and services with methodologies and tools of their own -SIGA and e-Scudo- last year, it has developed a new way to reduce junk mail from customers as well as the number of *phishing* cases detected on the internet.

Currently, Telefónica has a policy that guarantees the security of all its processes, both internal ones and those related to its customers. In 2008, the Company developed a third version, in line with the lastest guidelines of ISO 27000 and adapted to the Company's positioning, which is defined by a larger presence in Europe and a constant increase in the deployment of services in Latin America.

At the same time, it continued developing activities in accordance with the Telefónica Group Internet Services Acceptable Use Policy, which includes aspects such as spam, child pornography contents, telecommunications secrecy, the right to intellectual property, and the prevention of hacking activities, amongst others.

Against spam

In 2007 Telefónica launched a dual offensive against spam: on the one hand preventing spam in emails originating from other service providers; and on the other hand, preventing spam in emails generated by customers.

At the end of 2007, the Company launched an anti-spam project which allows detection of infected equipment. This initiative was developed during the whole of 2008, in Telefónica's mail platform in Spain for residential DSL customers, and it resulted in the following benefits:

- Problems related to the spread of viruses in the internet disappeared completely.
- Control and stabilisation of the number of phishing cases detected in Telefónica's networks.
- Reduction in outgoing spam from the Company's network in Spain, with a reduction of 78.14% of customers incidents.

The goal is to extend the anti-spam project to other countries during the coming years. With its implementation, Telefónica will be safe from inclusion in spam generator lists.

Day to day security

All companies that provide services over the Internet or that have corporate networks suffer attacks or intrusion attempts against their systems. To avoid them, Telefónica performs technical tests on its telematic networks and services, using the SIGA and e-Scudo corporate security services:

- **SIGA:** its goal is to identify Internet threats to the Company, located in freely accessible content (web pages, public forums, publications...).
- **e-Scudo:** centres on the internal security auditing of Internet products and services, analysing new systems and services before they are deployed, as well as localizing and fixing vulnerabilities in products under development.

Advice to prevent *phishing*

- Don't open emails from sites or people you don't trust. Treat them like spam and delete them immediately.
- Ignore emails that seem to come from your bank and request personal information or information from your account. Remember that a bank will never send you an email requesting this information. When in doubt, contact your bank.
- Ignore emails that promise big rewards for topping up your mobile. When in doubt, contact your operator to find out if it's a real offer.
- Use the free add-ons that can be installed in some web browsers to identify fraudulent websites.

For more information: www.telefonica.com/cro8/customersecurityICT

Digital inclusion

The projects will be carried out in the three areas: Spain, Latin America and Europe

In 2008, Telefónica developed more than 60 digital inclusion initiatives.

As part of its business, the Company continued investing in its network to bring telecommunications services to more people. Also, and in order to contribute to the development of the countries in which it operates, Telefónica implemented more than 60 projects aimed at reducing the four main aspects of the digital divide: economic divide; training divide, geographical divide; and health and disability divide.

'Now with the mobile I can communicate with my customers, know how much they want and only load the lorry with what we know we are going to sell, because before sometimes we didn't sell everything'.

(Jesus Cjuno, farmer in the province of Canas, 'Intégrame' (Integrate Me) project, Peru)

'This project allows people like me, who are not familiar with the Internet, to lose our fear of new technologies and experiment with something we had never dreamed of'.

(Anonymous from 'Ciberescuela' (Cyberschool) project, Spain)

Mexico
- Customer service line in indigenous language
- EducaRed
- 'Aula Fundación Telefónica'
- 'Movistar SOS'
- Pre-pay products (landline and mobile)

El Salvador
- 'Aula Fundación Telefónica'
- Campus Party
- 'Microtop-up'
- Pre-pay products (mobile)

Guatemala
- 'Aula Fundación Telefónica'
- 'Microtop-up'
- Pre-pay products (mobile)

Nicaragua
- 'Aula Fundación Telefónica'
- 'Microtop-up'
- Pre-pay products (mobile)

Panama
- 'Aula Fundación Telefónica'
- 'Microtop-up'
- Pre-pay products (mobile)

Ecuador
- 'Cobertura 2008 '
- 'Aula Fundación Telefónica'
- 'Microtop-up'
- Pre-pay products (mobile)

Colombia
- 'Compartel'
- DSL residents in La Mina camp
- Campus Party
- EducaRed
- 'Aula 365'
- 'Aula Fundación Telefónica'
- Pre-pay products (landline and mobile)
- 'Microtop-up'
- 'Puesto de Trabajo Informático'
- Mediation centre for hard hearing people

Peru
- 'Intégrame' (Integrate me)
- 'RENACE' (REBORN)
- 'Iris Project'
- EducaRed
- 'Conectame' (Connect me)
- Customer service in Quechua and Aymara
- 'Aula Fundación Telefónica'
- 'Fonoya'
- 'Puesto de Trabajo Informático'
- Pre-pay products (landline and mobile)

Chile
- 'Puentes de Comunicación'
- 'InternetEducativa' (Educational Internet)
- 'Chile@prende'
- '200 barrios'
- EducaRed
- 'Aula Fundación Telefónica'
- Digital Literacy
- Pre-pay products (landline and mobile)
- 'Puesto de Trabajo Informático'
- 'Microtop-up'

Economic divide
Training divide
Geographical divide
Health and disability divide

275 million euros invested in funds for Universal Service

More than **80 million** euros invested in reducing the economic and geographical divides

Nearly **15 million** euros invested in ICT training programmes

82% of mobile services customers in Latin America are pre-pay

More than **6 million** pre-pay landlines in Latin America

More than **880,000** public telephones in Latin America and Spain

More than **30 million** unique visitors to the EducaRed website

Spain has more than **87%** broadband coverage in rural populations

More than **230,000** people trained in new technologies

Venezuela
- EducaRed
- 'Aula Fundación Telefónica'
- Pre-pay products (landline and mobile)

Uruguay
- 'Aula Fundación Telefónica'
- Pre-pay products (mobile)

Brazil
- Campus Party
- Educared
- 'Aula Fundación Telefónica'
- Pre-pay products (landline and mobile)
- 'Puesto de Trabajo Informático'
- 'AlwaysTalk' (FaleSempre)
- Mediation centre for the deaf

Argentina
- 'Aula 365'
- EducaRed
- 'Aula Fundación Telefónica'
- IT Workstation
- Pre-pay products (landline and mobile)
- Mediation centre for hard hearing people

Spain
- Rural Broadband
- Campus Party
- EducaRed
- 'Ciberescuela'
- Responsible Use of ICT training
- *Respuesta Empresarios* (Businessmen Response)
- No company without Web
- Anti crisis plan for small and medium businesses and the unemployed
- Social instalment
- RETADIS II
- SISCODIS
- Services for older and disabled people
- Web pages accessibility

Ireland
- 'Digital Community'
- Mobile services for older people
- Special Internet pages on accessibility

United Kingdom
- 'Silver Surfers'
- Rural Internet demonstrations
- On line training for senior citizens
- Web pages accessibility

Germany
- 'Schola-21'
- Internet initiation conferences
- The best teachers for the future
- Mobile telephony course 'Polly and Fred'
- Rates for groups at risk ('ASC Program')
- Handsets for older and disabled people

Czech Republic
- Internet school for older people
- Landline and mobile phones for older people

'Intégrame' project, Peru.

'Schola-21' project, Germany.

'Conéctame' project, Peru.

'Puentes de Comunicación' project, Chile.

Digital inclusion

More than 60 initiatives in Spain, Latin America and Europe

Telefónica invested more than 370 million euros[1] to lessen the digital divide

Contributing to the creation of an inclusive society through ICT is part of the Corporate Responsibility strategy defined by the Company in 2008.

The Group channelled 275 million to the Universal Service Funds; nearly 15 million to ICT training activities; and more than 80 million in projects to lessen the economic and geographical divides.

Strategy

Telefónica tries to promote an inclusive society by increasing the access of all citizens to telecommunications. Apart from contributing to the Universal Service, every year it develops numerous activities to help close the various divides related to digital inclusion.

Likewise, the Company has incorporated in its strategy the segmentation proposed in the first Latin American meeting on the United Nations Millennium Goals and ICT, held in 2006 in Punta del Este, Uruguay. A four sided evaluation of the digital divide was proposed at this meeting: the geographical divide, the economic divide, the educational divide and the health / disability divide, in order to focus on specific projects aimed at impacting and promoting the reduction of these divides.

- **Universal Service:** service that guarantees all citizens a connection to a landline telephone service and a sufficient amount of public telephones, as well as access to telephone information. The Company considers this service a matter of equality, solidarity and social cohesion. Therefore, the inherent obligations of Universal Service should be regarded as government social policies objectives when the development and circumstances of the country in question allow it.

- **Geographical divide:** the barrier that stops the expansion of telephony to rural areas because getting the service to those areas costs more.

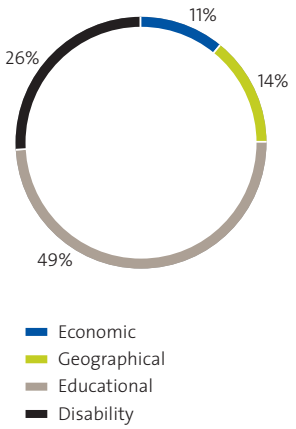
- **Economic divide:** a telephone service can reduce inequality. Therefore, Telefónica offers landline and mobile telephony services to everyone, including people with fewer economic resources or who have problems paying their bills. Also, the adoption of ICT by companies is a key element in increasing their productivity.

- **Training divide:** even when Information and Communications Technologies are available, some people are not trained to use them[2]. Likewise there are groups at risk that also need ICT training.

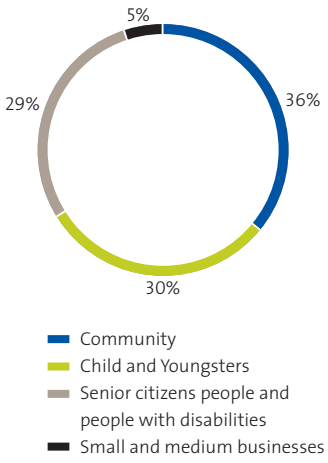
- **Health and disability divide:** the impact of the Information Society on both people with disabilities and on health, is obvious, as Information and Communications Technologies (ICT) offer a broad spectrum of possibilities to eliminate the barriers related to mobility and distance, providing more equitable access to resources related to information, knowledge and employment.

1 104 million euros corresponds to the net cost in 2007 of the provision of Universal Service by Telefónica España.
2 Source: Official publication (Barometro) of the Spanish Social Investigations Centre (Centro Investigaciones Sociales, CIS) n. 2754. Data from February 2008

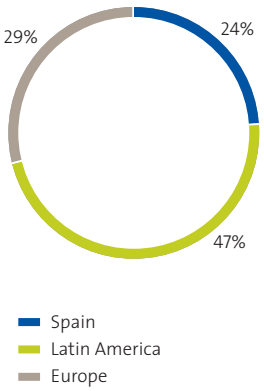
Inclusion initiatives per divide type



Inclusion initiatives per type of beneficiary



Inclusion initiatives per geographical area



For more information: www.telefonica.com/cro8/digitalinclusion

Conscious of the fact that closing the digital divide requires everyone's involvement, Telefónica also tries to make society aware of the social impact of ICT, through studies and investigations; and it promotes its own employees' participation in inclusion activities through the Telefónica Volunteers programme, managed by the Fundación Telefónica.

In 2008, the Company developed more than 60 initiatives related to digital inclusion which allowed it to offer mobile coverage to 81.5% (on average) of the population in Latin America, ICT training to more than 230,000 people and to digitally include more than 2 million small businesses through specific offers for this segment.

Universal Service

Since its creation, the main goal of the Universal Service Funds (USF) has been to establish financing mechanisms for projects aimed at extending telecommunications services to the entire population, guaranteeing certain minimum quality levels and affordable prices.

Telefónica, from its position as one of the main operators in its markets and complying with its proximity and trust promises, complies with the regulatory requirements associated with the Universal Service and undertakes numerous activities in its regions of influence, aimed at reducing the digital divide:

- In Spain, Telefónica España's obligation to provide the Universal Service was renewed until 2010 for the services of connection to the public telephone network from a fixed location, and access to the telephone service, public telephones, telephone guides ('white pages') and services to special users (people with disabilities, pensioners...). During 2007, Telefónica España's net cost for providing the Universal Service was 104 million euros.

- In Latin America, Telefónica's companies collaborate with the different public initiatives on Universal Service. In 2008, Telefónica made a net contribution of 162 million euros to the Universalizing Funds in Argentina, Brazil, Colombia, Peru and Venezuela.

- In the Czech Republic, Telefónica offered the following services derived from the Universal Service: telephone guides, telephone enquiries, public phones and special offers for disadvantaged groups. During 2007, the net cost for providing these services was more than 8 million euros.

2008 geographical inclusion in the Telefónica Group

2008	Population, mobile coverage (%)	Contribution Universal Service Fund (thousands of euros)*	Public telephones
Spain	99.7	104,000	64,607
Germany	99.3	n.a.	n.a.
Ireland	99.6	n.a.	n.a.
Czech Republic	98.9	8,670	n.a.
United Kingdom	99.0	n.a.	n.a.
Argentina	88.9	20,251	97,710
Brazil	81.1	65,943	250,278
Chile	93.3	n.a.	20,527
Colombia	70.3	44,631	15,175
Ecuador	87.2	n.a.	89,402
El Salvador	84.4	n.a.	6,231
Guatemala	60.6	n.a.	18,020
Mexico	88.1	n.a.	71,553
Nicaragua	83.6	n.a.	n.a.
Panama	71.8	n.a.	n.a.
Peru	67.5	9,947	200,316
Uruguay	86.0	n.a.	n.a.
Venezuela	96.1	22,016	48,911

* Note:
Spain: 2007 net cost for the provision of Universal Service by Telefónica España.
Brazil: data regarding contribution towards VIVO (Brazil) calculated as 50% of the joint venture with Portugal Telecom.

Digital inclusion

For more information: www.telefonica.com/cro8/digitalinclusion

Geographical divide

The geographical divide is the barrier that stops the expansion of telephony to rural areas because of the increased costs incurred in getting the service there. In 2008, Telefónica worked to extend telephony to rural areas in Spain and Latin America.

In Spain, one of the Company's initiatives to lessen the digital breach has been the Rural Broadband service, which was launched in January 2006. This service's aim is to provide broadband in rural and isolated areas, independently of which technology is used. Currently, the service is marketed under the name *Dúo ADSL Rural* (Rural ADSL Duo), which offers, as does the conventional ADSL Duo, a package which includes ADSL connection and calls to national landlines, for a set monthly price.

In October 2008, the number of customers was 110,470 (of which 1,236 were customers with LMDS technology and 576 customers with satellite technology). The investment to create the new network has been made from 2005 until the 30th of October 2008 and has cost 80 million euros[1] including the different technologies (ADSL, LMDS and Satellite).

In Latin America, some of the Company's initiatives to lessen the digital divide are:

- **'Coverage 2008' (Ecuador):** initiative to improve mobile coverage in suburban and rural areas and roads. During 2008, it reached 87.2% of the population.
- **'Intégrame' (Integrate Me) (Peru):** public and private alliance to develop telecommunication services in high poverty rural areas. Mobile, landline and Internet access and television services are offered using wireless technology. During 2008, 'Intégrame' benefited 20,000 people, approximately, in 61 population centres.
- **'Second expansion and replacement of social telecommunications networks with wireless solutions Biannual Plan' (Colombia):** replacement and expansion of the telecommunication networks in 1,400 towns in 330 municipalities, with public funds granted by the Communications Fund. This project will benefit 25,000 families and will create 200 telecentres in 2009.
- **'Communication Bridges: Social antennas' (Chile):** through an agreement with the Ministry for Transportation and Telecommunications, this initiative consists of taking mobile coverage throughout Chile to those areas that are isolated from communication. Since its beginning in June 2006, five antennas have been installed: Cabildo, Region V; Mehuin, Region XIV; Tulahuen, Region IV, Futaleufu and de Ayacara, in Region X and Pichi Pellahuen, in Region IX. The antennas have benefited approximately 90,000 people.
- **'Iris Project' (Peru):** this projects takes advantage of cellular technology to offer wireless landline service in areas where using traditional technology is not possible. Currently the project has 345,000 lines in service all over the country.

'RENACE': telephony at 2,500 feet

Nearly four thousand Peruvians that had been living in isolation in rural communities at 2,500 feet listened, for the first time, to a cellular phone call thanks to 'RENACE' (REBORN), a combined pilot project of the 'Sembrando' (Sowing) programme, presided over by Pilar Nores de Garcia (Peruvian First Lady), supported by Ericsson and Telefónica Mobiles.

'RENACE' has the merit of having achieved a solution with low installation costs, by reusing the available resources and infrastructure and the population's participation in public works, with local support. This makes it a unique experience in the country, which seeks to confirm new management methods to achieve expansion of telecommunications services to rural towns high in the Andes.

'RENACE' needed more than a year's preparation. This pilot project will include mobile telephony services (voice) and wireless telephony, which will be marketed by the villagers living in the communities that have benefited, thanks to an agreement established with Telefónica Movistar.

This management model's potential for replication in more of the country's towns that are high in the Andes, will help to improve the villagers' quality of life through telecommunications, as a key tool for their development.

1 This number will not be definite until the ongoing 2008 audit is concluded.

Economic divide

Income inequality slows down access to ICT solutions. Therefore, Telefónica offers landline and mobile telephony services to everyone, including people with fewer economic resources or that have problems paying their bills.

Aimed at reducing this divide, the Company launched, in March 2009, an anti-crisis plan in Spain with a series of measures, including discounts, new products and specific offers prepared for the economic slowdown context. On the date of this Report's publication, more than 100,000 unemployed customers have already had their requests processed to receive discounts in their bills.

The series of initiatives aimed at reducing the bill and prevent our customers expenditure are:

- **Help to the unemployed:** Telefónica land line and mobile customers who are unemployed will have their bills reduced by half, with a maximum 20 euros per bill.
- **'Duo + mobile voice offer':** allows clients with Duo or Trio services (DSL with calls or Pay Television) to make calls from their Movistar mobile to its 23 million customers in Spain, for one cent a minute.
- **'Línea libre' (Free Line):** a service in which the fixed telephone service subscription disappears.
- **Help to small and medium businessess:** recently created small and medium businesses will have a discount of up to 50% during their first year.

Likewise, the Company launched various plans aimed specially at foreign residents in Spain, a segment that currently includes more than five million people in Spain

- **'Puente Movistar' (Movistar Bridge):** when a customer joins the Company, they receive one hour of free calls to any land line or mobile in their chosen country, as a gift. Rumania, Bulgaria, Ukraine, Germany, the United Kingdom, Argentina, Brazil, Colombia, Ecuador, Bolivia, Peru and Morocco are the twelve destinations amongst which the customer can choose from to take advantage of the benefits of this service.
- **Other services:** the Company offers immigrants 'Tarifa Juntos' (Together Rate), *Tarifa mini internacional* and the Pack *Imagenio Latino*.

In Latin America, at the end of 2008, more than 82% of Telefónica's 123 million mobile services customers, used pre-pay products, which allow customers to properly control of their usage. Also, the deployment of GSM networks continued to help customers' access to terminals at lower prices.

Likewise, the Company had more than 6 million pre-pay and usage control land lines in Latin America, a programme based on pre-pay landlines to help customers with lower incomes who would otherwise find it difficult to install a telephone in their home. This is the case in Chile, where 14,000 people enjoy a broadband connection through the broadband pre-pay plan.

In 2008, Telefónica also continued innovating, creating products and services accessible to less favoured segments:

- **'Fonoya' (Phonenow) (Peru):** a service that gives the possibility of accessing land line telephony, by purchasing a telephone terminal that only requires connecting to an electrical plug and paying the equivalent of one Peruvian Sol per day (0.30 US Dollars).
- **'Microrecargas' (Microtop-up) (Latin America):** service that offers pre-pay customers the possibility of recharging their phone with amounts from 0.5 to 5 US Dollars.
- **'Computer Workstation' (Spain and Latin America):** service that provides self employed people and small and medium businesses with the necessary tools to satisfy all their data processing and Internet needs at a single monthly price. At the end of 2008, the Company managed nearly 2 million workstations in Spain through 'Respuesta Empresarios' (Businessmen Response), and over 110,000 in Latin America.

Anti crisis plan for small and medium businesses and the unemployed

In March 2009, the Company launched an anti crisis plan with measures for small and medium businesses and unemployed customers that includes discounts of up to 50% in the bills of its unemployed customers, with a limit of 20 euros per bill. This year, up to half a million bills will benefit from this help.

Telefónica's announcement had a quick response in our customer care services (1004, Small and Medium Businesses, Internet) which registered, in the days following the announcement, around 10,000 calls from customers requesting information on the plans and asking for advice on how to control their telecommunications expenditure.

Due to its commercial success, a new Commercial Advisors Office was opened, with the aim of ensuring that each of the Company's customers has the best offer, and the products that best suit their needs. This office is open 24 hours a day, Monday to Sunday, on free phone 900 380 390. On the date of this Report´s publication, this service had registered more than 4,500 calls and more than 100,000 unemployed customers

have already had their requests processed to receive discounts on their bills.

Likewise, the www.telefonica.es/teayudamos website was set up to process customers' requests. Specifically, it has registered more than 200,000 downloads of the subscription forms. What's more, around 3,000 newly created businesses have also expressed an interest in the help and discounts designed for them.

Digital inclusion

Training divide

Even when Information and Communications Technologies are available, some people are not trained to use them. According to the CIS[1], 91.9% of people aged 65 or over don't use the Internet, and of those, 58.1% admit they don't use it because they 'don't know how to use it'.

Telefónica is carrying out numerous initiatives to try and teach people how to use new technologies so they can benefit from their advantages. During 2008, more than 230,000 people benefited from its training programmes. Likewise, the Company has information centres in Latin America, where the Internet is offered to community spaces or neighbourhoods, at a low cost through subsidies from various Ministries of Education, aimed at supporting people's education, employability and entrepreneurial spirit.

The work of Fundación Telefónica in this regard is key, especially through its EducaRed programme, whose goal is to promote the educational use of Information and Communications Technology (ICT) in teaching, benefiting teachers, students, parents and other people in eight countries: Argentina, Brazil, Chile, Colombia, Spain, Mexico, Peru, and Venezuela. During 2008, EducaRed benefited 32 million people and developed 480 educational initiatives with a total of 606,787 training hours, 53% more than in 2007.

Likewise, Telefónica invested in other programmes to improve the technological abilities of groups at risk of exclusion:

- **'Aulas 365 Speedy' (365 Speedy Classrooms) (Argentina):** considered the most important educational support service in Latin America, this training tool allows students, parents and teachers of all education levels to find in Speedy Broadband a new source for additional consultation. This tool has an average 5,000 daily visits and a large amount of training material, with more than 600 educational films and more than 100 available courses.
- **'Conéctame' (Connect Me) (Peru):** with the 'Mobile Bus', a modern and innovative vehicle that is equipped with wireless technology (satellite) and Internet access, Telefónica travels through towns in Peru to educate and train the population, using interactive modules with content relevant to their economic and social development such as Health, Education, Small and Medium Businesses and Information Technology. The Mobile Bus's first stop was Cajamarca where it visited five districts during 8 weeks, benefiting around 5,500 people.
- **'Aula Fundación Telefónica' (Fundación Telefónica Classroom) (Latin America):** this project aims at strengthening, through the use of ICT, the teaching and learning processes of teachers and members of communities which are affected by child labour. By the end of 2008, 74 classrooms had been opened in the thirteen countries in which the Proniño programme is being developed, assisted by experts in ICT called 'Digital Encouragers'.

1 Source: Barómetro CIS n. 2754. Data from February 2008

Digital literacy in Spain

'Ciberescuela' (Cyberschool) is Telefónica's project dedicated to help senior citizens, housewives, immigrants and inhabitants of rural areas.

The aim is to contribute to the reduction of the digital divide in Spain, using an attractive three hour free course. The students follow the contents of a CD where they have a virtual teacher, who guides them through the contents and practice sessions. One of the main characteristics of this course is that it does not require a teacher to give a class personally, but rather each student can learn at whatever pace they choose.

In 2008 a pilot test was done in various towns in the Community of Madrid, reaching more than 600 students with a satisfaction index of 98%.

After the tests' success, the 'Ciberescuela' course was introduced in other Autonomous Communities through collaboration agreements. It is estimated that over 20,000 students all over Spain will have benefited from this course in 2009.

For more information: www.telefonica.com/cro8/accessibility | www.theabilityawards.com/

Health and disability divide

During 2008, Telefónica continued working in different fields of accessibility. Amongst other things, this has lead to new services being developed thanks to intense R&D work, modern adapted terminals, and agreements with associations for joint projects:

- The Company developed a tele-assistance platform which allows remote care of dependent people this will, in the future, incorporate numerous services such as rehabilitation, monitoring, etc. The platform started working last year, as a pilot.

- In 2008, Telefónica signed an agreement with the State's Confederation of Deaf people (Confederacion Estatal de Personas Sordas, CNSE), to collaborate in the start up of a sign language tele-interpreting service, at a national level. The collaboration started by checking the technical feasibility of the platform developed by the R&D centre in Granada, and it is hoped that the service will be available during 2009.

- In Spain, the Company launched a voice SMS service (converts the text of an SMS to voice); and 6 new models of adapted landline telephones.

- In the rest of Europe, it is worth mentioning that Telefónica O2 Germany, successfully marketed Motorola's 'easy and practical' Einfach-Handy W220. In the Czech Republic and Ireland, we offered the Emporia Life, specially designed for older people or people with disabilities. In Czech Republic, we also promoted discounts and special offers tariffs for older people or vulnerable people. In the United Kingdom, there was a special text-relay service for deaf and hard of hearing customers for four years, and we launched a special website with guidance for people with disabilities when choosing a phone.

- In Latin America it is worth mentioning, the mediation centres for the deaf in Argentina, Brazil and Colombia, with 360,000, 45,000 and 15,000 calls answered, respectively, in 2008.

In 2009, the Company will initiate a strategic project on e-health (health and well being), aimed at designing an offer of services related to health and well being, which will include specific proposals for people with disabilities.

Social awareness
In 2008, Telefónica saw the 'O2 Ability Awards' as an excellent chance to contribute to the integration of people with disabilities into the Spanish business world. This is why it decided to launch the Spanish version of these Irish awards, which recognise businesses or institutions with business models aimed at this segment.

In order to do so, Telefónica will incorporate a trust which will be formed by the main business associations and the most relevant disability organisations in Spain.

The 'O2 Ability Awards' were created by Kanchi, an Irish non-profit organisation, which has managed to create a real business standard, while promoting the dissemination of good practices. Spain is the first country outside of Ireland to grant these awards and it does so with Telefónica´s sponsorship, with the goal of placing value on diversity and the contribution to business of customers and employees with disabilities.

Accessibility and business
The awards have various categories so they can recognise different business models. They value, amongst other things, efforts in accessibility, leadership and people management. At the same time, special attention is given to the service offered to customers with disabilities, rewarding businesses that analyse their needs and give answers with innovative and personalised solutions.

Accessible Customer Service

Last year, Telefónica continued improving the accessibility of its web pages and of its network of establishments.

In this regard, it is worth mentioning Gran Via 28 Shop, the Company´s flagship in Spain: it has a specific area for accessible products and services; adapted computers providing information; a visiting guide in Braille; employees who know sign language and have specific training on customer care for people with disabilities (in 2008, at least 100 employees in Telefónica Shops received this training).

Investment in the Community

Telefónica spent close to 115 million euros on social and cultural activities in 2008

In 2008, the Company increased its investment in the Community by 21.4 million euros, an increase of 22.9% over the previous year.

The Fundación Telefónica, which is the driving force behind the Group's social and cultural initiatives, increased the number of participants and beneficiaries of its activities by 436,135 people, to over 40 million.

Telefónica is convinced of the role of Information and Communications Technology in improving education and promoting equal opportunities.
For that reason, it is the axis of its social and cultural initiatives. In 2008, it devoted nearly 115 million euros to the cause, some 23% more than in the previous year, according to international methodology group LBG, contracted by the Company in 2007 to better measure and evaluate its contribution to the community.

The projects are developed through:

- Fundación Telefónica, which is the driving force behind the Company's social and cultural activities. It was created in 1998 and is present in 8 countries: Argentina, Brazil, Chile, Colombia, Spain, Mexico, Peru and Venezuela. Some of its programmes reach as many as 14 countries, including Ecuador, El Salvador, Guatemala, Nicaragua, Panama and Uruguay.

- Social and cultural sponsorships, which have a positive impact on society, art and culture. In 2008, more than 32 million euros were devoted to nearly 170 initiatives.

- ATAM, the Telefónica association aimed at improving the quality of life of people with disabilities. Its integral care model includes assessment, direct economic assistance and work integration services for its members, a total of 58,226 employees.

- Telefónica Europe develops social activities centred mainly on youth and education, to which every year it adds initiatives on health/disability and the environment.

Telefónica's Social and Cultural action (investment)

LBG Methodology since 2007 - Data in thousands of euros	2008	2007	2006
The Fundación Telefónica	69,205	51,054	33,015
Social and cultural sponsorships	32,422	28,988	1,608
ATAM	9,174	9,069	8,911
Social activities Europe	3,898	4,228	2,493
Total	**114,700**	**93,339**	**46,027**

Note: 2007 was the first year of accounting for the figures of ATAM using the criteria of LBG. For this reason, Telefónica took a conservative line, and published contributions of only 4.5 million euros for 2007. However, in 2008 the criterion was extended and it was shown that the amounts published in this table are in accordance with the LBG methodology.

LBG Declaration of assurance - Telefónica

Corporate Citizenship

Telefónica has contracted Corporate Citizenship to ensure its application of the LBG model of measurement in 2008 (ending 31 December 2008).

The LBG model helps companies improve the management, measurement and information of their collaboration with, and commitment to, the community. It goes beyond specific contributions to include the complete range of contributions destined for the community (employees' time, contributions in money and kind), and evaluates the actual results for the community and the company.

Telefónica is a founder member of LBG Spain and is actively measuring its collaboration with the community in Spain, together with MAS Business, which LBG Spain directs, and other member companies.

Our work has been limited to ensuring the proper application of the LBG model. In our opinion, Telefónica has successfully demonstrated that it understands the LBG model and is applying its principles to measuring activities in the community in Spain and the countries in which it is present.

Corporate Citizenship
www.corporate-citizenship.com
April 2009

Note: In Telefónica's on-line Report for 2008 there is a more detailed statement of assurance, which includes comments about Telefónica's application of the LBG model.

LBG

LBG is a model that was developed in 1994 by six UK companies with the aim of improving the management, understanding and measurement of its social investment. It is at present used by more than 200 leading companies worldwide. In 2008, Telefónica collaborated actively in the establishment of LBG Spain, with the aim of professionalising the measurement of its social action.

For more information: www.fundacion.telefonica.com

In order to meet its objectives, support is given to educational, social and cultural organisations, both public and private: last year, it collaborated with nearly 270 organisations

Fundación Telefónica* invested nearly 70 million euros in 3,565 projects that benefited more than 40 million people

Fundación Telefónica has five programmes of activities: Telefónica EducaRed, Proniño, Volunteers, Debate & Knowledge, and Art & Technology.

Proniño took 107,602 children out of child labour in Latin America and provided them with schooling. The aim in 2009 is to provide 120,000 with this integral protection, to which 127,500 new beneficiaries will be added through socio-educational intervention.

Beneficiaries

Area	Number of people 2008 Participants / beneficiaries
EducaRed	32,514,635
Proniño*	127,655
Volunteers	246,273
Debate and Knowledge	766,065
Art & Technology	4,748,375
Other Programmes	1,845,628
Total	**40,248,631**

* Beneficiary children and teenagers plus students, teachers and social agents trained.

Fundación Telefónica aims to contribute to social development through quality education. It is developing five major transnational programmes:

- **EducaRed:** this is aimed at improving education by means of new technologies. Its EducaRed.net page includes educational tools, contents and programmes, as well as instruments for working in collaboration. With 32.3 million visitors, it is a reference point for Spanish language speakers; it operates in Argentina, Brazil, Chile, Colombia, Spain, Mexico, Peru and, since 2008, in Venezuela. The programme also develops onsite training activities, forums and debates. In the past year, it continued to expand its range through agreements with international organisations and by collaborating with Proniño in the 13 countries in which this programme is implemented.

- **Proniño:** its objective is to help eradicate child labour through integral protection and continued high quality schooling of children and working teenagers. In 2008, it provided schooling for 107,602 children, doubling the number of beneficiaries in Latin America for the third year in succession. During this financial year, the experience gained through the EducaRed model was used to provide teachers, students and families with the necessary technological tools to guarantee access to learning processes and high quality education. So 74 'Fundación Telefónica Classrooms' were set up in Proniño education centres with equipment and connectivity; the 'EducaRed Channel of the Proniño Educator' was launched, in which 25 training modules were developed and the 'Educational Technology Care Service' was implemented in order to give students qualified personal attention.

- **Telefónica Volunteers:** 21,807 employees participated in the Corporate Volunteer programme. Proniño and people at risk of exclusion took up most of the 341,109 hours of voluntary service. In 2009, the synergies between Proniño and EducaRed and projects such as 'Solidarity Holidays' and 'Friendly Schools', an initiative for sharing experiences over the Internet, will be strengthened. In addition, older former employees will be brought in and the Volunteer Programme for Telefónica Europe, where there are nearly 1,000 employee volunteers, will be created.

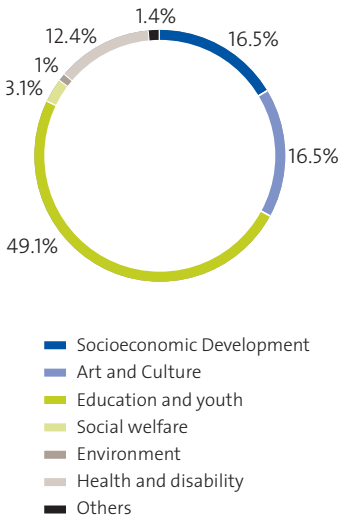
- **Debate and Knowledge:** this takes care of the generation of knowledge in the environment of the Information Society and its social impact. With its research projects and studies, it contributes to a better understanding of relevant aspects of ICT at the present time. It also carries out activities of analysis and debate as well as doing an intense job of spreading the word about its work. In 2008, it published 14 titles of Fundación Telefónica / Ariel Collection and improved its website in order to turn it into an interactive forum. It also revitalised the magazine 'TELOS'.

- **Art and Technology:** Fundación Telefónica spreads culture and contemporary modern art, linking the avant-garde with technological innovation through its art collections, exhibitions, the VIDA contest and arsVirtual. It also manages Telefónica's artistic, historical and technological assets. It organised 31 shows in 2008.

Fundación Telefónica publishes an Annual Report describing its programmes and the most significant advances of the year. The electronic version of the Annual Report for 2008 is on the web page: www.fundacion.telefonica.com

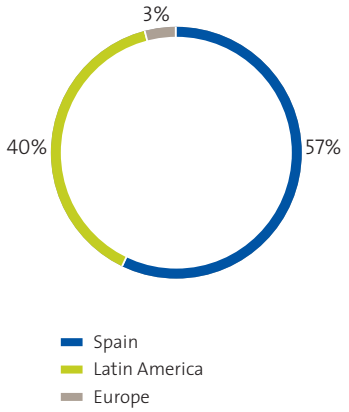
Telefónica's Investment by activity

LBG Methodology - Data in percentage



Telefónica's Investment by region

LBG Methodology - Data in percentage



ATAM had more than 58,226 employee members in 2008

The organisation, which has the aim of supporting people with disabilities, donated 5.4 million euros in economic aid.

Its programmes and activities reached more than 13,000 people.

The Association was formed in 1973 in Spain as a non-profit organisation and since 1977 it has been declared a Public Service Organisation.

An ATAM social worker with a family of beneficiaries.

ATAM is a social project of the Telefónica Group and its workers (employees, pensioners and retired people), whose main aim is to improve the prevention of situations that can result in disability and to provide services aimed at social integration for people with disabilities.

The Association ended 2008 with 58,226 members from 25 companies of the Group and contributions in excess of 14.2 million euros. All members contribute 0.2% of their monthly pay packet and the Company pays 0.4% for all the company's employees.

Social protection

ATAM has a model for integral care which includes services of integration at work, counselling and direct economic assistance for beneficiaries and their families. Its system of complementary social protection covers all types of disability (physical, mental or sensory) throughout all stages of life.

In the last financial year, 13,061 people benefited from the Association's programmes and activities. Its support was translated into:

- 5.4 million euros invested in individual economic assistance, 22.9% more than in 2007.
- 2,263 clinical consultations.
- 367 people attended for help finding work, of whom 90 successfully secured a job.

In order to provide these services, ATAM has a network of 15 offices providing face-to-face help, a Work Integration Service (SILA) and a clinical team. It can also call on a network of companies that operate as Special Employment Centres (SECs) and which employ people with disabilities. Finally, it has five occupational centres, a special education school, two residential centres and a day centre.

Moreover, ATAM continued collaborating with Telefónica in 2008 in different initiatives such as the Policy for Integrating People with Disabilities into the Workplace and Contracting Goods and Services from Social Suppliers.

Transformation and improvements

Last year, ATAM completed its Strategic Plan, which it began in 2004, aimed at improving its system of social protection at a family level. The plan involved a serious transformation in order to create a solid basis on which to base a new model for care:

- **Corporate structure:** ATAM reduced its industrial activities from eight to three and reorganised its framework into three companies that operate like the EEC. The Association invested more than 5.3 million euros to increase its competitiveness in the sector, therefore guaranteeing a greater viability of the use. The forecast is that these companies reach 450 employees in the next Strategic Plan (2009-2012), in addition to the 287 people already employed.
- **Own welfare centres:** the Association set up a model for externalised management of its centres in order to ensure a viable future. This includes plans for the refurbishment of the buildings in order to increase their capacity and modernise the facilities. ATAM expects the refurbishment to allow more services to be provided and that there will be an increase of 84.5% in the number of posts, reaching 690 in 2012.
- **Care and aid:** during the last Strategic Plan, ATAM created a network of 15 offices for face-to-face care and improved the system's coverage of individual economic aid. The total amount granted went up by 71.5% from 2004 to 2008, rising from 3.2 million to 5.4 million euros.

Evolution of aid to members

Data in euros

	Amounts paid [1]
2008	**5,404,779**
2007	4,398,874
2006	3,812,429
2005	3,380,524
2004	3,152,030

1 Amounts paid through individual economic aid (euros). These activities are not included in LBG.

For more information: www.atam.es

Telefónica Europe invested close to 4 million euros in social action initiatives[1]

Some of its initiatives in 2008 were the United Kingdom programme 'It's Your Community', with a contribution of more than 1 million pounds, and support in Ireland for Irish Autism Action (IAA).

In 2008, for the first time, employee volunteers from Europe participated in the 'Solidarity Holidays' initiative of Proniño, the programme that Fundación Telefónica runs in Latin America.

Telefónica Europe develops social activities centred mainly on youth and education, in addition to health/disability and the environment.

Local projects

With the 'It's Your Community' programme, Telefónica O2 UK provides economic support to individual or group initiatives that promote positive changes in local communities such as improving parks or gardens, promoting community centres or supporting youth projects.

After a year's trial, the initiative was launched in 2007 with the motto 'If you could change one thing about where you live, what would it be?' and up until the end of 2008, more than 1 million pounds had been granted (£362,947 in 2007 and £688.781 in 2008). Every month, awards are granted independently by the Conservation Foundation up to a maximum value of £1,000.

Telefónica O2 Ireland closely collaborates with the local community of Dublin Docklands, where its Corporate offices are based. The Company has contributed to improving the quality of life of the local residents by working with the St Andrews Resource Centre. In 2008, it helped to train people of all ages in the Digital Community centre. Thanks to this work, O2 has twice won 'The O2 Young People' s Awards', the company's prize in recognition of young people's contribution to the local community.

Autism

2008 was the third year of Telefónica O2 Ireland's collaboration with Irish Autism Action (IAA), an organisation that aims to improve the life of people affected by autism. Last year, the Company dedicated more than 100,000 euros to this cause through:

- **Tele-assistance:** IAA and O2 launched the first telephone number to support through families and parents affected by autism.
- ***'Affinity Deal':*** this programme was launched in 2008 to involve O2 customers in the cause of people with autism, donating 5% of their monthly spend[2].
- **Recycling of mobile 'phones:** O2 launched a national programme for recycling handsets and the profits from this go to the IAA.
- **Awareness:** on 2 April, the First International Autism Day, promoted by the UN, the Company supported a publicity programme by IAA on autism at a national level.

More quality in education

Last year, Telefónica O2 Germany reinforced its collaboration with Schola-21, an on-line platform for promoting quality education. With the project 'The best teachers for Germany's schools of the future' the Company undertook to prepare teachers and future teachers to be computer literate. It also participated in the 'Lifelong Learning' initiative, helping to introduce students to the world of work and introducing them to a telecommunications company such as Telefónica.

Tracey Isaake,

Head of Corporate Sales of Telefónica O2 UK

'It was exciting to be in Ecuador with children of the Proniño programme during 'Solidarity Holidays': it was very easy to interact with them through games and it was wonderful to see how happy they seemed holding our hands and hugging us. They had never before been with anyone from England, so I was a complete novelty for them'.

The directors of Telefónica O2 Ireland also carried out voluntary work with the NGO Boardmatch. This group puts volunteers in contact with social organizations via the Internet[2].

O2 Foundation and children

In 2008, the O2's Foundation in the Czech Republic consolidated its alliance with Safety Line, the only national free and confidential care service for children who find themselves in situations of vulnerability. The O2 Foundation helped to finance its communication campaign in order to implement the new number 116 111, which is expected to be standardised throughout the EU. In addition, for every mobile phone handed over in an O2 shop a donation is made to the Safety Line.

The Company also organised a blood donor campaign to make up for the shortage of blood in the country: more than 300 employees donated more than 130 litres of blood[2].

1 According to LBG methodology.
2 These activities are not included in LBG.

For more information: www.itsyourcommunity.co.uk | www.nadaceo2.cz | www.o2.com/cr/community_investment.asp

For more information: www.telefonica.com/cro8/sponsorship

The Group sees an opportunity in these activities to foster integration and education

The Company devoted 32 million euros to social and cultural sponsorships in 2008

Telefónica's contribution increased 12% compared with 2007, according to LBG, the international methodology on which it relies in order to improve management of the impact of its sponsorships.

Many of the initiatives that it backs have benefited people of different nationalities, with Latin America as the main target.

The Movistar Megacracks tour inspires thousands of young people from cities and towns in Spain to take up sport.

Telefónica contributes to society through the sponsorship of numerous activities. The aim of many of these projects was the social integration of different groups as well as the popularisation of culture in order to promote education. Some of these are detailed below:

Art and Literature for all

In 2008, Telefónica became a Benefactor of the Prado Museum through its sponsorship of the 'Visitor Care Centre', which provided more than two million people with access to one of the finest art galleries in the world. This support is linked to sponsorship of the Museum's website. It also collaborates with other institutions such as the Guggenheim Museum Foundation in Bilbao.

In 2008, Telefónica and the National Library of Madrid agreed to collaborate in the digitalisation and diffusion of the latter's collection, through a project that will continue until 2012. The aim is to digitalize more than 25 million pages and more than 200,000 objects, placing the archives of this famous institution within reach of everyone. In addition, with the aim of spreading culture and the Spanish language, Telefónica is collaborating with the Comillas Foundation and the Cervantes Institute.

Promotion of classical music

Telefónica's support for the promotion, conservation and diffusion of the patrimony of Spanish lyrical-musical comedy is demonstrated by its sponsorship as patron of El Teatro Real (the Theatre Royal) in Madrid, El Liceo (The Lyceum) in Barcelona and El Palau de Les Arts (the Palace of Arts) in Valencia.

In addition, the Company collaborated with the Albéniz Foundation in 2008 to create a lecture hall in its new Madrid headquarters and sponsored the Telefónica Violin Scholarship at the Queen Sofía Higher School of Music. Added to this is Telefónica's participation in Young Musicians of Madrid.

Culture and Latin America

Within the framework of its collaboration with the Casa de America in Madrid, Telefónica sponsored the Vivamérica 2008 Festival, with events covering art, Latin American culture and creativity in Madrid, Bogota and Santa Cruz de Tenerife.

The Telefónica Arts Pavilion, measuring almost 900 metres

Support for the Exhibition dedicated to 'Water and Sustainable Development'

Telefónica was the one of the six corporate partners of the 2008 International Exhibition held in Zaragoza, where it had a permanent presence through its sponsorship of the 'Telefónica Arts Pavilion'. In this context, it also announced the creation of the Telefónica Office for Climate Change.

The Company also sponsored the Latin American Festival of Theatre in Bogotá, which brought together more than four million spectators for events in the street; Lima Week, which brought culture to 500,000 people; the Festival of the Legend of Vallenata and the Barranquilla Carnival in Colombia; and the Piura Jubilee Week in Peru.

Sport and social integration

With its support for sport, Telefónica aims to contribute to the social integration of young people of different cultures as well as people with disabilities:

- In 2008, it complemented its support for the indoor soccer club 'Inter Movistar' by sponsoring the 'Movistar Megacracks' Tour, which used the sport to educate more than 20,000 children.
- The Company sponsored the Sports Caravan of Brazil, aimed at communities with a low index of development, and the Sao Paolo Championship in which 60 schools took part.
- For the third consecutive year, it organised the Movistar Cultures Cup of 2008, an amateur indoor soccer championship that brought players of 30 nationalities to Spain. And it became the main sponsor of the Solidarity and Immigration World Cup 2008, also providing free calls to the participants from 26 countries.
- Telefónica sponsored the 'Special Olympics' National Games in 2008, which involved two million sports people and the Spanish Paralympics Team, a fine example of overcoming the odds.

Campus Party arrived in Latin America with help from Telefónica, contributing to digital inclusion plus leisure

The first event in the region was held in São Paolo in February 2008 and attracted more than 3,000 university students and 90,000 visitors.

The event was sponsored in accordance with the strategic plan developed by Telefónica Latin America, AHORA.

Campus Party began in Spain in 1997 and it is already today the largest event in the world to integrate technology, content and digital entertainment.

Brazil: inclusion

The first Brazilian experience was a success: it brought together more than 3,000 university students with their PCs and 90,000 visitors, reaching a much wider public through direct connections, online coverage and news articles in the print media. Campus Party has the support of the federal, state and local authorities, as well as general civil society (universities, groups of web users, etc.).

This time there was, for the first time, an area dedicated to digital inclusion. The National Seminar on Digital Inclusion took place in this venue, where there was a sharing of better practices on public and private initiatives on inclusion, and a training on the use of Internet tools for basic education attended by more than 1,000 teachers from the public education network.

Colombia: education

2,430 students and more than 71,000 visitors were brought together at Campus Party Colombia. Under the leadership of Fundación Telefónica, just as in Brazil, Colombia had an area devoted exclusively to digital inclusion. Education was the leading subject of the activities pursued: there were 23 projects dealing with digital inclusion; 12 'Classmate PC' workshops and robotics workshops; 8 workshops for teachers involving 512 people; as well as 11 blogs of documentation and 185 Internet baptisms. Altogether, there were 20,000 visits to this area.

El Salvador: innovation

After the success of the events in Brazil and Colombia, Futura, guided by the Secretary General for Latin-American (SEGIB) and Telefónica, organised the first regional Campus Party in Latin America. The event took place in El Salvador on 28th October 2008 as part of the Official Agenda of events relating to the XVIIIth Summit of Heads of State under the motto 'Youth and Development'. 600 network leaders from 22 countries took part and the purpose of this Campus Party was to bring together the best Latin American initiatives in web innovation in order to demonstrate the region's potential in the digital universe. At the event, the screen came to life under the motto: 'The Internet is not a network of computer it is a network of people'.

Over five days, there was a packed agenda of seminars, presentations of innovative projects and participatory workshops. In the area dedicated to digital inclusion, participants debated proposals to end the exclusion that still exists in Latin America. Also, under the leadership of Fundación Telefónica, courses were given for teachers about EducaRed on the use of tools for teaching, and children from both public schools and from Proniño took their first steps on the Internet.

In addition to all of this, there were also senior representatives from the Latin American digital culture, who placed special interest on groups of indigenous women and people of Afro-American descent.

For more information: www.telefonica.com/cro8/campusparty | www.campus-party.org

Campus Party was held in Valencia in 2008 with 8,973 'campuseros'

Spain: the experience

Under the slogan 'Telefónica helps you be' in 2008 Telefónica was again present as the main sponsor at the 12th Campus Party in Valencia. With 8,973 attending and a speed of 7.5 GB, Telefónica once more provided a wealth of content and stimulating activities with the main objective of finding and fostering young talent.

Dialogue with interest groups

Telefóncia has the objective of strengthening ties and finding common points of interest

The Company already applies its dialogue methodology with interest groups in eight countries

New mono-stakeholder (with different interest groups) and online experiences were added last year to the traditional multi-stakeholder dialogue panels regarding the CR Report.

In December, the Company held its first forum in Brussels with interest groups in the European Union.

César Alierta in the 'Telefónica EU Stakeholder Day'.

In the CR 2.0 strategy developed by Telefónica, dialogue with interest groups has gained ground to become an instrument for growth.

Issue in depth

In 2008, the dialogue process advanced in Latin America: it began in countries like Ecuador, with a multi-stakeholder panel at the University of the Hemispheres in Quito, and was bolstered in markets such as Argentina, Brazil, Colombia, and Peru.

In short, the trend has intensified the way we treat specific issues of interest or public with our stakeholders. The goal is to dig deeper into more specific aspects and reach conclusions that otherwise would not be debated. In this sense, in Peru issue panels were developed on 'Universal access to ICT and the '1st Forum on Antennas and Health – Many myths and one reality', and the 'Integrate Me Project'.

Likewise, dialogue has been decentralised to increase its insight. Thus, in addition to providing continuity in major cities, other regions have been brought into the fold to address local issues. This has been the case with Colombia, Argentina and Peru.

Equally, collective action has been taken with employees that has added significant value to the results.

The German case

In 2008, Telefónica O2 Germany became a benchmark for online dialogue: it was the driving force behind two rounds of debate on the www.diskutiere.de platform, a federal initiative launched and held with the support of O2, which had directly engaged with all stakeholders and analysed the results of a session in Berlin.

The online debates always revolved around the business. Highlights included 'Chats and communities: how should we protect our children and youth?', an issue that aroused great interest among adolescents, parents, and educators. Through this initiative O2 identified challenges, needs, and proposed solutions that will be incorporate into its future projects. The success of this topic led to organisation of three new rounds of debates. The site received over 1,500 hits during the third one.

At the same time, Telefónica O2 Ireland created the online Talk2O2 forum in 2008, where it offered customers a chance to share their concerns with other users and ask the Company questions directly. It was the first forum of its kind in the Irish telecommunications sector.

Furthermore, in Spain, a campaign was put on through the Corporate Intranet to 'interact' with its employees regarding the CR report. The initiative included a competition to get to know about the Report in the form of a quiz and encourage feedback.

All told, the company has applied its dialogue methodology – in person or online – to eight countries.

With the institutions

On 8 December 2008, the Company celebrated 'Telefónica EU Stakeholder Day' in Brussels, a day aimed at key interest groups in the European Union. In this event, the first of its kind in the heart of Europe, Telefónica demostrated its business strategy through the 'Spirit of Progress' video.

In addition, last year Telefónica was one of the first companies to adhere to the 'European Transparency Initiative', implemented by the European Commission. This initiative seeks to encourage transparency in relations among European institutions and EU industrial sectors and interest groups. To do so, the Commission opened a register in which there are over a thousand members with one interest in common: efficient development of the Information Society.

Closer to business

In 2009, Telefónica will strengthen its dialogue methods in numerous ways: redefining the process of identifying interest-group representatives; developing local plans; and selecting tools based on the maturity level of the process. All based on an 'on-going & two-way process' strategy that implies empowering continuity of dialogue with groups throughout the exercise (on-going) and transferring conclusions to the business more effectively (two-way process).

For more information: www.telefonica.com/cro8/dialogue

Reports

The Company recognises the level of commitment of its objectives and presents its challenges by making specific promises for the coming fiscal year

Telefónica publishes Corporate Responsibility Reports in 17 countries

To guarantee the materiality and rigour of information, it is supported by external verification, abiding by the most demanding parameters in the world: GRI and AA1000AS.

Additionally, the Group applies the LBG methodology, a model for management, measurement, and communication of social contribution to the community.

Telefónica S.A. publishes an expanded version of the 2008 CR Report at www.telefonica.com/cro8

Telefónica Corporate Reports 2002-08

2002

2003

2004
☑ GRI

2005
☑ GRI
☑ AA1000AS

2006
☑ GRI (G3)
☑ AA1000AS

2007
☑ GRI (G3)
☑ AA1000AS
☑ LBG

2008
☑ GRI (G3)
☑ AA1000AS
☑ LBG

Local CR Reports in the various countries

Germany[1] (since 2006)
☑ GRI (G3)
☑ AA1000AS
☑ LBG

Central America[2] (since 2006)
☑ GRI (G3)

Ecuador (since 2006)
☑ GRI (G3)
☑ AA1000AS

Mexico (since 2006)
☑ GRI (G3)
☑ AA1000AS

Czech Republic[3] (since 2006)[4]
☑ GRI (G3)
☑ LBG

Argentina (since 2004)
☑ GRI (G3)
☑ AA1000AS

Chile (since 2003)
☑ GRI (G3)
☑ AA1000AS

Spain (since 1999)
☑ GRI (G3)
☑ AA1000AS

Peru (since 2003)
☑ GRI (G3)
☑ AA1000AS

Venezuela (since 2006)
☑ GRI (G3)
☑ AA1000AS

Brazil (since 2003)
☑ GRI (G3)
☑ AA1000AS

Colombia (since 2006)
☑ GRI (G3)
☑ AA1000AS

Ireland (since 2006)
☑ GRI (G3)
☑ AA1000AS
☑ LBG

United Kingdom (since 2006)
☑ GRI (G3)
☑ AA1000AS
☑ LBG

() First report published
☑ 2008 Verification
1 Online reports
2 Includes El Salvador, Guatemala, Nicaragua, and Panama
3 Annual Report
4 Included in O2 reporting since 2002

Key CR Indicators

Every year Telefónica conducts a quantitative analysis of its performance as a responsible company

Responsible management balance sheet

The Company's CR management model is tied to indicators regarding its social impact and compliance with the Business Principles that govern its activities.

Operating Indicators of the Telefónica Group

	2008	2007	2006	% var. Previous fiscal year
Economic Impact (Mill.€)				
Telefónica Group Revenue	57,946	56,441	52,901	2.7%
Market capitalization	74,574	106,067	79,329	–29.7%
Investment in technological innovation	4,614	4,384	4,301	5.2%
Payments to governments	10,336	9,895	8,069	4.5%
Payments to employees	6,767	6,458	5,291	4.8%
Investments in infrastructure	8,401	8,027	8,003	4.7%
Volume purchases awarded	25,926	25,240	24,179	2.7%
Employees				
Total number of employees	257,035	248,487	234,900	3.4%
% women executive management[1]	16.9%	19.7%	n.d.	–2.8
% women middle management[1]	46.6%	41.8%	n.d.	4.8
Hours training per employee[2]	42	62	51	–32.2%
Number of Safety and Health Committees[3]	144	153	81	–6.3%
Employees trained in Operating Principles	60,219	36,000	n.a.	67.3%
Customers				
Total number of customers (thousands)	258,884	228,538	203,180	13.3%
Total number of complaints (thousands)[4]	11,790	20,908	n.d.	–43,6%
Telefónica estimated market share	29%	29%	n.d.	–0.1
Spain	52%	53%	n.d.	–1.5
Latin America	30%	31%	n.d.	–0.2
Europe	18%	18%	n.d.	–0.3
% prepaid mobile access (Latin America)	82.9%	82.7%	80.6%	0.2
Prepaid fixed access in Latin America (thousands)	6,150	6,168	6,411	–0.3%
Environment and Climate Change[5]				
Electronic equipment waste (tons)	2,509	3,205	5,477	–21.7%
Water consumption (m^3)	4,867,049	5,844,040	2,354,062	–16.7%
Direct CO_2 emissions (thousand tons)[6]	123	244	97	–49.6%
Indirect CO_2 emissions (thousand tons)	1,668	1,428	1,375	16.6%
Electricity consumption (MWh)	4,828	4,274	3,253	12.8%
Radioelectric emissions (no. sites measured)	5,442	15,167	12,279	–64.1%
Suppliers				
Total number of selected suppliers	30,211	28,000	19,079	7.9%
Number of suppliers that report CR information	1,125	1,167	0	–3.6%
Society				
DJSI (%)	81.4	81.4	75.8	0.0%
Total social investment (LBG) (thousand euros)[7]	114,700	93,339	46,027	22.9%
Number beneficiaries Fundación Telefónica (thousand)[8]	40,228	39,828	33,520	1.0%
Proniño Programme Beneficiaries	107,602	52,991	25,339	103.1%
Countries with published CR Report	17	17	7	0.0%

1 Data do not include Telefónica Europe given that in this region, these professional categories are not in compliance with the rest of the Group
2 Does not include online training hours
3 These data do not include Atento
4 In Latin America the following items are not included: request for information, consultations, or damage claims
5 Telefónica publishes a 2008 Special Supplement on the Environment and Climate Change. The electronic version is at www.telefonica.com/cro8/environment
6 Major drop in natural gas in Europe and fleet fuel in Latin America
7 2008 figures for LBG calculation
8 Includes beneficiaries over the Internet

For more information: www.telefonica.com/cro8/indicators

The Company attempts to improve its stakeholders' satisfaction through its CR strategy, using the excellence of its business as a basis.

Perception of interest groups

Telefónica relies on a series of indicators that show its economic, social and environmental behaviour. Below is a progression of these variables since 2006.

How do our stakeholders perceive us?

	2008	2007	2006	% var. Previous fiscal year
Labour climate	**69.4%**	**66.4%[1]**	**n.a.**	**3.0**
Executive management	83.4%	84.3%[1]	n.a.	–1.0
Middle management	79.6%	76.6%[1]	n.a.	2.9
Rest of staff	68.9%	64.2%[1]	n.a.	4.8
Customer satisfaction				
Spain	6.32	6.47[2]	n.a.	–2.3%
Europe	7.50	7.37	n.a.	1.8%
Latin America	7.13	6.62	n.a.	7.7%
Reputation with society (RepTrakTM)[3]				
Pulse	64.7	62.2	62.0	4.0%
RepTrak™ - Supply	64.0	62.1	61.4	3.1%
RepTrak™ - Labour	63.8	63.5	63.2	0.5%
RepTrak™ - Integrity	63.1	60.9	60.3	3.6%
RepTrak™ - Supports social causes	60.6	60.5	60.8	0.2%
RepTrak™ - Protects the environment	57.7	57.1	57.8	1.0%
RepTrak™ - Innovation	69.3	68.3	69.7	1.4%
Spontaneous brand recognition (top-of-mind)				
Spain	57.0%	54.0%	n.d.	3.0
Latin America				
Argentina	47.0%	46.5%	n.d.	0.5
Brazil	57.0%	60.0%	n.d.	–3.0
Chile	35.5%	34.0%	n.d.	1.5
Colombia	17.0%	17.5%	n.d.	–0.5
Ecuador	28.0%	27.0%	n.d.	1.0
El Salvador	28.0%	27.0%	n.d.	1.0
Guatemala	35.0%	31.0%	n.d.	4.0
Mexico	24.0%	25.0%	n.d.	–1.0
Nicaragua	56.0%	55.0%	n.d.	1.0
Panama	53.0%	48.0%	n.d.	5.0
Peru	53.0%	67.0%	n.d.	–14.0
Uruguay	43.0%	50.0%	n.d.	–7.0
Venezuela	46.0%	40.0%	n.d.	6.0
Europe[4]				
Ireland	35.0%	32.0%	n.a.	3.0
United Kingdom	24.0%	23.0%	n.a.	1.0
Czech Republic	36.0%	33.0%	n.a.	3.0
Slovakia	10.0%	8.0%	n.a.	2.0

1 Data shown from 2008 correspond to the new Climate and Commitment model. 2007 earnings have been adjusted to be able to reflect progress
2 To show the evolution of 2007 Telefónica España CSI it has been adjusted as a consecuence of the Group's homgenisation project. The CSI without being adjusted is 6.67
3 RepTrakTM calculation was done based on weight of each region on revenue
4 No data available from Germany

2009 Challenges

Telefónica will maintain its focus, guaranteeing the sustainability of ongoing projects and defining new challenges

In 2009, Telefónica maintained its commitment to society by establishing over 20 objectives based on its CR strategy

The 2011 CR challenges, established by the Group regarding Business Principles, development of responsible management policies, and positioning in external indicators mark the short-term challenges

Corporate Responsibility and Business Principles

1 Training on Business Principles	Continue to extend training on Business Principles to reach 100% of employees in 2011. To do so, the objective of reaching 80% employees trained on Business Principles was maintained in 2009 (not including Atento call centre employees).
2 Continue to promote dialogue practices with employees on our Business Principles	Encourage internal communication and meetings among employees and those in charge of the Business Principles Offices. The objective is to create an area of trust for employees to dialogue with those in charge regarding the level of compliance with the company's principles.
3 Development and implementation of policies based on the Business Principles	Continue the development and implement action of the 10 policies we aim to achieve by 2011: Protection of Children and Teenagers and the Responsible use of ICT; Data Privacy Policy; Environmental Management System; Climate Change and Energy Efficiency; Digital Inclusion of the Underprivileged (older people and people with disabilities); Diversity; Responsibility in the Supply Chain; Human Rights; Dialogue with Interest Groups and International Social Dialogue; and Social and Environmental Reporting.
4 Stakeholders dialogue	Continue on dialogue with key stakeholders and communicate the outcomes to the business, including: • Extending the dialogue methodology to Mexico and Panama. • Analysing the methodology implementation levels in every country and determining a long-term plan of individual development, identifying tools and possible synergies. • Redefining how we identify our stakeholders. • Promoting new issue debates with expert audiences.
5 Development of CR Plans for every country	Develop CR plans in the three regions: Spain, Europe, and Latin America by 2011 and extend the plans into the local business within each region.

Customers

6 Achieve a level of 7.24 in Customer Satisfaction Index (CSI)	Customer satisfaction continues to be a strategic priority for the group, which in 2009 will continue working to implement quality plans inspired by the 'Customer Experience' methodology. The objective is for the CSI to reach 7.24, an increase 4% compared to 2008 (not including VIVO).
7 Implementation of Compliance Programmes regarding Competition Law	Continue to progress implementation plan of the online Competition Law compliance programme in the rest of the countries where Telefónica operates. The course contains a detailed description of causes, objectives, and primary abuses of antitrust rules (collusion and abuses of dominant position), as well as a way to detect and prevent them.
8 Implementation of the Responsible Advertising Policy	The Responsible Advertising Policy is based on the 10 Principles that make up the 'Golden rules of Advertising'. These principles are included in the 'Agency Evaluation Model', which is integrated into agency contractual conditions thereof. The objective is to implement the agency 'Evaluation Model' based on the Responsible Advertising commandments through the online Adroom system.
9 Deploy the ICT Responsible Use strategy for children and adolescents	• Block URLs with illegal content on child and teen abuse in mobile Internet access platforms. • Rollout the 'Interactive Generations' project at Telefónica España and plan implementation for 2010 across T. Europe, starting in the UK. • Develop a map of activities in all countries where Telefónica operates around four blocks of the Group's strategy regarding protection of children and teenagers: Alliances, Deployment of internal rules, Products and Services, and Education.

Employees

10 Achieve 71% in the Index	Seeking to become the best place to work, the Company launched the 'Employee Promise' in 2007 with four focus areas: improving employee satisfaction by offering them the best possible working-life experience; building a high-performance culture; sharing talent; and operating as an international business. The initiatives implemented aim to enable an increase in the Employee Satisfaction Index to improve in 2009 up to 71%.
11 Diversity Project	• Establish a Diversity Committee. • Present to the Commission on Human Resources, Reputation and Corporate Responsibility and to the Executive Committee. • Establish functional or multidisciplinary work groups.
12 Health and Safety	Make progress on the qualitative analysis of causes of labour accidents to look for areas of improvement and reduce the number of accidents by 4% in three years.

Suppliers

13 Extension of Business Principles to the Supply Chain	• Telefónica will cover over 350 audits in Latin America of HR management Health and Safety at 'high-risk' suppliers and will begin to implement improvement plans based on these audits. • Convergence with the corporate model of the risk-assessment process of the supply chain at Telefónica O2 United Kingdom.

Society

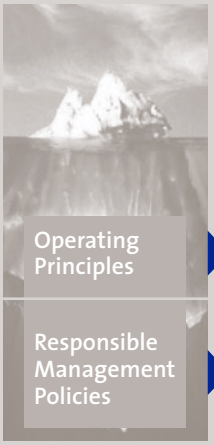
14 Labour Integration Rules for the Disabled	Approval of the policy and roll-out in Spain two initiatives: increasing direct employment in the Telefónica Group and indirect employment through procurement at Special Employment Centres.
15 Reach 120,000 boys, girls, and adolescents in the core idea of full protection of the Proniño programme	In 2008, Telefónica doubled for the third straight year the number of beneficiaries of Proniño programme in Latin America. Fundación Telefónica, through its Proniño programme, fights to eradicate child labour. In 2009, the goal is to reach 120,000 children benefiting from the core idea of full protection, and additionally to offer socio-educational intervention to 127,500 children and adolescents.
16 Digital Inclusion in Latin America	Continue rolling out projects to decrease economic, educational, technological, employment, health, and disability gaps in the three regions: Spain, Latin America and Europe.
17 Improve Reputation in the eyes of the General Public	Reputation (as seen by the general public) is measured at Telefónica through RepTrak™ in 13 countries. In 2011, the Group wants to lead the ranking in its sector in every measured country. To do so, in 2009 it will work to decrease the distance from the best competitor by countries in the critical dimensions of the index (RepTrak™) as a function of each market.

Environment*

Environmental Management	
18 Implementation of the global Environmental Management System at 50% of operations	From 2009 to 2011, Telefónica will implement the global Environmental Management System at all its operations.
19 Implementation of the Environmental Behaviour Index at 70% of our operations	This index will be used to improve control of environmental behaviour.
20 Environmental certification of District C	Certification of the Environmental Management System at District C (Telefónica's head office in Madrid) by an external body.
Climate Change Office	
21 Conduct energy audits at all the Group's operations and carry out external verification of the carbon footprint	In order to improve the consistency of energy data at all Telefónica Group operators and to assure a base year to achieve its objectives, Telefónica has proposed an ambitious goal of performing exhaustive and specific energy audits in 2009.
22 Decrease electricity consumption by 30% in networks by 2015 in comparison to 2007	The Climate Change Office will take the actions necessary to contribute to the global objective announced in 2008.
23 Decrease electricity consumption by 10% at offices by 2015 in comparison to 2007	The Climate Change Office will take the actions necessary to contribute to the global objective announced in 2008.
24 Define the renewable-energy strategy for the Telefónica network	In 2009 the Company's strategy will be defined to implement renewable energies in its network.
25 Take into account the energy-efficiency differential in the procurement decision of products	The differential will be implemented to make low-carbon procurement as part of the core of Suppliers strategy for the Climate Change Office.

* Telefónica publishes a 2008 Special Supplement on the Environment and Climate Change. The electronic version is at www.telefonica.com/cro8/environment

General Objectives for 2009-2011



Proniño: Every year 25 percent progressive increase in the number of children and teenagers taken out of child labour. Looking to 2009, the objective is to enable 120,000 boys, girls and adolescents to benefit from the core idea of full protection, and to offer socio-educational intervention to 127,500 children and adolescents

Dow Jones Sustainability Index: *Best in class in 2011 in the telecommunications sector*

RepTrak™: number 1 in the ranking as the telecommunications company with the best reputation in every country

Number of people trained online: 100% employees

Number of executives trained by Universitas: 1,600 (100%)

10 Responsibility policies: Protection of Children and Teens and Responsible Use of ICT; Data Privacy Policy; Environmental Management System; Climate Change and Energy Efficiency; Digital Inclusion of the Underprivileged (adults and the disabled); Diversity; Responsibility in the Supply Chain; Human Rights; Dialogue with Interest Groups and International Social Dialogue; and Social and Environmental Reporting

100% Deployment policies: approval, indicators, verification and improvement

Independent Audit

Ernst & Young Servicios Corporativos, S.L.U.
Torre Picasso
Plaza Pablo Ruiz Picasso, 1
28020 Madrid (España)
Tel: +34 915 727 200
Fax: +34 915 727 450
www.ey.com/es

Independent Audit

A message from Ernst & Young

At the request of the Audit and Control Commission, we have reviewed the 2008 Annual Corporate Responsibility Report from Telefónica, S.A. The report consists of two parts: this printed document and the complete online version thereof, available at www.telefonica.com/cr2008.

Scope of work

Our work has consisted of verifying that the Report's content abides by:

- The principles and indicators established in the Global Reporting Initiative (GRI) G3 Reference Guide for Telefónica's global perimeter
- The principles included in Norm AA1000 AS (2003 version) issued by AccountAbility (Institute of Social and Ethical Accountability) for activities done by Telefónica in Spain, Argentina, Colombia, Chile, Peru, Brazil, Mexico, Venezuela, Ecuador, United Kingdom, Ireland, Germany and the Czech Republic.

Additionally, Telefónica requested that we audit its local reports in Spain, Argentina, Colombia, Chile, Peru, Brazil, Mexico, Venezuela, Ecuador, Central America, United Kingdom, Germany, Ireland. These reports will be published in the coming months and will be available at www.telefonica.es/responsabilidad corporativa

Audits consist of:

- ***Checking compliance with GRI standards***

1. Abidance of the structure and content of the Report by the principles and guidelines established in the G3 Guide.
2. Proper traceability of information and data for the core and additional indicators and from the Telecommunications Sector Supplement, as well as the reasonability of the criteria followed whey they were considered not applicable, as appropriate.

- ***Auditing in terms of Norm AA1000 AS (2003)***

Auditing procedures have been developed to assess, for the previously mentioned standard, that the CR Report abides by the following principles:

1. Materiality or Relevance of information provided as a function of the needs or requirements of the interest groups.
2. Integrity in identifying, understanding, and managing impacts through the systems and processes, including the commitment processes with interest groups.
3. Ability to respond in light of the objectives and expectations of the interest groups and proper and timely reporting of the plans sent to them.

As a preview for its implementation next year, extensive testing has been done on numerous indicators that would enable it to secure high assurance (according to Standard AA1000 AS, 2008 version) of most of the quantitative information included in the chapters on employees, suppliers (except for payment deadlines), social contributions and environmental management (except for energy and paper consumption).

Furthermore, the guidelines established in Standard ISAE 3000 have been considered applicable to conducting audits of non-financial reports with limited scope, and the operating guide for reviewing Corporate Responsibility Reports issued by the Institute of Sworn Accountants of Spain (ICJCE).

Auditing procedures primarily include interviews with executive management of corporate divisions and the aforementioned countries, reviewing the group's relevant information and press releases, reviewing processes for compilation of information and proof of traceability of data in the information reported for each of the indicators.

Our Independence

The independence policies of Ernst & Young apply to the firm, its partners and its employees. These policies prohibit any financial interest or conflict of interest at our clients that might compromise our independence. Every year, partners and personnel are required to confirm compliance with the firm's policies. The Ernst & Young independence policies exceed, in certain sections, the requirements of the IFAC (International Federation of Accountants).

Our independent audit report contains the scope of work, audit level, conclusions, and our independence. This report is available at **www.telefonica.com/rc2008/verificacion.**

ERNST & YOUNG SERVICIOS CORPORATIVOS, S.L.U.

Madrid, 12 May 2009

Domicilio Social: Pl. Pablo Ruiz Picasso, 1. 28020 Madrid
Inscrita en el Registro Mercantil de Madrid al
Tomo 9195, Libro 0, Folio 213, Sección 8ª,
Hoja M-147960, Inscripción 64. C.I.F. B-28246163

Awards and Distinctions 2008

CR strategy

- Telefónica has been named for the 5th year in the Dow Jones Sustainability Index.
- 2008 Latin American Award for Corporate Social Responsibility, given at the Ecumenical Social Forum of Argentina.
- Telefónica led the CR 2.0 ranking, according to a study by corporate communication consultancy Salterbaxter.
- The 'General Rumiñahui' distinction recognised Movistar Ecuador as the company with the best Corporate Social Responsibility practices in the country in the Large Company category.
- Atento Argentina and Atento Mexico and Central America, received awards from the Mexican Philanthropy Centre in the categories of CSR Applied to the Supply Chain and Quality of Life at the Company.
- Telefónica, the company with the greatest sensitivity to Latin America according to the second wave of the KAR 2008 Study of Corporate Reputation in Spain. In the third wave, Spanish journalists placed the company as having the most potent and clearest corporate strategy and the best managed in Spain.
- For the second straight year, Telefónica was 2nd in the ranking of companies with the best reputation, according to the Spanish Monitor of Corporate Reputation (MERCO).

Excellence in business

Customers

- Movistar received the '2008 National Quality Award' in Peru and the 'Leader in Quality - Gold Category' Medal given by the National Society of Industries and the Quality Management Committee.
- The Association of Communication Users highlighted Imagenio in comparison to other TV systems in Spain.
- Two studies by the ADECES (Association for Civil, Economic and Social Rights) showed that only Telefónica was approved in customer service and that its post-sales exceeded those offered by all of its competitors.
- The broadband service of Telefónica O2 United Kingdom, one of the best for British consumers, according to an analysis done by Thinkbroadband.com.
- Telefónica was once again, during the third quarter of 2008, the most valued and user-recommended broadband provider in a study by the portal ADSLzone.net.
- Telefónica O2 Germany had the highest customer satisfaction according to 'Kundenmonitor Deutschland'.
- O2 won first prize in the 'Irish Contact Centre Awards 2008'.
- Telefónica Spain's 1004 Customer Service was awarded with the 'Iberoamerican Award in Customer Relations', given by the AIAREC (Iberoamerican Association of Customer Company Relations). And the 1004 commercial received the 'Fortius 2008 Award' for their expertise.
- The Telefónica 1004 and 609 customer services received the 'CRC Gold 2008' awards for best customer service in Spain. Atento Spain receive three other 'CRC Oro' awards.
- Telefónica lead the AI (Internet Users Association) ranking among user perception of providers, quality and price in Spain. And a survey by AI showed that Telefónica's customer service was the most valued by Internet users.
- The Consumers Union of Spain confirmed, once again, Telefónica Spain's telephone service as the one with the best quality on the market and best price/quality ratio.
- Atento Maroc became the first contact-centre company in the country with the 'National Quality Award'.
- Atento won ten 'Amauta' awards, the highest distinction in direct marketing in Latin America; and it was recognised by Frost & Sullivan as the 'Best Contact Centre Company' in Latin America in 2008.
- The European Software Institute gave its 'Excellence in Software' award to Telefónica Chile, with other companies and institutions.

Employees

- Telefónica Spain, one of the TOP 44 companies to work for in Spain, according to a study by CRF.
- The American Chamber of Commerce certified tgestiona Peru as a 'Good Employer'.
- Telefónica Móviles Ecuador and Telefónica Móviles Uruguay, recognised as the best companies to work for
- Seven Telefónica companies in Peru received awards from the GPTW in various categories. The institute also named Telefónica Móviles. Chile as the fifth best company to work for in Chile, and included Telefónica among its rankings in countries such as Argentina, Colombia, and Mexico.
- Telefónica O2 Czech Republic won an award for its activities related to health in the workplace.
- Atento was the private company that generated the most employment in Brazil in 2007, according to the business magazine 'Exame'.

Shareholders

- Telefónica rose to second place on the Eurostoxx 50.
- Telefónica, the only telecommunications company among Standard & Poors favourites.
- Telefónica was the first Spanish company in the FT Global 500, the ranking of the 500 largest companies in the world in terms of market capitalization.
- Telefónica was elected the best value on the stock market in 2007 by readers of the economic newspaper 'Expansión'.
- Telefónica had the best Ibex-35 value, according to 'Mi Cartera de Inversión'.

Upstanding and transparent management

- Telefónica of Peru, recognised by the Stock Exchange of Lima for its good corporate governance.
- Telefónica, the Ibex-35 company with the best and clearest financial information on the Internet, according to the Spanish Association of Accounting and Business Administration (AECA).
- Telefónica was recognised by the Investor Relations (IR) organisation as the best Spanish company for investors, and it won an award for its communication from 'IR Magazine'.
- 'El Diario Financiero' considered the OPA on Telefónica Chile as the third best financial operation due to its transparency.

Contribution to progress

- Telefónica received the 'Premio Autelsi 2008' award (Spanish Association of Telecommunications Users and Information Society) for its work on accessibility.
- 'Intégrame', the digital inclusion programme of Telefónica in Peru, won the 'International Business Awards' ('Stevies') as one of the best CSR initiatives in South America, and one of the best telecommunications products worldwide.
- The UN distinguished 'Intégrame' in 'The World Business and Development Awards' with special mention for its contribution to the Millennium Objectives.
- The Telefónica O2 Czech Republic project against school bullying received a 'Golden Effie' and a 'Via Bona Award'.
- www.telefonica.es was recognized as the most accessible website in the Tecnet Awards of the Spanish magazine 'Vivir con Júbilo'.
- The Teleinterpretation Centre for the Deaf developed by TI+D, 'Best Social Action Project' in the 'Andalucía Information Society 2008' Awards.
- Telefónica received the 'Cibermax Award' in the Development category for its 'Interactive Generations' project.
- Telesp, 'Leading Company', according to 'Epoca' magazine (Editora Globo) and PricewaterhouseCoopers, for its transparency and strategy to fight against climate change.
- The European Commission confirmed in Brussels that Telefónica is the Spanish company that most invests in Research and Development.
- Nine projects in which Telefónica R&D participated received recognition from the European CELTIC research program.
- The text-voice converter developed by Telefónica R&D awarded for its voice synthesis in 5th Forum on Speaking Technology.
- The AMIVITAL project of Telefónica R&D, awarded by the Forum of Social Councils of the Universidades Andaluzas.
- The communication portal PR Notícias distinguished the new head office of Telefónica, district C, as the 'Best Sustainable Project'.
- Telefónica O2 Germany won 'gold' from the Office of the State of Bavaria for protecting the environment, public health, and the consumer.

Social and cultural action*

- Fundación Telefónica received the Gold Medal for Merit in the Fine Arts.
- The Brazil-Spanish Chamber of Commerce gave the 'Premio Brasil 2008' to the Pró-Menino (Proniño) programme in the social-action category.
- Proniño Ecuador received numerous awards on its tenth anniversary.
- Fundación Telefónica obtained the first 'Chile Somos Todos' award from the government's Ministerio Secretaria General for its support of the disabled.
- EducaRed Chile received the award for 'Best Iberoamerican Portal 2007' given by the AHCIET.
- The programme EducaRed Argentina received the 'Solidarity Entrepreneur Award' given by the Ecumenical Social Forum.

Communication and dialogue

CR Report

- Telefónica stood out as the Spanish company with the best CSR Report in the Global Fortune ranking, which analyses the annual report of the 100 largest companies in the world by revenue.
- Telefónica was second in the ranking on CSR behaviour among Ibex-35 companies, prepared by the Observatorio de RSE de UGT based on an analysis of CR Reports from 2007.
- Telefónica was among the four best valued companies in the study on 'Corporate Social Responsibility in the annual reports of Ibex-35 companies', published by the Observatorio de Responsabilidad Social Corporativa.

Management and leadership

- César Alierta, President of Telefónica, considered the sixth most influential man in the telecommunications industry worldwide, according to readers of 'Global Telecom Business' magazine.
- Telefónica led the ranking of Spanish companies with the best management team for the second year in a row, published by 'El Economista' newspaper.
- Over 180 economic journalists elected César Alierta as the Spanish businessman with the most leadership ability.
- Santiago Fernández-Valbuena, Telefónica's Director General of Corporate Finance, won the IEF 2008 award for Financial Excellence.
- César Alierta, 'International Businessman of the Year', according to the Official Spanish Chamber of Commerce of Chile.
- César Alierta received the AED Award for Director of the Year 2007.
- The Spain-China Council Foundation gave Telefónica and China Netcom an award for 'their business-cooperation agreement'.
- Luis Abril, Technical Secretary General of the President's Office of Telefónica, received the Vocento Award for Business Track Record in Communications.
- Matthew Key, Chief Executive Officer of Telefónica Europe, one of the best regarded businessmen from the UK, according to the 'Evening Standard'.
- Telefónica received the 'Annual Golden Award 2008' for its contribution to the economic and commercial network of Great Britain.
- Movistar was the most valuable Spanish brand, according to Interbrand.

* To see all Fundación Telefónica awards, please check its Annual Report at www.fundacion.telefonica.com

Telefónica, S.A.
2008 Annual Corporate Responsibility Report

This Report is available on Telefónica's website at: www.telefonica.com

Shareholders may also request copies of this Report from the
Oficina del Accionista (Shareholders Office) by calling toll-free 900 111 004
(for Spain), or by e-mail at: accion.telefonica@telefonica.es

Additionally, all information required by current legislation is at
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Special Supplement 2008:
Environment and Climate Change

Factsheets:
The Telefónica Group makes its contribution to achieving the Millennium Goals

UN Global Pact:
Report outlining progress achieved

The aim of the Supplement to the Corporate Responsibility Report is to focus on a subject that is particularly relevant to Telefónica's Corporate Responsibility (CR) strategy according to the priorities of the Company's interest groups.

During 2008 and as regards CR, the environment and climate change were the most important aspects on the political, economic, scientific and public agendas worldwide.

The increased weight accorded to the climate change strategy in the Dow Jones Sustainability Index in 2008 (6%); the call of the Secretary General of the United Nations Ban Ki Moon to spur economic recovery around the world through a 'New Green Deal', that is to say, investment in the green economy; the European Union's recognition that climate change is a priority and its goal of reducing greenhouse gases by 20% before 2020, improving energy efficiency by 20% and increasing the energy generated using renewable sources by 20%; the United States' decision to finally joint the Kyoto Protocol and its goal of reducing emissions by 80% before 2050... all of these are reasons enough to include this special supplement in Telefónica's CR Report.

This supplement is the first in a series over the coming years that will focus on subjects of particular relevance for the Company and its interest groups.

The Telefónica Group contributes to achieving the Millennium Development Goals

On 8th September 2000, the Millennium Summit brought 192 Heads of State together at the UN Headquarters in New York. The aim was to send a clear message that eradication of world poverty should be a priority for all nations. This spirit was reflected in the Millennium Declaration, which was signed by all of the summit's participants and which is basically a firm commitment to achieve the Millennium Development Goals (MDG).

At a high level meeting held on 25th September 2008, the Member States, State and associated groups from civil society, including representatives from the private sector and philanthropic entities, undertook new commitments, setting the next steps to achieve in order to make the MDG a reality by 2015.

For its part, on a daily basis the Telefónica Group tries to improve its status as a committed player in developing the economies of countries in which it operates. To achieve this, last year we again gave our public support to the Millennium Development Goals.

Our first action was carried out through the Foro de Reputación Corporativa (Corporate Reputation Forum) publicity campaign: '2015: Un mundo mejor para Joana' (2015: A Better World for Joana). Telefónica has been part of this Forum since its launch in 2007. Another year later, we contributed to the dissemination of these eight objectives and to raising awareness of the need for co-operation to achieve these goals by 2015. The main driving force behind the campaign is the following web page: www.2015unmundomejorparajoana.com

Moreover, on 6th May 2008, the company signed the *Call to Action* declaration for companies that implies commitment to achieving tangible development measures carried out in collaboration with Governments and other organisations.

With each of the initiatives listed here, Telefónica aims to demonstrate how ICT forms part of the solution, in contributing to achieving the objectives set by the United Nations.

The Corporate Reputation Forum Network

- **Close to 700,000 employees**
- **Present in over 200 countries**
- **Over 1,346 million customers**

For further information: www.telefonica.com/cro8/MDG

Challenge	Project
Goal 1: Eradicate extreme poverty and hunger	
Challenge: Halve the proportion of people who earn less than 1 dollar a day between 1990 and 2015	• Creation of info-centres in Latin America to provide low cost Internet in community centres or local neighbourhoods, employability and citizens entrepreneurial spirit. (LATAM)
Challenge: Achieve full employment, productivity and decent jobs for all, including women and young people	• 'Proyecto Estela' - Developing the capabilities and competences of technicians in companies that provide telecommunications services to Telefónica, with the aim of fostering professional development by improving CV's in this skills area. (ARG, BRA, CHI, COL and PER) • 'Puente Laboral' - Developing professional skills of students of the Professional Media Qualification by developing employability skills and ICT knowledge the with the aim of maximising young people's potential for incorporation into the job market. (CHI) • 'It's Your Community' - Financial support for individual or group initiatives that promote positive changes to their environment, such as social entrepreneurship projects. (UK)
Challenge: Halve the percentage of people suffering from hunger between 1990 and 2015.	• Through Fundación Telefónica, participation in the FAO's annual Telefood Gala, which aims to raise social awareness about the issue of world hunger and uses donations to finance sustainable projects in developing countries to increase the population's nutrition (SPA)
Goal 2: Achieve universal primary education	
Challenge: ensure that all children in the world are able to complete primary education by 2015	• Proniño - A Fundación Telefónica initiative to eradicate child labour in Latin America by providing schooling for children. At the end of 2008, the programme had benefitted 107,602 boys, girls and teenagers. (ARG, BRA, CHI, COL, ECU, ESA, GUA, MEX, NIC, PAN, PER, URU & VEN) • Educared - the Fundación Telefónica project intended to promote ICT inclusion in schools, with the aim of contributing to enriching teaching methods, promoting learning and contributing to quality education. (ARG, BRA, CHI, COL, SPA, MEX, PER & VEN).
Goal 3: Promote sexual equality and female autonomy	
Challenge: Preferably by 2005, eliminate gender inequality in primary and secondary education, and by 2015 at all levels of education	• Diversity - a project which, among other objectives, aims to promote gender inclusion across the Telefónica Group. (GLO)
Goal 4: Reduce infant mortality	
Challenge: Reduce child mortality among under 5's by two thirds between 1990 and 2015	• Implementation of the 'Responsible Procurement' programme, which aims to guarantee the absence of child labour in the supply chain and promote the economic inclusion of families of children who benefit from the Proniño programme by contracting these goods and services. (GLO) • Participation in the 'Red de Empresas contra el Trabajo Infantil' (Network Against Child Labour) that aims to make the issue of child labour as an infringement of child and adolescent rights visible. (ARG) • Inclusion of preservation of umbilical cord blood in employee health insurance policies. (SPA)

Challenge	Project
Goal 5: Improve maternal health	
Challenge: Reduce maternal mortality by three quarters between 1990 and 2015 Challenge: Achieve universal access to reproductive health services by 2015	• Actions to promote health and risk prevention at work through preventative gynaecological and breast examinations for women aged over 35. (SPA)
Goal 6: Combat el HIV/AIDS, malaria and other diseases	
Challenge: Halt and have begun to reduce the incidence of malaria and other serious diseases by 2015	• ATAM - a social project of the Telefónica Group and its workers (employees, pensioners and early retirees), whose main aim is to prevent situations where disability is an issue and provide services that help disabled people integrate into society. (SPA) • Sponsorship of the '300 seconds' concert, organised to raise funds for investigating neurofibromatosis, leukodystrophy and tubercular sclerosis. (SPA) • Co-operation Agreement with the Asociación Española Contra el Cancer (Spanish Cancer Association), to facilitate the incorporation of new technologies in their day-to-day operations. (SPA) • Telefónica O2 Ireland, collaboration with Irish Autism Action, an organisation that tries to improve the lives of autistic people and their families. In 2008 the company gave more than 100,000 euros to this cause. (IRL)
Goal 7: Guarantee environmental sustainability	
Challenge: Incorporate the sustainable development principles in national policies and programmes and reduce the loss of natural resources	• Creation of the Climate Change Office, responsible for ensuring the reduction of company energy consumption and Greenhouse Gas emissions, for maximising the development of services that allow our clients to increase their efficiency and for positioning ICT at the heart of the solution in the fight against climate change. (GLO) • Participation in external working groups such as GESI, ETNO and ITU, which foster the development of public policy in the area of ICT and climate change at world level. (GLO) • Design of an overall Environmental Management System that conforms to ISO 14001, to improve the entire company's environmental behaviour. (GLO) • Collaboration with the World Business Council for Sustainable Development in the Spanish version of The Corporate Ecosystem Services Review. This document sets objectives for including environmental goods and services into overall company management. (GLO) • Development of the 'El Salvador Verde' (Green El Salvador) initiative which promotes good environmental practice by raising social awareness. (ESA) • Marketing the *Nokia 3110 Evolve* handset, which aims to promote the use of recyclable materials, minimise energy consumption and raise consumer awareness. (SPA) • Launch of the energy efficient Universal Charger for mobiles. (UK)
Challenge: by 2010, considerably slow down bio-diversity loss	• With the support of Acciónatura and customers, a project was launched to repopulate riverbank areas. (SPA) • The Telefónica Foundation joined forces with the Universidad Autónoma Benito Juárez del Estado de Oaxaca – Fundacion Selva Negra (Oaxaca State Benito Juárez Autonomous University's Selva Negra Foundation) and the Centro Mexicana de la Tortuga (Mexican Tortoise Centre) to help conserve this species. (MEX)

Challenge	Project
Challenge: Halve the proportion of people without sustainable access to drinking water and basic sanitation services by 2015	• Participation in the 'Water and Sustainable Development' Expo Zaragoza 2008, as technological partner and sponsor of the 'Telefónica Arts Pavilion'. (SPA) • Agreement with the Canal de Isabel II, via Telefónica R&D, signing up to the Madrid Water Challenge. (SPA)
Goal 8: Foster a world development association	
Challenge: Co-operate with the private sector to provide access to information and communication technologies	**Geographic divide** • Education agreement with the Tucumán Government to provide Speedy high-speed satellite Internet connection to mountain schools. (ARG) • 'Bridges of Communication. Social Antennas', mobile coverage for isolated areas. (CHI) • Participation in the 'Second Bi-annual Plan to Extend and Reposition Wireless Social Telecommunications Networks': repositioning and extending of networks in 1,400 locations in 330 municipalities. (COL) • 'Coverage 2008' Project – aims to improve mobile coverage in suburban, rural areas and on roads. (ECU) • 'Collaboration in the Rural Broadband Extension' Project – promoted by the Ministry of Industry, Tourism and Trade. (SPA) • Contribution to reducing the digital divide through the Ciberescuelas (Cyber schools) pilot-project, as part of the Plan Avanza. (SPA) • Indigenous language Telefónica customer service telephone line. (MEX) • 'Integrame' Project: public-private partnership to develop telecommunications services in rural areas with high levels of poverty. (PER) **Economic divide** • Development of fixed line and mobile phone services for people on lower incomes, giving them adequate control over their consumption. (LATAM) • 'IT Desk service' that provides the self-employed and SME's with the necessary tools to satisfy all their IT and Internet needs for a single monthly charge. (SPA, LATAM) • Launch of 'Fonoya' Service, allowing users to access the fixed line network by purchasing a telephone terminal that only requires connection to the electricity supply, for the equivalent of 1 sol a day. (PER) **Training divide** • Launch of the 'Interactive Generations' project to promote responsible use of new technologies by children and teenagers. (LATAM) • Participation in organising Campus Party whose aim is to promote digital inclusion through leisure. (BRA, COL, ESA & SPA) **Health and Disability divide** • Creation of tele-interpretation centres for the hard hearing. (ARG, BRA & COL) • Launch of specially designed fixed line and mobile terminals for senior citizens and the disabled such as *Motorola Einfach-Handy W220, Emporia Life and the Movistar Fácil* range. (GER, CZE & SPA) • Telefónica Volunteers collaborate with the Centro Iberoamericano Cultural de Audio Lectura y Educación in 'Oídos a la Obra' (Hearing to Work). The project aims to help integrate the visually, aurally, mobility or neurologically impaired by providing an audio-book lending service. (ARG) • Through Fundación Telefónica, donation of IT equipment adapted for use by disabled people at the Lanín and Nahuel Huapi National Park information centres. • Launch of speaking text message service (which converts text messages into audio messages) for visually impaired users. • Development of a tele-support platform to allow distance assistance for dependents that could be included in numerous future rehabilitation, monitoring, leisure and corporate services, etc. In addition, the development of a teleinterpretation pilot service for sign language. (SPA)

GER: Germany; ARG: Argentina; BRA: Brazil; CHI: Chile; COL: Colombia; ECU: Ecuador; ESA: El Salvador; SPA: Spain; GLO: Global; GUA: Guatemala; IRL: Ireland; LATAM: Latin America; MEX: Mexico; NIC: Nicaragua; PAN: Panama; PER: Peru; UK: United Kingdom; CZE: Czech Republic; URU: Uruguay; VEN: Venezuela.

United Nations Global Compact: Progress Report

Telefónica signed up to the Global Compact Principles in 2002. Since then, the company has reported annually on its commitment to this initiative, on the application of the 10 Principles and on the evaluation of the results obtained in policies applied to achieve these Principles.

Most relevant GRI Indicator	Tool	2008 Progress
Human Rights Principle 1: Support and respect the protection of internationally proclaimed fundamental human rights within your area of influence Principle 2: Ensure that businesses are not complicit in human rights abuses.		
HR1, HR2, HR3, HR4, HR8, Q1.1, Q1.2, PA1, PA2, PA3, PA4, PA5, PA7	Business Principles	• The Company signed up to the 'Human Rights: A Call to Action', and *'CEO Statement'* promoted on the 60th Anniversary of the Universal Declaration of Human Rights
	Regulation to Extend Business Principles to the Supply Chain	• Implementation of the Supply Chain Evaluation Programme using RC criteria: over 1,100 evaluations and 55 audits carried out on suppliers in various countries
	Digital Inclusion Strategy	• Over 370 million euros dedicated to reducing the digital divide • 275 million euros invested in Universal Service Funds • Over 82% of Telefónica's 123 million mobile service customers in Latin America use pre-pay services • More than 230,00 people trained in new technologies • Growth in Proniño indicators: 156% financial investment, 82% educational centres, 103% beneficiaries (107,602 children)

Most relevant GRI Indicator	Tool	2008 Progress
		• Progress in disability divide: accessible web pages in Europe and Spain /development of tele-support platform / Spoken text message services/ new models of accessible fixed line and mobile terminals / Tele-interpretation centres for the deaf in Argentina, Brazil and Colombia
	Human Resources Audits	• These audits have been carried out in 17 countries
Labour Standards Principle 3: Uphold freedom of association and effective recognition of the right to collective bargaining Principle 4: Support the elimination of all kinds of forced or compulsory labour Principle 5: Support the abolition of child labour Principle 6: Support the elimination of discrimination in respect of employment and occupation.		
HR5, HR6, HR7, HR9, LA (1 to 14), IO3	Business Principles & Code of Conduct with Union Network International (UNI)	• 49% of the workforce are women (48.3% in 2007) • 16.9% of management and 46.6% of middle management are women (in 2007 these figures were 19.7% and 41.8% respectively) • 1,500 disabled people form part of our staff • 3 point increase in employee satisfaction up to 69% • 146,300 employees covered by collective agreements* • 134,000 employees vote in trades union elections** • Signature of the Telefónica España Collective Agreement 2008 – 2010

* Number of employees with collective agreements, where this agreement was negociated through trades unions, guilds, workers'representatives, etc.).
Agreement is understood to mean a framework agreement for a group of workers which specifies general labour conditions, their rights and responsibilities (salaries, hours, breaks, holidays, redundancy arrangements, definition of professional categories, salary revisions, etc.).

** Number of employees who participate in workers representative elections processes (free and guaranteed elections).

Most relevant GRI Indicator	Tool	2008 Progress
	Health and Safety Prevention Policy	• Almost 2,600 employee health risk evaluations were carried out / 30% of the workforce benefit from health protection (Atento data not included)
Environmental Principle 7: Businesses should support a preventative approach to environmental challenges Principle 8: Undertake initiatives to promote greater environmental responsibility Principle 9: Encourage the development and diffusion of environmentally friendly technologies.		
EN (1 a 30), PA8, PA11, IO7, IO8	Climate Change Office	• Good Practice Manual for Network Energy Efficiency drafted • 5% reduction in electricity consumption (Kwh / equivalent access) • Inclusion of energy variable in procurement procedures • Development of initiatives to provide efficient solutions for customers: telepresence, *Connected Household*, Energy Efficiency Service Buildings • Marketing efficient equipment: *Nokia 3110 Evolve* the first handset made from low-energy consuming, recycled material to be launched in Spain; *Universal Charger* launched in the UK • Implementation of renewable energy projects: 1, 437 installations
	Overall Environmental Management System	• Design of an Overall Environmental Management System, that conforms to the international ISO 14001 standard, to set management guidelines for all Group companies

Most relevant GRI Indicator	Tool	2008 Progress
		• Defining the Environmental Behaviour Index (EBI) based on ISO standard 14031 • Employee environmental training and awareness raising: 34,607 hours of training given • Drafting of an Operational Control Standard • 954 Environmental impact studies carried out (+10.67%) • Fostering recycled paper use: 683t (504t used in 2007)
Anti-corruption Principle 10: Work to fight corruption in all forms including extortion and bribery.		
SO (2 to 8)	Business Principles	• 69,219 employees trained in Business Principles (36,000 in 2007) • 1,300 Internal Audits and inspections carried out • Access to a single complaints channel for all company employees, following the incorporation of Telefónica Europe in 2008 • Risk Management Policy approved • Signature of the European Commission's 'European Transparency' Initiative • Transparency concerning corruption or related incidents

To find out more in detail about this information and the indicators associated with compliance with these Principles, please see our on line report (www.telefonica.com/cr08), GRI tables and verifications of the same.

www.telefonica.com

Annual Corporate Responsibility Report
Telefónica S.A. 2008

www.telefonica.com/cr08
If you have any comments regarding this report, please send them to: responsabilidadcorporativa@telefonica.es