Corporate Responsibility Report

2007

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

Spirit of Progress

Telefónica

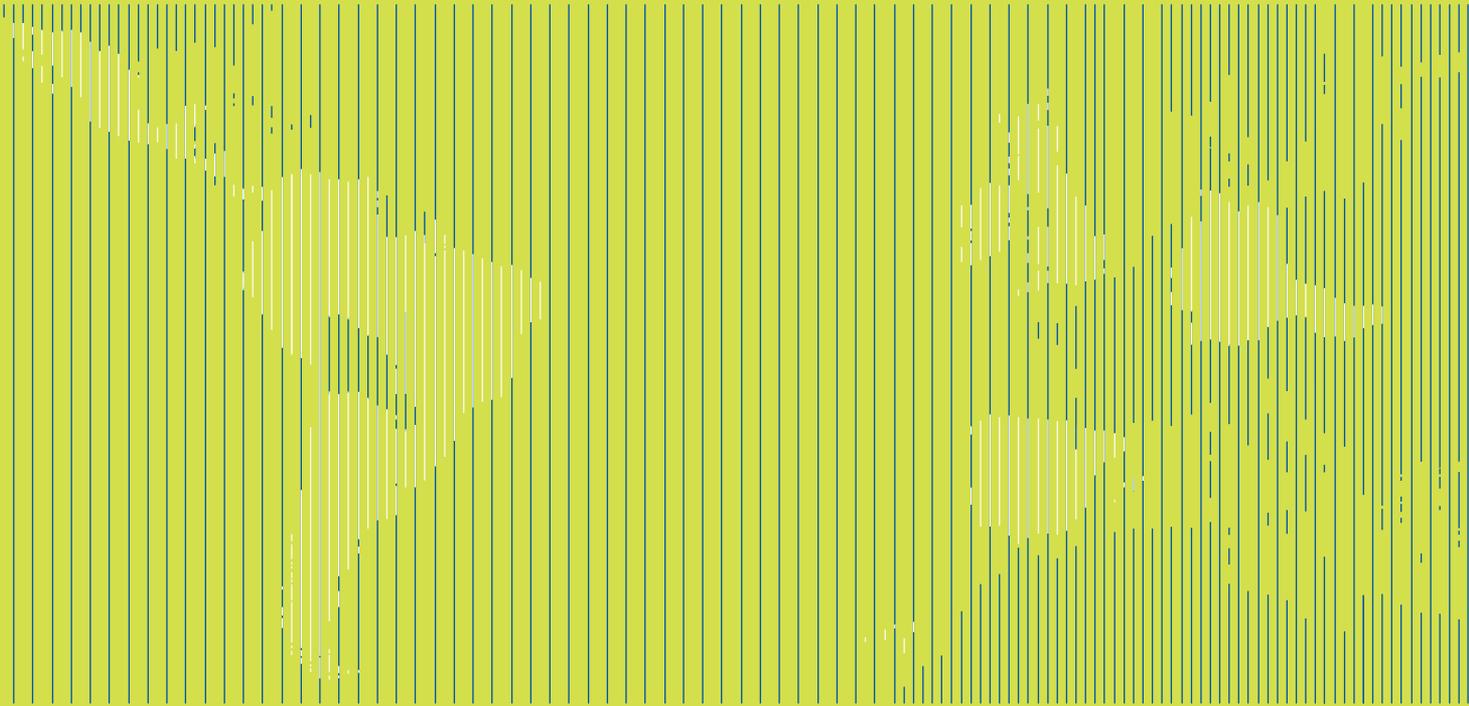# Telefónica's Corporate Responsibility Reports

2002	2003	2004	2005	2006	2007
		☑ GRI	☑ GRI	☑ GRI	☑ GRI
			☑ AA1000	☑ AA1000	☑ AA1000
					☑ LBG

Our Corporate Responsibility Reports present and quantify the social, economic and environmental impact of our activity in the countries where we operate, describing the initiatives and targets that contribute to the progress of these communities.

Germany (since 2006)
☑ AA1000

Chile (since 2003)
☑ GRI
☑ AA1000

Ireland (since 2006)
☑ AA1000

Czech Republic (since 2006)
☑ Data

Argentina (since 2003)
☑ GRI
☑ AA1000

Colombia (since 2006)
☑ GRI
☑ AA1000

Mexico (since 2006)
☑ GRI
☑ AA1000
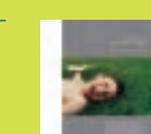
Venezuela (since 2006)
☑ GRI

Brazil (since 2003)
☑ GRI
☑ AA1000
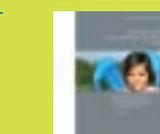
Ecuador (since 2006)
☑ GRI

Peru (since 2003)
☑ GRI
☑ AA1000

Central America (since 2006)
☑ GRI

Spain (since 1999)
☑ GRI
☑ AA1000

United Kingdom (since 2006)
☑ AA1000

( ) : First report published

☑ : Verification 2007

Index

Responsible Company

Responsible Progress

Social and Cultural Action

This report describes and quantifies Telefónica's social, economic and environmental impact in 2007 and sets targets for improved performance in 2008. At the same time, it lays out our corporate social responsibility (CR) strategy and the way the strategy is implemented.
This is a summary version of our full CR report 2007. The full report is available online, including all the information required by different stakeholders and the audit letter verifying the report, in an accessible, interactive format.

For more information:
www.telefónica.es/cr07

Letter
from the
Chairman

César Alierta
Executive
Chairman,
Telefónica
S.A.

Dear friends,

Telefónica's results in 2007 were spectacular in every sense. We won the confidence of our customers - providing more than 228 million telephony accesses during the year - and we managed our resources efficiently. As a result we increased profit by 43% on the previous year. These excellent results were reflected in our shareholder remuneration as well, with a yield of 42% for all those who kept their shares throughout 2007.

The year was also marked by our work to become a more responsible company and to build on relationships with many different stakeholders. In 2006, I announced that we had rewritten our corporate vision and Business Principles. This year I want to tell you about the five steps we have taken to turn them into a common culture of integrity and ethics across the world and to explain how we are converting worthy statements into action on the ground.

First, we folded Corporate Responsibility (CR) into the businesses in Spain, Europe and Latin America through our "Spirit of Progress" vision. Our employees worked hard to support initiatives that will help to improve people's lives using telecommunications technology and we aim to turn Telefónica into a strategic ally of economic, technological and social progress wherever we operate.

We have set ambitious targets to improve both customer satisfaction and our employees' workplace over the next few years. These objectives are inextricably linked. We cannot hope to become the operator of choice for customers, or society's most appreciated telephony business, unless we are seen to be the best place to work.

Second, we have introduced strengthened Business Principles across the Group. Some 36,000 employees have been trained in our code of conduct and we have run initiatives to clarify our policies on responsible advertising, child protection, data protection, environmental management, access for the disabled, compliance with ethical standards throughout the supply chain and control of spam. We won't stop there. Our target is to have trained 80% of our employees within the next 12 months.

For several years now we have argued that CR is about achieving business results appropriately and responsibly. By implementing the standards spelt out in our Business Principles we are trying to make sure that our activities live up to the best of ethical standards.

The third development of 2007 was to encourage customers to use new technology responsibly. We are talking to our customers about child protection, handset recycling, computer viruses and other security problems, and how to use mobile phones courteously in public places. We have made a start by posting messages on customer bills, our website, in brochures and in stores. The campaign will be rolled out extensively in 2008.

Telefónica also wants to make sure everyone can enjoy the benefits of Information and Communication Technology (ICT). Our goal is to break down barriers that may block access to ICT, be they economic, geographic or because of disability. In 2007 we continued to launch new commercial offers to match the needs of our diverse customers and to promote education in the use of technology, through programmes such as the Telefónica Foundation's EducaRed project.

We also published more Information Society Reports and developed institutional initiatives to stimulate the debate about how ICT can really promote social progress. Issues such as computer literacy, health, e-administration and the media were covered in a range of publications and events. These included the second Latin American conference on ICT and the Millennium Goals, held in Santiago, Chile by AHCIET and the Ibero-American Secretariat General. We also brought the world's biggest global internet event, the Campus Party, to Latin America. In 2008 this was held in Brazil for the first time with great success and it will be staged in Colombia shortly.

Fifth and finally, we remain committed to education and the communities we serve by investing in social welfare projects. In 2007, Telefónica donations reached nearly 90 million euros, as measured by the London Benchmarking Group. At this point I must highlight the Telefónica Foundation's Proniño programme,

which doubled the number of children it helps for a second year running, directly benefiting 52,000 young people by the end of 2007. In 2008 we want more than 100,000 children to have escaped from the dire conditions of child labour, to be in school, and to have more access to education through ICT.

I also should underline our firm commitment to the United Nations Global Compact. This initiative captures exactly what corporate responsibility means to Telefónica: an approach that takes account of all stakeholders, is simultaneously global and local, voluntary, and designed to promote excellence in corporate behaviour.

I would like to end this letter, which is published in each of the countries where we operate, by reaffirming our commitment to continuous improvement in CR. This improvement will be possible only with the understanding and support of our stakeholders. My most sincere thanks to all those who, with their opinions and suggestions, have helped bring us closer to achieving our vision.

César Alierta
Executive Chairman, Telefónica S.A.

In 2007 Telefónica created wealth worth
67,484 million euros

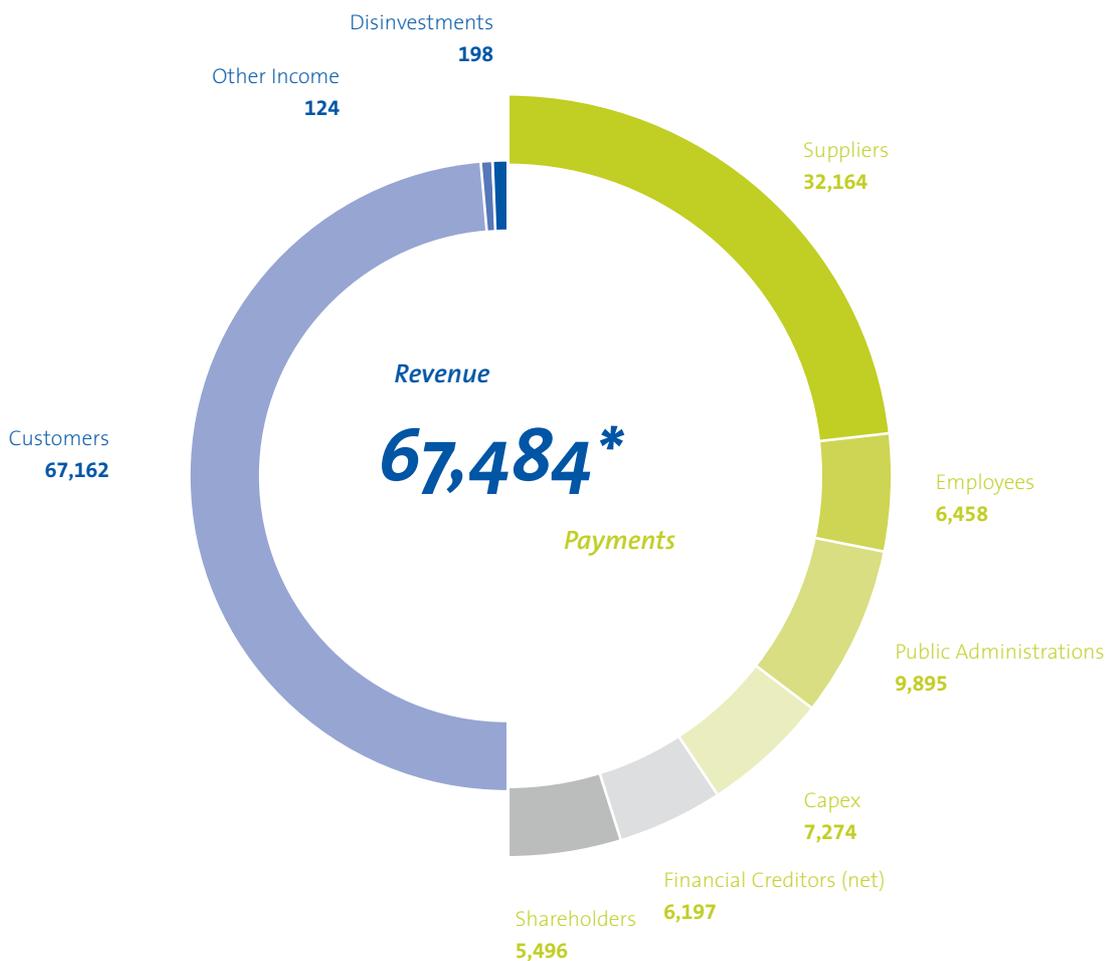# We aim to accelerate economic, technological and social development wherever we operate

Telefónica earned more than 67,000 million euros from customers in 2007.

Of this, 6,458 million euros went on employee wages, 9,895 million euros in tax to different Governments, 32,164 million euros in payments to suppliers and nearly 5,500 million euros in dividends to shareholders. This is the effect of wealth creation.

In 2007, we spent over 4,350 million euros on technological innovation. Of this, 594 million euros was invested in research and development, making Telefónica the fourth largest investor of telephony operators worldwide and the number one R&D spender across all sectors in Spain.

Disinvestments
198

Other Income
124

Suppliers
32,164

Revenue

67,484*

Payments

Customers
67,162

Employees
6,458

Public Administrations
9,895

Capex
7,274

Financial Creditors (net)
6,197

Shareholders
5,496

* Figures in millions of euros.
[1] 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 data could be subject to variations as a result of subsequent events and evolutionary effects that could cause changes in their content. This information has been consolidated on a payments basis, whereas the information on the following page of income has been calculated on an accruals basis. For a detailed analysis of the consolidated financial statements of Telefónica Group, the audited information is included in the annual accounts report.

Contribution to Progress

SPAIN	ECONOMIC IMPACT		REVENUE/GDP	MAGNITUDES	
SPAIN	Revenue	**20,806**	**2.0%**	Employees	53,300
	Payments			Suppliers	4,065 (87.7%)
	7,413 3,711 2,635 2,381			Accesses	46,374

LATIN AMERICA

	ECONOMIC IMPACT		REVENUE/GDP	MAGNITUDES	
ARGENTINA	Revenue	**2,368**	**1.3%**	Employees	21,493
	Payments			Suppliers	1,451 (95%)
	905 413 470 289			Accesses	19,471
BRAZIL	Revenue	**8,139**	**0.9%**	Employees	75,839
	Payments			Suppliers	3,231 (99.2%)
	4,117 936 3,519 1,087			Accesses	49,000
CHILE	Revenue	**1,825**	**1.6%**	Employees	14,613
	Payments			Suppliers	1,728 (90.7%)
	988 231 248 418			Accesses	9,377
COLOMBIA	Revenue	**1,585**	**1.3%**	Employees	6,369
	Payments			Suppliers	1,430 (89.4%)
	836 128 302 360			Accesses	10,974
ECUADOR	Revenue	**281**	**0.9%**	Employees	773
	Payments			Suppliers	390 (80%)
	173 24 48 60			Accesses	2,582
EL SALVADOR	Revenue	**152**	**1.0%**	Employees	424
	Payments			Suppliers	507 (75.7%)
	81 7 17 29			Accesses	1,201
GUATEMALA	Revenue	**184**	**0.8%**	Employees	4,550
	Payments			Suppliers	601 (80%)
	103 28 21 39			Accesses	2,212
MEXICO	Revenue	**1,571**	**0.2%**	Employees	16,589
	Payments			Suppliers	1,111 (93.4%)
	1,002 167 120 230			Accesses	12,538
NICARAGUA	Revenue	**78**	**1.9%**	Employees	316
	Payments			Suppliers	397 (76.6%)
	55 6 12 21			Accesses	812
PANAMA	Revenue	**173**	**1.2%**	Employees	496
	Payments			Suppliers	500 (80.8%)
	60 13 27 44			Accesses	1,200
PERU	Revenue	**1,506**	**2.0%**	Employees	14,554
	Payments			Suppliers	2,143 (89.8%)
	834 309 378 281			Accesses	12,174
URUGUAY	Revenue	**111**	**0.7%**	Employees	250
	Payments			Suppliers	445 (72.8%)
	94 7 0.3 15			Accesses	1,148
VENEZUELA	Revenue	**2,430**	**1.5%**	Employees	6,873
	Payments			Suppliers	1,130 (89%)
	961 135 652 370			Accesses	10,430

EUROPE

	ECONOMIC IMPACT		REVENUE/GDP	MAGNITUDES	
GERMANY	Revenue	**3,560**	**0.1%**	Employees	5,101
	Payments			Suppliers	2,179 (94%)
	1,539 466 29 850			Accesses	13,142
IRELAND	Revenue	**966**	**0.5%**	Employees	1,617
	Payments			Suppliers	824 (92.5%)
	365 108 114 117			Accesses	1,646
UK	Revenue	**7,792**	**0.4%**	Employees	13,221
	Payments			Suppliers	7,240 (98.6%)
	5,280 780 597 832			Accesses	18,453
CZECH REPUBLIC Including Slovakia	Revenue	**2,233**	**1.8%**	Employees	9,049
	Payments			Suppliers	481 (87.2%)
	373 255 438 281			Accesses	8,517

Legend: ▪ Purchases ▪ Salaries ▪ Taxes ▪ Investment

Note:
Revenue, personnel expenses, payment of tax in the country, purchases and investment (CapEx) in millions of euros.
Revenue correspond to all Telefónica business units in the Prountry.
Employees: direct employees of the Telefónica Group in the country (headcount at 31 December 2007).
Suppliers: suppliers awarded businesses in the country in 2007.
% in parentheses represents the % awarded to local suppliers (% awarded to suppliers domiciled in the country/total awards based on volume).
Accesses: number of fixed + mobile + ADSL + TV connections (thousand).
Revenue TEF/GDP: ratio between Telefónica revenue (contribution by the country to consolidated revenue of the Telefónica Group) and forecast GDP for the country (source: IMF).

In 2006 we set 29 ambitious targets
for 2007

Para más información:
www.telefónica.es/cr07/milestones

We present our Corporate Responsibility results 2007

As part of our commitment to transparency, we detail here our progress
on each of the year's CR objectives. In some areas progress has been good.
In others, there is more work to do.

CORPORATE RESPONSIBILITY

Introduce new Business Principles to the Group	Completed 60%	Management committees at 80% of Group companies ratified our Principles. More than 36,000 employees received Business Principles training.
Carry out a second CR analysis in Telefónica companies to monitor progress since 2006	Completed 100%	All Telefónica Group companies (fixed and mobile telephony) completed the CR analysis. The resulting information was used to prepare and verify this report.
Introduce management model based on key performance indicators, linked to compliance with Business Principles	Completed 100%	A CR self-assessment questionnaire was adapted to measure key performance indicators relating to CR policies and/or processes in the Company. It serves as a quantitative measure of performance.
Publish local CR reports in all countries	Completed 100%	Reports were published for all countries where Telefónica operates, excluding Uruguay.
Extend consultation projects to three Latin American and two European countries and consolidate consultation elsewhere	Completed 80%	The methodology and training was launched for executives in Brazil and Colombia and consolidated in Peru and Argentina. We also commissioned a Delphi study on Climate Change.

ENVIRONMENT

Introduce a standard management system Group-wide	Completed 40%	We drew up a second version of our Minimum Environmental Requirement Standards during the year, to make it easier to implement on the ground. It is pending approval.
Design and introduce a corporate strategy to combat Climate Change	Completed 80%	In 2007 we approved the Climate Change Strategic Plan. An internal procedure was developed to measure Telefónica's CO_2 footprint. This led to the first Group-wide inventory of greenhouse gas emissions.
Standardise operational control systems in Latin America	Completed 40%	Our 'Visual Fragility' methodology was introduced to the mobile operations in Colombia and Argentina. It has yet to be rolled out to other geographies. We also recognise a need to apply common standards to the measurement of electromagnetic fields, noise pollution and the segregation of waste.
Move towards ISO 14001 certification for environmental systems management	Completed 60%	Certification was obtained by the Columbian mobile business and an internal pre-certification audit was carried out at our Argentina mobile business.
Improve waste management systems in Latin America	Completed 40%	Waste Management Systems were introduced in some countries, but have yet to be integrated by region.
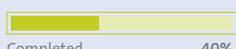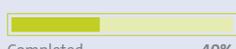
CUSTOMERS

Objective	Progress	Description
Implement the "Customer Experience" project in all geographic regions, to ensure we meet customer needs	Completed 80%	The "Customer Experience" project, headed by the General Manager of Telefónica O2 Europe, made further progress in 2007, influencing the commercial offer made to customers and improving customer services. We have set a target for a 4% improvement in customer satisfaction ratings for 2008.
Publish advice for "Responsible use of ICT" on the company's website and at point of sale.	Completed 60%	We published advice on how to make sure children use ICT responsibly and defined our campaign by setting out 5 principles for responsible use. These will be published in 2008.
Introduce the "Acceptable Use" policy for internet services	Completed 80%	The Human Resources and Corporate Reputation Committee drew up this policy in February 2007. We implemented it through specific project groups such as the anti-spam committee, the children's' committee, working groups on intellectual property and corporate standards for adult content. Our aim is to provide responsible access to the information society.
Introduce the Childhood Protection Policy, including management of gambling	Completed 60%	We made new commitments to self-regulation in promoting responsible use of ICT by children. We also launched educational initiatives and reached agreements with NGOs. The issue of gambling was not addressed.
Launch Responsible Advertising Policy	Completed 60%	We developed a draft policy for responsible advertising. We are currently fine-tuning the guidelines we send to creative agencies that may bid for our advertising campaigns.

EMPLOYEES

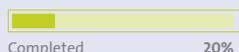| Objective	Progress	Description
Improve employee satisfaction (65% satisfaction rate among employees)	Completed 100%	The overall level of job satisfaction among Telefónica employees was 65%.
Expand "New Ways of Working"	Completed 100%	Our move into District C in Madrid was completed and we launched "New Ways of Working". In 2008, we aim to have 40% of our headcount under flexible working conditions.
Strengthen the Corporate University Model and launch the "virtual campus"	Completed 100%	More than 1,000 executives passed through the Telefónica University training programme in 2007. Our "virtual campus" is up and running.
Standardise measurement of accidents at work	Completed 20%	A preparatory study of health and safety was completed. Our learning has yet to be applied in an operational setting.
Develop the "employee promise"	Completed 80%	At the date of this report, each region had published a commitment to employees, tailored to its own culture and strategy.

SUPPLIERS
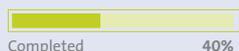
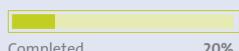| Objective	Progress	Description
Publish a responsible purchasing policy	Completed 100%	We approved and published the Telefónica Group's Responsible Purchasing Policy in 2007.
Launch CR self-monitoring among "at-risk" suppliers	Completed 40%	Throughout the year we introduced specific questions about responsible practice to our processes for listing authorised suppliers. A new self-monitoring model is on the agenda for 2008.
Launch selective audit phase for "at-risk" suppliers	Completed 20%	We plan to launch selective audits of at-risk suppliers in timed phases from 2008.
Launch purchasing policy from social suppliers	Completed 100%	We approved and published the Telefónica Group policy to purchase from socially responsible suppliers in 2007.

SOCIETY

Objective	Progress	Description
Identify products to promote "Digital Inclusion" in Latin America	Completed 80%	We successfully marketed new products designed to promote economic and geographic inclusion in Latin America. Our success was reflected in the increased uptake of mobile telephony and the growing number of fixed lines in Peru.
Approve 5 policies linked to the "Accessible Telefónica Plan"	Completed 60%	Major progress was made to provide better services for the disabled with handsets, websites, access to our new Top Stores in Spain, and in customer service and human resources. We also signed five new agreements to co-operate with major organisations representing people with disabilities, and created a task force to follow up the project.
Expand employee volunteering programmes, with common objectives between the Telefónica Foundation and Telefónica O2 Europe	Completed 100%	The Telefónica Corporate Volunteering programme grew significantly in 2007, ending the year with nearly 20,000 volunteers. Joint projects were run with Telefónica O2 Europe, such as the Proniño volunteers programme and the Community Awards.
Design sponsorship policy to favour socially responsible use of ICT	Completed 100%	Telefónica repositioned its sponsorship policy at a senior management meeting in July 2007. In 2008 we introduced Sponsorship 360. This folds social and environmental issues into sponsorship decisions.
Double the number of beneficiaries of Proniño	Completed 100%	In 2007 the Telefónica Foundation helped free more than 52,000 children from work to attend schools. The aim is to raise that number to 100,000 in 2008.

Our Business Principles inspire and define the way
we work. They are the basis on which we build our
reputation, earn the trust of our stakeholders and
maximize value for our shareholders and society in
the long term.

District C received the "2007 Award to Sustainability"
for its commitment to the environment.

Responsible Company

36,000 Telefónica Group employees received Business Principles training

In December 2006 Telefónica approved new Business Principles. We aim to build a new corporate culture based on our Vision and Business Principles.

The Business Principles management model is three-pronged: employee involvement, compliance policies and internal controls.

Involvement

Ratification

Following approval by the Board of Directors, the senior management of each Telefónica Group company and subsidiary ratified our Business Principles during 2007. The Principles will guide all future codes of conduct and substitute any previous ethics guidelines. By the end of the year, 81% of Telefónica companies had incorporated the Business Principles into their codes of conduct.

Internal communications

Internally we increased awareness of the guidelines with communication to all employees, emphasising the importance of understanding and applying our Business Principles.

To back this effort, we published related articles in the in-house magazine, SOMOS, distributed throughout the Group, and set up a dedicated intranet page. The online brochure, available in English, Spanish and Portuguese, has been downloaded more than 50,000 times. In some countries, local awareness campaigns were launched.

Training

In 2007 we launched a mandatory, online training programme for all employees. Our goal was to:

- Convey the relationship between the Group's Vision, Values and Business Principles.
- Explain the importance of following a set of basic business principles.
- Describe how their application can benefit brand image, culture and the working environment.

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

In all, 35,949 Telefónica Group employees had completed the Business Principles training by the end of 2007. The aim is for over 80% of the workforce to take part in the programme during 2008 (excluding customer service staff).

% OF COMPANIES OF THE GROUP THAT HAVE RATIFIED THE BUSINESS PRINCIPLES

Yes
91%

NA/A
4%

No
5%
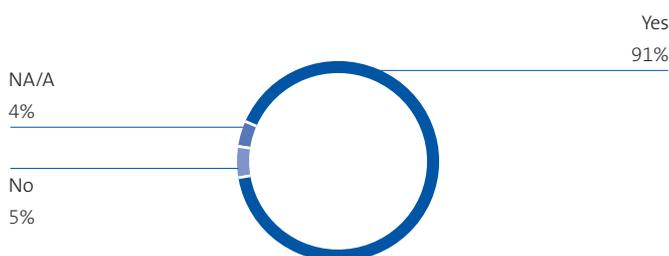
Note: Information obtained through the assessment of internal control over financial reporting required by Section 404 of the Sarbanes-Oxley Act

EMPLOYEES TRAINED ON BUSINESS PRINCIPLES

16,039

13,801

4,686

1,423

- Telefónica Latinoamérica
- Telefónica O2 Europe
- Telefónica España
- Other businesses
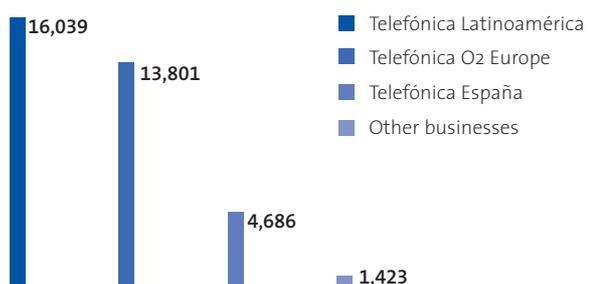
Note: Does not include Atento, which has put in place different training programs on the Business Principles aimed at the telephone operators.

Related rules

We want our Business Principles to influence and shape the way the company interacts with its stakeholders.

Against this backdrop, we approved the "Corporate guidelines for extending Telefónica Business Principles to the supply chain" in 2007, as well as our "Responsible supplier contracting guidelines". The Group is also working on initiatives related to data protection, responsible advertising, environmental protection and encouraging the responsible use of ICT by children.

At a country level, Argentina published a Manual for Living Side by Side, containing rules to encourage specific business behaviour.

Internal control

The final cornerstone of our Business Principles is compliance monitoring. This enables us to verify how our Principles have been implemented throughout the Group, and to measure our employees' compliance with the related rules and regulations.

Looking to 2008, our goal is to verify the degree of compliance on training and to subsequently check how well of the rules have been implemented to date.

The Business Principles Office and Mailbox
The Business Principles Office is drawn from Human Resources, Internal Audit, the General and Legal Secretariat and the General Technical Secretariat for the Chairman's Office departments, plus a representative from Telefónica Spain, Telefónica Latin America and Telefónica O2 Europe. The office is responsible for communicating the principles and related policies and monitoring compliance. It also manages the queries of our employees, suppliers and partners.

Issues can be raised either anonymously or on a named basis through the Business Principles Mailbox. To date, the service has handled 213 queries, mostly in response to information requests and in some instances to deal with inconsistencies observed in customer dealings or supplier contracting. Telefónica O2 Europe has investigated 10 claims of breach of compliance and around 300 disciplinary actions have been taken.

This mechanism already existed in Europe where Telefónica O2 Europe monitors our Business Principles. The function was introduced in all significant markets in Latin America. The composition of all the regional offices mirrors that of the corporate Business Principles Office.

Cartoon character Severo Contrario helps promote Business Principles in Colombia

Telefónica Móviles Colombia launched an awareness campaign in 2006 to improve the attitude and behaviour of Telefónica employees. This brought practice into line with our Group Business Principles. The slogan chosen for the project, which continued apace in 2007, was: "You're not Severo Contrario, You're Movistar". Severo Contrario behaves in a way that is the opposite to the way we want our employees to act. Along with the campaign, a "Foul play" reporting process was set up. This aims to promote whistle blowing about inappropriate behaviour, dishonesty and other breaches of our principles.

A regular e-newsletter was circulated to raise awareness of the effects of possible fraud and to show Severo Contrario misbehaving in situations that employees face every day. Our new staff can view short flash stories showing him, for example, neglecting hygiene or acting disloyally to the company.

The policy also increased detection of internal fraud. Whistle-blower reports were analysed and anyone who had acted against the Company's values were disciplined. As well as strengthening controls in business areas most susceptible to fraud, we noted a reduction in loss of income as a result. This initiative, along with others, has allowed Telefónica Móviles Colombia being rated as "Best Workplace" in the country.

Severo Contrario is a cartoon character created by Telefónica Móviles Colombia to help promote Business Principles.

We made significant progress in
Latin America

For more information:
www.telefónica.es/cr07/customers

Customer satisfaction reached 6.84 in 2007, up from 6.78 last year

We want to be a leader in customer satisfaction in all our businesses by the end of 2009.
One of the main ways in which we're working towards this is through our
"Customer Experience" programme, which aims to increase customer loyalty.

What our customers think

At the end of 2007 our overall Customer Satisfaction Index (CSI)
was 6.84, compared with 6.78 in both 2006 and 2005.

EVOLUTION OF THE GLOBAL SATISFACTION OF OUR CUSTOMERS*

6.78	6.78	**6.84**
2005	2006	**2007**
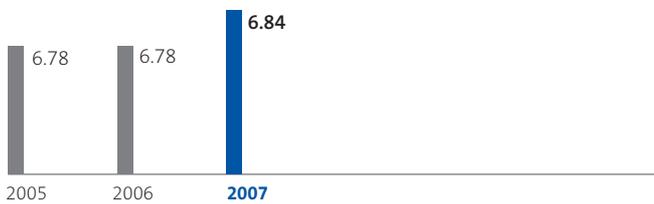
Refers to the degree of satisfaction of the customer in relation to the service
provided by the company, on a scale of 1 to 10, where 1 means not satisfied
and 10 means completely satisfied.

The CSI of Telefónica España in 2007 was 6.67. Satisfaction among
residential fixed line and large corporate customers was
significantly improved while our wireless business maintained a
more than 0.30 point lead over its competitors.

European users remain our most satisfied customers, with ratings
continuing to rise last year, reaching 7.37. This was driven by the
UK, which once again had the best customer satisfaction ratings
in the British market.

In Latin America the CSI improved by 4% year-on-year, reaching
6.62. The wireless business made an essential contribution to this
gain, with most operators improving their scores steadily
throughout the year. Meanwhile, the fixed-line business showed a
modest improvement.

"Customer Experience": a key programme in 2007

In 2007, we embarked on our "Customer Experience" programme,
spearheaded by our Executive Committee. Internally, its aim is to
raise customer satisfaction and, in turn, to increase loyalty.
"Customer Experience" is a global initiative based on best practice
at Telefónica O2 Europe.

Actions in 2007
The key activities in this project include identifying the points
where Telefónica and our customers interact, and creating
promises that will meet customer expectations.
To achieve this, we use a range of methods including satisfaction
surveys, specialised tracking tools and focus groups.

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

Recognition for Telefónica services

We are:

- offering the fastest ADSL Broadband, according to Spain's
  Asociación de Internautas (AI);

- the best-rated operator by internet users, says a survey of 2,200
  respondents by specialist internet website ADSLzone.net;

- the best value-for-money in the sector, in the opinion of the
  Spanish Consumers Union (UCE);

- the most respected fixed telephony company among
  consumers in Brazil, according to "Modern Consumer"
  magazine's survey of 8,000;

- rated as an "Ambassador for Excellence" in the UK by London
  Excellence and the Chartered Quality Institute.

Customer Satisfaction	Products

87.52% of new telephone lines were installed within the target deadlines set by region and type off line

For more information:
www.telefonica.es/cr07/customers

We improved processes and made the network more effective in 2007

Telefónica's Business Principles state: "We will offer our customers innovative and reliable products and services of high quality at a good price". To achieve this we follow the most widely recognised international quality standards.

For customers, quality means the availability of telecommunications services, efficiency and an instant response to resolve complaints.

What the customer sees: products and services

We invested heavily in 2007 to improve the quality of our products and services. Our focus was on better infrastructure, expanding coverage, increased transfer rates for voice and data, innovation – more than 4.35 billion euros were spent on research and development – and improving processes and controls.

The overwhelming majority of new lines were installed on time in nearly all countries. For instance, the percentage of fixed telephony connections installed on time was 99.3% in Spain and 99.9% in Brazil. For Broadband (ADSL) the figures were 97% in Spain and 86.5% in Latin America. Pay-TV connections were completed on time in 98.3% of cases in Spain and 83.1% in Latin America.

The GSM network achieved 99% efficiency in Spain and 97.5% in Latin America. And the efficiency of the Latin American CDMA network was 96.1%.

What the customer doesn't see: processes

Telefónica serves customers through more than 225 million connections in 20 countries every day. We do this through the work, directly or indirectly, of more than half a million people and the cooperation of over 28,000 suppliers. Operations of such complexity cannot be sustained without coordinating all the processes involved.

We encouraged several operators to secure ISO 9001 quality assurance certification for their processes in 2007. Others extended their certification to new processes or renewed existing certificates. Quality milestones were achieved in Guatemala, El Salvador, Nicaragua and Panama. Telefónica Centroamérica as a whole achieved quality certification for the first time. Telefónica Ecuador had its certification ratified. Mexico renewed its certification. Argentina extended its certification to new processes.

More than 2,000 Telefónica employees were trained in the Six Sigma continuous improvement methodology. As a result the Group now has 327 process improvement projects running worldwide.

Quality as a source of value in Mexico

In competitive markets where Telefónica is not yet the leading operator, we are banking on quality to set us apart and attract new customers to our services.

We reorganised our Quality Department in June 2007 with this in mind. The department is now responsible for analysing our quality standards and processes and adding value for the Company. Apart from setting specific targets, the team draws up an Annual Quality Plan to match initiatives to our wider business strategy.

Some projects undertaken to date include:

- Strengthening our "Red Carpet" customer service programme.
- Introducing an organisational structure based on our quality model.
- Renewing ISO 9001:2000 certification.
- Launching the first version of our quality performance indicators and training more than 20 specialists in different areas.

Our Customer Ombudsman in Spain and Brazil investigated a total of 108,824 complaints in 2007

For more information:
www.telefonica.es/cr07/customerservice

We had contact with customers more than 2 billion times during the year

Getting closer to the customer is at the heart of our strategy.
We opened new stores and points of sale and, importantly,
worked hard to improve our response to telephone queries and complaints.
Taking into account calls to call centres and visits to our websites, we had
more than 2 billion contacts with our customers in 2007.

Customer service channels

Serving as many customers as we do, it is vital to provide a range of contact points for our customers.

Stores and points of sale
We have expanded our network to 1,700 stores and 38,000 points of sale worldwide. Our aim is to make our customer service as personal as possible. As well as continued store redesigns, we have been working on new retail concepts in several countries. In Spain we are creating Top Stores, designed to bring the full Telefónica range to the attention of our customers in a convenient and simple retail format. We opened 12 Top Stores in 2007 and the target is to open another 103 in 2008.

Call centres
In 2007 we answered 1.7 billion telephone calls. Dealing with such a volume of calls is one of the major challenges we face as we try to improve customer service. We continued to develop our call centres and added new channels of communication for customers, including text, email and the internet. Speed of response remained a priority – 45.3% of calls were answered within 10 to 20 seconds. We also did our best to resolve queries and deal with them at the first point of contact.

On line channels
Most of our businesses in different countries are upgrading their websites to offer a line of communication with customers all day, every day. Overall, Group websites received more than 368 million visits during the year, although internet contact is far more frequently used in Europe than in Latin America.

Managing complaints is the most critical issue

Studies into customer perception of Telefónica show that we score lowest in the area of dealing with complaints, a common finding among telecoms companies.

In 2007 we received 20.9 million complaints, of which a third related to billing (6.1 million). To improve our response, we set up a number of new initiatives, including redesigned bills, customer information campaigns and internal process reviews. Some of these were required for ISO certification.

First year of the Telefónica ombudsman in Spain

The new ombudsman's office handles complaints about fixed and mobile telephony in our Spanish market. During the year customer services referred 1,291 complaints to the ombudsman. The office investigated 65% of these cases and decided in favour of the customer in 76% of them.

A survey in late 2007 revealed that 81.9%[1] of customers said they were happy with the ombudsman service. Complainants cited independent arbitration and personal attention among the features of the service they most appreciated.

[1] Quality survey of customers that visited the ombudsman's office at the end of 2007

<table>
<tr><td>Customer Satisfaction</td><td>Free and Open Competition</td></tr>
</table>

Our Business Principles include a commitment to open competition

For more information:
www.telefonica.es/cr07/competition

Telefónica's average market share is, at a global level, 73% in fixed telephony and 29% in mobile*

Telecommunications providers operate in a competitive global market shaped by the demands of customers and new technologies, but remain strongly dependent on local business.

Competitive climate

In telecommunications we are subject to industry regulation, competition rules and a range of other laws. Fixed telephony tends to be regulated most forcefully. The scope of regulation varies by business and country. It can have a direct and indirect impact on the future of our business, especially in countries that are inclined towards greater Government intervention.

Free and open competition
Our Business Principles commit Telefónica to free and open competition. In recent years we have introduced policies to ensure our Group companies comply with competition rules in different countries, including Spain, Brazil, the UK, Germany and Ireland.

Our policies highlight the causes, aims and main contraventions of antitrust rules, such as price collusion and the abuse of a dominant market position. They also outline ways to detect and prevent them. We intend to gradually introduce these policies to other countries.

During the year we demonstrated our commitment through scrupulous compliance with our obligation to answer queries from the competition authorities when we took part in the work of the Mergers & Acquisitions (M&A). The programme allows the M&A to assess any business practices that potentially restrict competition where standards so dictate.

Telefónica opposes European Commission (EC) decision

In July 2007 the EC decided to fine Telefónica 152 million euros for abuse of dominant market position. In 2003, Wanadoo took a complaint against Telefónica to Brussels for the alleged abuse of dominant market position in the Spanish Broadband market, citing a practice known as a "margin squeeze". The EC opened a formal investigation in February 2006, although it did not consider imposing preventative measures. This was despite continuous and exhaustive monitoring by the Spanish regulator, the Comisión del Mercado de las Telecomunicaciones (CMT).

Having complied scrupulously with the standards imposed by the CMT, we have rejected the EC's decision as unjustified and disproportionate on both legal and economic/market grounds.

CMT has publicly stated that it regards developments in the Spanish Broadband market as favourable to competition. In addition, the Spanish Broadband market supports cable operators that have no need of Telefónica's infrastructure to provide their services.

The Kingdom of Spain has lodged an appeal to annul the EC's decision. The aim of the appeal is not to defend Telefónica, but to defend the rights of the Spanish state to regulate telecommunications and to support the regulator CMT.

TELEFÓNICA GROUP MARKET SHARE*

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

* Internal source. Telefónica market share data by service calculated as a global average from the markets where we operate.

In 2007, the Group created
over half a million direct
and indirect jobs

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

Over 248,000 professionals are employed by Telefónica

By region, Latin America employs 66% of the people who work for us. Spain is the second largest region with 22%, and Europe accounts for 12%.

With over 123,000 employees, Atento employs more staff than any other Telefónica Group company.

Headcount Trend

At the end of 2007, the Telefónica Group had over 248,000 employees, 5.78% more than the year before. With an increase of almost 15%, growth was highest in Latin America.

The most significant factors affecting the size of our workforce during the year were:

- Job creation. The creation of new jobs at Atento (+16%) and t-gestiona (+37%) contributed to an increase in the total number of people working for us.

- Business integration. In line with the Group's reorganisation into three major regions, we integrated our fixed and mobile businesses.

- Disposals. Our European workforce fell by 13% following the sales of Endemol (Europe) and Airwave (UK).

- Redundancies. Telefónica Spain decreased its staff by 7% as part of an ongoing redundancy programme.

Professional Profiles

Excluding Atento, 41% of our workforce is employed in sales, 45% in service provision and 14% in support services. Almost half of our employees are female (48.3%), a figure that rises to 61.5% at Atento.

On average, our employees have been with the company for 5.8 years and are 31.3* years of age. Length of service is lowest at Atento, where workers stay for an average of 2 years. The average age of Atento employees is 27.

90% of our workforce has a permanent or indefinite employment contract*. Atento, with 30% of temporary workers of its workforce, is the highest percentage of all Telefónica Group companies.

Telefónica's management and executive workforce stands at 11.9% up from 7% in 2006, due to the additions of companies in Telefónica O2 Europe.

Indirect Employment

In 2007, the Group created almost 225,000** indirect jobs in Spain and Latin America, most of them by outsourcing some activities to partner companies.

PHYSICAL WORKFORCE BY REGION

	2007	2006	2005	% GROWTH (07/06)
Spain	53,300	57,058	60,405	−6.6
Europe	29,310	33,818	14,326	−13.3
Latin America	164,231	142,983	131,968	14.9
ROW	1,646	1,041	942	58.1
Total Telefónica Group	**248,487**	**234,900**	**207,641**	**5.8**

* Figures exclude Atento
** Calculation: Total cost of hirings in the year/average cost per employee on staff This figure includes Spain, Europe and Latin America.

INDICATORS OF EMPLOYEES 2007

	With Atento	Without Atento
Total Number of employees	**248,487**	**124,895**
Spain	53,300	40,284
Europe	29,310	29,310
Latin America	164,231	55,201
ROW	1,646	–
Job creation		
Number of incorporations	146,292	17,419
Number of voluntary redundancies	78,242	5,834
Number of mandatory redundancies	47,685	8,683
External rotation	50.68%	11.62%
Professional development		
Total expenditure on training (thousands of euros)	59,143	53,430
Hours of training	14,350,414	4,675,838
Diversity		
% of women	48.3%	35.2%
Number of employees with a disability	1,538	975

New ways of working

Thanks to the full connectivity of new technology, our employees can work whenever and wherever they need. At the end of 2007, Telefónica had nearly 30,000 customer service employees and more than 8,600 employees under flexible working conditions.

Healthy and Safety

To reduce the risk of work-related accidents, injuries and illness we rigorously comply with all health and safety regulations. In 2007, we carried out over 500 emergency drills, provided medical examinations for nearly 135,000 employees and undertook more than 2,700 risk assessments relating to the health of our employees.

Career development

We spent 59 million euros on employee training in 2007, providing more than 14 million hours of training for our workforce. Nearly 100,000 employees received individual training, 36.3 % more than in 2006.

The Telefónica Corporate University
The Telefónica Corporate University was opened in 2007. Our main campus at La Roca del Vallés, 30km outside Barcelona, is scheduled to open its doors by the end of 2008.

During the year, the University offered 39 senior level programmes to over 1,000 personnel, and launched our Virtual Campus where Telefónica professionals and managers studying at the centre can meet online.

Social Dialogue

In December 2007, the Company signed, with the Union Network International (UNI) and the spanish trade unions, UGT and CC.OO., a new code of conduct, replacing the existing code which had been in place since 2001. The new agreement, commits us upholding union and worker rights at all our operations, meaning Group employees are protected wherever they work.

Representatives of Telefónica, UNI, UGT and CC.OO. at the signing of the new code.

We aim to be the best place to work by 2010

For more information:
www.telefonica.es/cr07/employeesatisfaction

Employee satisfaction rose to 65% in 2007, up 3 points from the previous year

Giving employees a good rewards package that boosts their commitment to the Company is one of the aims of our "Employee Promise" initiative, designed to make Telefónica the best place to work by 2010.

In 2007, employee satisfaction improved substantially at Telefónica, more than two and half percentage points higher than the year before, according to our Employee Satisfaction Survey. In all, 67.6% of employees responded to the survey.

We have already started to see results in the best employer rankings, with Telefónica Colombia rated as the best workplace in the country. Ecuador Móviles, Uruguay Móviles, and Telefónica O2 Europe in the UK all rank among the top five best places to work. And in 2007, Telefónica O2 Europe in the Czech Republic won the "Most Desired Employer" award.

"Employee Promise": a key project in 2007
In line with our drive to improve employee satisfaction and become the best place to work, we extended one of our flagship initiatives last year. Following research of external best practice, Telefónica O2 Europe began testing the "Employee Promise". To date, each region has developed its own employee promise, tailored to its own culture and strategy. Every promise stems from a common set of priorities:

To create a performance culture
We want to continue creating an environment where performance is valued, encouraged and appropriately rewarded. To achieve this we need clear and transparent ways of evaluating performance. In 2007, 174,262 employees, or 70% of the workforce, were assessed against evaluation targets in the Group.

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

To attract global talent
We place particular emphasis on developing high-potential employees, encouraging them to develop into future leaders of the Group. In 2007, we invested more than 59 million euros in training, with employees receiving more than 14 million hours of face-to-face training. And over 1,000 employees participated in at least one strategic programme at Telefónica's Corporate University.

Challenges for 2008

We have set ourselves a range of targets in order to become the best place to work in 2008. These include:

- Stepping up our international mobility programme with more than 300 employees taking part, and achieving a 95% retention rate among the Global Talent Group

- Finding new ways of working that promote work-life balance and wellbeing, such as the new working practices in Telefónica's head office in Madrid, District C

- Developing a training programme on customer focus and leadership with Telefónica's Corporate University

- Implementing the global diversity project and carrying out initiatives that support the inclusion of different cultures, attitudes and gender

- Creating a system to support people who want promotion

EVOLUTION OF THE COMMITMENT OF OUR EMPLOYEES

	Total Company	Executives	Middle Management	Collaborators
2005	58%	79%	64%	57%
2006	62%	80%	70%	60%
2007	**65%**	**85%**	**76%**	**62%**

Employees	Diversity

19% of our executives are women and more than 1,500 employees have some form of disability

For more information:
www.telefonica.es/cr07/diversity

We have launched a global diversity project across Telefónica

Our competitive advantage depends on the diversity of our people. Their different backgrounds, experiences and viewpoints add individual and valuable contributions to our business. We also take responsibility for developing a culture that respects and includes everyone.

Our Vision is to value individual differences and to provide the best service possible by employing people who represent the diversity of our customer base.

Diversity and inclusion project at Telefónica

Telefónica's diversity and inclusion project, due to launch in 2008, has three key elements:

Raising sensitivity
- We aim to develop a culture of diversity and inclusion by spelling it out in our Employee Promise.
- Our Corporate University will play an important role in disseminating our policies to employees (1,635 professionals will take part in courses during 2008).
- We will support the project through internal communication channels such as intranets and the Group's internal communications magazine, 'Somos'.
- A community of people from around the world will represent employees at a corporate, regional and local level to identify issues of diversity and inclusion.

Measuring effectiveness
We must ensure our diversity and inclusion initiatives meet the needs of each region and business area by:

- Encouraging international job placement that takes account of gender and people with disabilities
- Measuring our employees' perceptions of our effectiveness through work climate surveys
- Tracking public opinion of Telefónica as a source of job creation

Monitoring policies
We aim to monitor progress to ensure that diversity policies are being used when it comes to job selection, hiring, compensation, talent management, training and internal promotions. This should guarantee that our processes are transparent and always reward professionals on merit, skills and competence.

A snapshot of diversity at Telefónica

48.3% of our workforce is female, a figure that rises to 61.5% at Atento. Broken down by job title, 33%* of management and executive posts are held by women.

Women in senior and middle management positions:

- 2005: 21.8%
- 2006: 22.7%
- 2007: 32.8%

Over 1,500 of the people who work for Telefónica have some form of disability. This accounts for just 0.65% of the global workforce.

Tony's story

In the UK, Telefónica O2 Europe is trying to become a more open and accessible company that rewards employees regardless or their background or skills.
Tony, who suffers a visual impairment, joined the company as a consultant in the Customer Relations Department.

Printed application forms can put off visually impaired people, so one of the things that attracted Tony to Telefónica O2 Europe was the online selection process. Tony also received support from Human Resources, which adjusted the facilities for the job interview as he requested. Additional modifications were made during his training. For example, Tony was supplied with a flat screen computer monitor and special text visualisation software. Based on his experience to date, Tony would recommend the company as an employer. He says: "The people are great and always ready to help".

* Does not include Telefónica O2 Europe which does not have a comparable workforce hierarchy. Does not include Atento data.

We will evaluate over 1,000 suppliers in 2008

For more information:
www.telefonica.es/cr07/suppliers

We launched Corporate Guidelines to filter our business ethics deep into the supply chain

In 2007 we also approved our General Corporate Guidelines - Goods and Services and Social Suppliers. This aims to encourage purchasing from businesses that seek to employ people at risk from social exclusion.

Sector collaboration

Supply chains are becoming wider and more complex. As with the textile, toy and PC industries supply chains, the telecommunications sector has come under scrutiny in efforts to stamp out unethical practice.

What can be difficult or impossible for a single manufacturer or supplier to achieve becomes feasible when an entire industry unites. A joint sector effort therefore promotes sustained growth and helps to preserve the global environment.

For this reason we do not take an isolated approach to issues of corporate responsibility in the supply chain. Instead, we cooperate through the sector initiative set up by GeSI (Global e-Sustainability Initiative).

Together with the Electronic Industry Code of Conduct (EICC), GeSI has developed a software application tool called eTASC, which analyses and monitors supply chain accountability and performance in the ICT sector. Since e-TASC was launched in June 2007, nearly 100 suppliers have been asked to use the application.

Corporate guidelines for the supply chain

Some time ago, with the aim of extending our business ethics to the supply chain, we identified two major issues: we need to know our suppliers well and we should help them adopt good corporate responsibility practices. We have agreed several lines of action. They include a set of Group-wide guidelines for extending our Business Principles to the supply chain, training for suppliers, a system for supplier self-evaluation and, thus, new ways to identify risk and to develop joint improvement plans.

Identifying CR risks
In 2006 we analysed social responsibility risks in our supply chain. We used the following criteria to concentrate our efforts on the most risky areas: product visibility vis-à-vis the customer, links to our brands, media presence, country of operation, and the nature of the product/service supplied.

Our analysis highlighted the fact that we need to pay closest attention to the supply of telecommunications handsets and equipment, network installation and maintenance services, merchandising products and telemarketing activities.
Using these criteria we found that, at the end of 2007, 2,453 Telefónica suppliers provide us with products or services that are risky in terms of CSR, less than 5% of the total.

Since 2007, all businesses added to Telefónica's official supplier catalogue must answer a series of brief questions related to social responsibility. These are designed to identify potential risks within the supply chain. During the year, 1,167 suppliers filled out our questionnaire.

Supervision and improvement
We have prepared a mandatory, online self-assessment questionnaire for suppliers of products considered risky in terms of social responsibility. Suppliers must answer the questionnaire when they sign up for, or renew their membership of, Telefónica's authorised supplier catalogue, or when they are awarded a tender for the provision of a risky product or service. Over 1,000 suppliers are expected to fill out the questionnaire in 2008.

The questionnaire contains around 50 questions on employment, ethics, workplace safety and health and environmental issues. These questions are based on the standards issued in the UN's Universal Declaration of Human Rights, the International Labour Organisation's conventions (on child and forced labour) and various sets of environmental legislation.

Helping Latin American SMEs implement a CSR strategy

A small-to-medium enterprise (SME) initiative kicked off in Chile last year and will be rolled out in Argentina, Brazil, Colombia and Peru in 2008.

The programme consists of CR awareness training and technical workshops using materials and methods developed by consultants at Forum Empresa (www.empresa.org).

In addition, Telefónica Chile invited three SMEs involved in the course to take part in an international project run by the Global Reporting Initiative (GRI) and the German cooperation agency, GTZ, or "Transparency in the Supply Chain".

We helped companies prepare their first CR reports and, as a result, Chilean companies became global pioneers in the preparation of Sustainability Reports. They also had the opportunity to share their experience at the Mid-Term Conference held in Eschborn (Germany).

Companies that also supply to the rest of the telecommunications sector can choose to complete either the GeSI or Telefónica questionnaires.

Where cases demand, we also conduct face-to-face or telephone follow-up interviews. Improvement plans are also drawn up with suppliers at risk of breaching our Business Principles.

Based on their self-assessment evaluations, suppliers deemed to be high risk may be audited on site to analyse their policies and procedures. We expect to audit between 5% and 10% of suppliers classified as at-risk in 2008.

Training and information
Telefónica is aware that the inclusion of CR criteria into buyer and supplier negotiations is a departure for some of our employees who are used to thinking in terms of quality and price. For this reason we are making presentations to our buyers to help them fully appreciate the importance of spreading our Business Principles through the supply chain.

Purchasing from socially responsible suppliers

Telefónica has approved guidelines to help us enter into contracts with the most responsible suppliers. Our aim is to encourage purchasing from businesses that promote social inclusion in the workplace. We want to be associated with companies who work with special employment centres, non-profit organisations, and companies associated with immigrants, victims of domestic violence, former prisoners and the families of children who benefit from our Proniño initiative to stamp out child labour.

Telefónica plans to adapt its tender conditions for these groups of socially responsible suppliers:

- Extending to them the benefits available to Group companies that also act as suppliers

- Benefits include the right of first refusal when tendering and exemption from fees payable for using our e-commerce platform.

Fulfilment of payment commitments

To improve compliance with our payment commitments, we continued to rollout the accounting system SAP in Latin America during the year. We made progress with the introduction of e-billing and we reinforced the control mechanisms used by our financial intervention teams.

Given the average payment period agreed with our suppliers (106 days in Spain and 52 in Latin America), we paid on time 95% of the time in Spain last year. In Latin America, bills were paid on time 78% of the time. There is no equivalent data available for our European operations.

In Spain, late payments rose to 12.3% by financial value invoiced, or 4.8% in terms of number of invoices. This reflects changes to payment procedures and timings as directed by our Working Capital Management Plan. In Latin America, late payments accounted for 21% of invoices, or 24% in terms of total value billed. This was four and five percentage points higher respectively than in 2006 and was due to accounting adjustments made during SAP implementation.

PERCENTAGE OF INVOICES PAID LATE IN 2007

	Invoices	Amount invoiced
Spain*	5%	12%
Latam**	21%	24%

* Data based on over 719,000 invoices issued to Telefónica's fixed and wireless businesses in Spain, for a total volume invoiced in excess of 8.056 billion euros.
** Data based on over 1,046,000 invoices issued to Telefónica Latin America (the percentage is the average across 10 countries), and total financial value invoiced, in excess of 13,689 billion euros.

In 2007 we set up a dedicated corporate environmental unit, backed by regional committees, to ensure we carry out our programme wherever we operate

For more information:
www.telefonica.es/cr07/environmentalmanagement

More than 50% of Telefónica's mobile operations have ISO 14001 environmental certification

We are introducing a four-year environmental action plan focusing on Climate Change, Environmental Management, Waste Management, Responsible Network Rollout, and Telecommunications and Sustainable Development.

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

Organisation and management

We have been committed to sustainable business development since 1996 and our strategy is underpinned by a series of international agreements. Our efforts have been reinforced by our new Business Principles, which include this explicit environmental promise: "We are committed to sustainable development and environmental protection and to minimising any negative fall out from our operations".

To make sure that our environmental management policy is developed consistently across the Group, the Board of Telefónica S.A. decided to set up a dedicated corporate environmental unit in 2007. We also appointed environmental committees in each of our markets with representatives from across the business.

During the year we approved the Telefónica environmental action plan, setting specific targets for 2008-2012. This has five main themes and a number of objectives:

- Climate Change: improve energy efficiency in our operating processes and develop telecommunications services that reduce CO_2 emissions.
- Environmental Management: introduce consistent practice by integrating policies into all operations and throughout the supply chain.
- Waste Management: follow best practice through international agreements with accredited organisations.
- Responsible network Rollout: ensure compliance with environmental standards and take account of local sensitivities when developing fixed and mobile installations.
- ICT & Sustainable Development: develop telecoms services that help citizens to save energy. Reduce air and noise pollution and contribute to the prevention of natural disasters.

Environmental management

Telefónica's environmental management practices follow a five-stage model, based on the introduction of previous minimum environmental standards.

In 2007, we began the process of replacing old internal rules, first introduced in 2004, with global General Environmental Management Standards. These set specific benchmarks to guide the operations of our various businesses. One noteworthy change is the introduction of a standard for verifying legal requirements, enabling us to identify all laws applicable to the Group's activity.

In addition, we strengthened the environmental management of our operations in Latin America during the year. The mobile business in Colombia achieved ISO 14001 certification and the mobile businesses in Spain, Peru, Mexico and Ecuador all passed their follow-up audits.

Although there are still significant differences in terms of progress across all our companies, the gap is closing every day. Until now, our mobile businesses have taken the lead in gaining environmental certification. Looking ahead, we plan to put the environmental spotlight on the fixed telephony business. Our newly created environmental business unit and global standards will play a vital role in meeting this challenge.

In 2008 Telefónica will develop a Global Environmental Management System and an internal multi-disciplinary audit team to guarantee its effective rollout.

ENVIRONMENTAL DIAGNOSIS 2007

	Spain Fixed	Spain Mobile	Argentina Fixed	Argentina Mobile	Brazil Fixed	Chile Fixed	Chile Mobile	Colombia Fija	Colombia Mobile	Ecuador Mobile	El Salvador Mobile	Guatemala Mobile	Mexico Mobile	Nicaragua Mobile	Panama Mobile	Peru Fixed	Peru Móvil	Venezuela Mobile	Germany Mobile	Ireland Mobile	United Kingdom Mobile	Czech Republic
Commitment of the organisation	:)	:)	:I	:)	:I	:)	:)	:)	:)	:)	:)	:)	:)	:)	:)	:)	:)	:)	:)	:)	:)	:)
Fulfilment of legal requirements	:)	:)	:I	:)	:I	:)	:)	:)	:)	:)	:)	:)	:)	:I	:I	:)	:)	:(	:)	:)	:)	:)
Operational control	:)	:)	:I	:)	:I	:I	:I	:)	:)	:)	:I	:)	:I	:I	:(	:)	:)	:(	:)	:)	:)	:)
Environmental System	:)	:)	:(	:I	:(	:I	:)	:)	:)	:)	:I	:(	:(	:(	:(	:)	:)	:(	:)	:)	:)	:)
Internal audit	:I	:)	:(	:I	:(	:(	:(	:I	:)	:)	:(	:(	:)	:(	:(	:I	:)	:(	:)	:)	:)	:)

Involving everyone in environmental protection

Employee training and awareness is crucial to a successful environmental management policy. Last year we reinforced environmental training at all business units, launching awareness campaigns at several Group companies. We aim to encourage more responsible use of resources like energy, water and paper, and to instil good recycling practices at every location. This year we are planning to launch a common environmental awareness campaign across the Group.

We are also aware of the importance of getting the environmental message across to our suppliers and want to filter down our environmental principles to the entire supply chain. We now add environmental clauses to supplier contracts systematically and have in place a procedure for evaluating suppliers that pose risks to the environment.

Control of environmental issues

The biggest issues facing Telefónica in environmental and social terms are: energy use, waste from electrical and electronic equipment, hazardous waste such as batteries, the noise produced by network installations, electromagnetic emissions, and the visual impact of our infrastructure. We exercise preventative and corrective control over all these concerns. Installation planning and maintenance play a crucial role.

For example, in 2007 our operations produced 3,251 tonnes of electrical and electronic equipment waste. We manage each type of waste as a hazard and seek to find alternative disposal options using certified waste handlers in countries where we operate. Whenever possible, we opt for recycling. We also have equipment use guidelines designed to minimise waste generation by promoting the three 'Rs' - reduce, reuse, recycle.
In 2008 we will encourage our three geographic regions to share best practice in environmental control.

OUR ENVIRONMENTAL MANAGEMENT MODEL

+Audit:
1 +Initial internal diagnosis
2 +Environmental requirements
3 +Planning
4 +Implementation and operations
5

CONTROL OF ENVIRONMENTAL ASPECTS IN TELEFÓNICA

	2007	2006
Operations electricity (MWh)	3,375,908	3,230,861
Offices electricity (MWh)	925,281	932,290
Water (Ml)	5,508,661	2,354,062[1]
Facilities fuel (Ml)	12,016	12,294
Vehicles fuel[1] (Ml)	67,838	23,905[1]
Paper consumption (t)	8,131	10,550
Electronic and electrical systems wastes (t)	3,251	5,477

[1] No data available in all the operations in 2006
MWh = Megawatts 7 hour
Ml = Thousands of litres
t = ton

Last year we carried out 15,167 measurements
of radio wave emission levels

For more information:
www.telefonica.es/cr07/responsiblenetworkrollout

In 2007 we invested over 5.2 million euros to minimise the visual impact of network infrastructure

Over 400 adjustments were made to items of infrastructure during the year to improve visual impact.

Environmental and sustainability criteria are used in all our network planning, construction and maintenance processes.

Blending into our surroundings

Over the last few years we have developed ways to reduce the environmental impact of our network infrastructure. The aim of our policies is to blend our operations into their surroundings. Firstly, we use existing infrastructure to avoid new construction. In 2007 we were able to avoid construction of 4,674 new facilities, mainly telecommunications masts.

When new infrastructure is unavoidable, our priority is to blend as unobtrusively as possible into the landscape. In the mid-1990s Telefónica developed a method to evaluate the visual impact of masts, using a tool called "Visual Fragility (VF)". VF helps us determine where we need to adapt infrastructure visually. In 2007, we adapted 413 pieces of infrastructure with high VF indicators to correct or reduce their impact, at a cost of 5,268,441 euros.
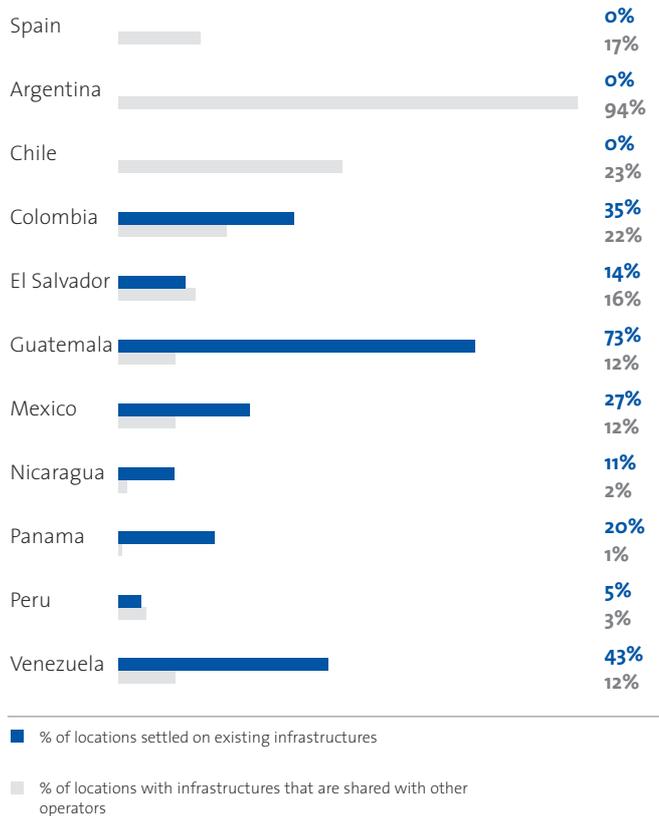
We also share infrastructure with other operators and currently have joint operations at 6,398 facilities.

The Telefónica Group met legal obligations in 2007 by carrying out 611 environmental impact studies when installing new facilities.

Noise control

Another environmental issue we work hard to control is noise pollution. We do this because of the local impact of noise generated by our mobile and fixed telephony network installations. In 2007 we carried out 980 acoustic surveys and took remedial action in 54 cases, at a cost of 941,795 euros. We received 38 noise pollution complaints in 2007.

INITIATIVES FOR THE REDUCTION OF THE VISUAL IMPACT

Country	% of locations settled on existing infrastructures	% of locations with infrastructures that are shared with other operators
Spain	0%	17%
Argentina	0%	94%
Chile	0%	23%
Colombia	35%	22%
El Salvador	14%	16%
Guatemala	73%	12%
Mexico	27%	12%
Nicaragua	11%	2%
Panama	20%	1%
Peru	5%	3%
Venezuela	43%	12%

■ % of locations settled on existing infrastructures

▢ % of locations with infrastructures that are shared with other operators

MEASUREMENT OF NOISE LEVELS IN TELEFÓNICA'S NETWORK

Spain	**215**
Argentina	**198**
Chile	**9**
Colombia	**78**
Ecuador	**315**
Peru	**163**

■ Number of measurements

MEASUREMENT OF ELECTROMAGNETIC EMISSION LEVELS[1]

Spain	**9,525**
Argentina	**1,301**
Chile	**1,358**
Colombia	**10**
Ecuador	**286**
Peru	**30**
Venezuela	**2,650**

■ Number of measurements

[1] Mobile telephony operators

Radio frequency and emission levels

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

Although mobile phone networks account for only 2% of total RF emissions into the environment, there is considerable public concern about the possible long-term health effects of masts and base stations. The World Health Organisation (WHO - www.who.int) states that, given the very low levels of exposure, and based on the results of research trials conducted so far, there is no persuasive scientific evidence that the weak RF signals emitted by base stations have any adverse effects on health.

WHO has also set out international standards, in cooperation with the International Commission on Non-Ionizing Radiation Protection (ICNIRP), on the exposure to electromagnetic fields and emissions from base stations and mobile handset aerials.

We monitor and control the level of RF emissions from our network infrastructure. In 2007 we took 15,167 emission measurements to guarantee the safety of our installations.

Dialogue and transparency

In keeping with our principle of transparency, we have an ongoing dialogue with stakeholders on the issue of health. We regularly provide the scientific community with solid and proven information together with documentation from the official bodies that have jurisdiction over health and the telecommunications industry.

We also respond to information requests through a wide range of media, including web pages, and run public open days in cooperation with consumer associations and user groups.

Telefónica in Ecuador informs public about electromagnetic fields

In 2007 Telefónica's mobile operation in Ecuador, which is both 14001:2004 and OHSAS 18001:1999 certified, ran an information campaign on electromagnetic fields.

We organised over 150 community meetings across the main provinces of Ecuador. These public forums addressed queries and explained in simple terms the effects of telecommunications antennae on health. We also discussed latest developments, scientific research and new publications, and explained the WHO regulatory framework and relevant Ecuadorian legislation, including guidelines for protecting people from non-ionizing radiation generated by the use of radio frequencies.

In addition, we provided community training on environmental issues such as climate change and debated the so-called Green Ecuador project's potential effect on climate change and living standards.

In 2007, we also invited the environment protection authorities to events to discuss the telecommunications sector and related environmental issues. One of the priorities was to address questions about antennae, electromagnetic emissions and health matters.

Responsible Progress

"We want to enhance people's lives, the performance of businesses and the progress of the communities where we operate, by delivering innovative services based on information and communication technologies."

Spirit of Progress

In 2007 we made a net contribution of 161 million euros to make telecommunications services accessible to all in Latin America

For more information:
www.telefonica.es/cr07/digitalinclusion

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

The best way to contribute to narrowing the digital divide is by doing our job as well as we can. Efficiency, effectiveness, innovation and investment in developing networks will ultimately bring more services to more places at better prices. We also work with different Governments on projects to promote digital inclusion.

Universal Service

We believe that a Universal Service can promote equality, solidarity and even social integration. It is in everyone's interest that universal service obligations are laid down in governmental social policies whenever a country's economic and social conditions allow.

This option works best in a free telecommunications market such as Europe where there are multiple operators and networks. It works less well in areas where the financial onus of universal service falls on a single company or technology.

Our contribution in Europe
Telefónica's statutory Universal Service obligations in Spain were originally due by 31 December, 2007. The Ministry for Industry, Tourism and Commerce has extended this deadline for one year.

At the end of 2007, the regulator CMT recognised that various operators would have to share a total net cost of 284 million euros for Telefónica's provision of Universal Service in Spain for the years 2003-2005. In addition, Telefónica Spain estimates the value of further investment in 2006 at 131 million euros. The net cost for 2007 has yet to be assessed.

In Europe, one of the countries where we are obliged to provide Universal Service is the Czech Republic. Since January 2007, the state budget has paid the net cost of providing services to residents on low incomes or citizens with special needs. In addition, it is expected that the Parliament will pass the direct compensation from the State budget for the total scope of the Universal Service by the end of 2008.

Our contribution in Latin America
In Latin America, our companies are involved in a number of public sector initiatives to provide universal telephony services. During the year Telefónica contributed net 161 million euros to Universal Service Funds in Argentina, Brazil, Peru, Colombia and Venezuela. This is equivalent to 1% of our revenues in each country, excluding Colombia.

The second Latin American conference on ICT and the Millennium Goals, organised in September 2007 by AHCIET and the Ibero-American Secretariat General (SEGIB) concluded: "It is urgent that Governments collecting Universal Service Funds dedicate them to digital inclusion projects".

Initiatives for rural communities

New Broadband service for 100,000 Spaniards

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

Based on LMDS/Wimax and satellite technology, our new service will allow us to rollout Broadband at speeds of up to 2Mb in areas where ADSL would not be feasible, due to the low population density, the local topography or the excessive costs involved. The same solutions work for both voice and internet access.

DIGITAL INCLUSION IN LATIN AMERICA 2007

	Argentina	Brazil[1]	Chile	Colombia	Ecuador	El Salvador	Guatemala	Mexico	Nicaragua	Panama	Peru	Uruguay	Venezuela
Geographical Inclusion													
Geographical coverage	30%	13%	32%	8%	20%	80%	15%	27%	49%	60%	12%	65%	17%
Population coverage	88%	91%	93%	70%	85%	77%	65%	88%	80%	68%	68%	80%	94%
Accumulated supply[2]	9,745	84,392	n.a.	39,447	n.c.	n.c.	n.c.	n.c.	n.c.	n.c.	9,442	n.c.	18,514
Economic inclusion													
% Prepay fixed	25%	22%	7%	2%	n.c.	n.c.	n.a.	n.a.	n.a.	n.c.	62%	n.c.	n.c.
% Prepay mobile	64%	81%	75%	79%	84%	81%	88%	94%	89%	92%	89%	83%	85%
Public telephones	108,804	251,000	22,209	12,969	52,027	n.c.	n.c.	n.c.	n.c.	n.c.	199,514	n.c.	–

[1] Data of mobile telephony coverage for Vivo, Joint Venture with Portugal Telecom.
[2] Contributions to the universal service fund (thousands of euros).

Economic and geographical inclusion

Latin America has one of the highest levels of social inequality anywhere in the world. In Europe, the population density and level of economic development tends to ensure services are available in all areas. But in Latin America some social groups or rural areas have no access to technology. With 18 years of experience in the region Telefónica has a clear understanding of this digital divide. It creates barriers in two ways:

Economic inclusion
The economy can act as a barrier, cutting off poorer sections of society from mobile telephony, Broadband and handset technologies because of service costs. We try to tackle this economic divide through product choice.

At the end of 2007 more than 81% of Telefónica's 102 million mobile customers in Latin America used pre-pay products that allow them to keep control of their expenditure.

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

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

This social initiative began in September 2006 and has so far brought public telecoms services to more than 180 locations throughout Peru, benefiting more than 62,300 residents. The programme won the 2007 prize for Business Creativity in the public services category, awarded by the Peruvian University of Applied Sciences.

In addition, the rollout of GSM networks continues to make handsets cheaper.

By the end of 2007 we had more than 6 million pre-pay fixed lines incorporating usage controls. These made up 25.9% of fixed-line connections in Latin America and included nearly 595,000 public telephones.

Geographical inclusion
Geographic location may also prevent rural communities from accessing services because of higher service provision costs. However, thanks to the rollout of the wireless network, isolated areas are gradually gaining access to telecommunications networks.

In 2007 we invested 3.343 billion euros in our Latin America market, an increase of 18.9% on 2006. Our budget was used to:

- Intensify sales and marketing activity in the fixed-line business and provide improved Broadband and TV services to the region.

- Expand GSM network capacity and coverage in the mobile business.

- Acquire the mobile network Spectrum in Venezuela, Brazil and Panama to extend coverage and guarantee service quality in the busiest areas.

We developed a range of initiatives to expand coverage to rural areas and bring people closer together through telecommunications in 2007. These included:

- The IRIS project in Peru, which aims to expand fixed telephony coverage using wireless technology.

- Installing a free base station in one of Chile's most sparsely populated areas every six months until 2010. This follows a formal agreement between Telefónica and the Chilean Ministry for Transport and Telecommunications.

We launched ICT training for teachers, pupils
and parents through the Telefónica
Foundation's EducaRed programme, providing
395,330 hours of onsite and online tuition
during the year

For more information:
www.educared.net
www.fundacion.telefonica.com

Telefonica Foundation's EducaRed programme helps parents, teachers and pupils use ICT

Technological and economic factors are not the only causes of the digital divide.
Lack of skills and knowledge also play a part, particularly in developing countries and
among the elderly and disabled.

In 2007, the Telefónica Foundation's EducaRed programmes helped over 500,000
people learn how to use new technologies and we provided free classes at nearly
400 'info centres' in Latin America.

We set up EducaRed in Spain in 1998, in partnership with the main associations in the education community. Its objectives are two-fold: to contribute to improving education standards, and to use new technologies to foster equal opportunities. At the heart of the scheme lies EducaRed.net, a portal of tools, online training and virtual work communities. More recently, onsite training has been added to the programme.

Last year we launched EducaRed in Mexico and Colombia. With seven countries now up and running, a total of 35.9 million people benefited from the programme during the year, up 10.8 million from 2006.

Our main challenge for the coming year is 'Global Portal: EducaRed 2.0", an initiative that will bring together the portals of every country onto a single site containing both global and local content and features.

EducaRed's initiatives and targets

Make EducaRed.net even more innovative
During 2007 individual country portals registered nearly 60 million visits, 20 million more than the year before. In 2008 we will launch two more tools. EducaLab 2.0 will create a shared knowledge base, while Navegador 2.0 is a management and communications tool.

Increase onsite activities
EducaRed Innova is a programme that provides teachers in Spain with in-depth training and tutoring to help them master the new technologies they need in their specialist areas.

Establish EducaRed as an international platform
At the IV International EducaRed Congress, we invited a guest country to participate and held the first international EducaRed competition. Teachers and students from Argentina, Brazil, Colombia, Chile and Spain took part in the competition to recognise the best projects for making ICT a mainstream feature of education.

Step up collaboration with educational organisations
In 2007 Telefónica has signed agreements, such as those signed with the Organisation of Latin American states (OEI) and Universia, a leading website on university education linked to Banco Santander. EducaRed also joined Relpe (Red de Portales Latinoamericanos), a Latin American network that brings together the portals of the ministries of education for almost all countries in the region.

The Innovative Teachers portal in EducaRed has been helping teachers in Spain and Mexico make new technologies part of their teaching. In 2008 we signed an agreement with Microsoft to extend the portal across Latin America.

Cement the Model Schools project
By opening Model Schools, EducaRed is driving technological and methodological innovation in education. The aim for 2008 is to use best practice from these projects in other schools.

Just one click away...

EducaRed.net portal features include:

- Teachers: news, job exchange, education software, teaching tools, experience sharing,

- Pupils: extracurricular activities, the EducaRed encyclopaedia, homework.

- Parents: information on getting into university, internet training and tools

Accessible
Telefónica

We have upgraded our internal standards
to cover 13 areas of accessibility.

For more information:
www.telefonica.es/cr07/accesibletelefonica

We are making an even stronger commitment to people with disabilities through our Accessible Telefónica Plan

We aim to make sure that all our products, processes and services meet the needs of our customers, employees and suppliers.

To further implement the plan, four meetings were held between our special taskforce and participating associations.

In 2007 we upgraded our Accessible Telefónica Standards, setting minimum accessibility criteria in 13 areas. We also set about implementing the policy internally, holding more than 50 meetings, focusing on:

- Handsets: making sure the fixed and mobile handsets we sell are adapted to take disability issues into account.

- Web: adapting our corporate web portals and including accessibility criteria in commercial websites.

- Stores: reviewing the accessibility of our new Top Stores.

- HR: compiling rules about accessibility to use when hiring personnel, in partnership with ATAM.

- Customer service: assessing the accessibility of our customers services, mainly our online and onsite service.

- R&D: working on innovation at Telefónica's development centres, like the Granada research unit, which studies medicine and health issues.

Looking ahead to 2008, we aim to continue creating accessible products and services, training our sales forces and making the places where we do business more accessible. We also want to progress in other fields, such as TV, software, commissioning projects and hiring new employees.

The Accessible Telefónica project was extended to Latin America. And in Europe, the Telefónica O2 Europe Ability Awards once again recognised organisations demonstrating best practice in the inclusion of people with disabilities.

Accessible products and services

Fixed telephony
- We continued to offer customers the choice of receiving their phone bill in Braille or large print.

- We improved the Teclón phone, designed for the elderly or people with minor disabilities.

- We made more than 60,000 public phones more accessible. As well as adapted keypads and adjustable heights for people in wheelchairs, these phones now have induction loops for those who are hard of hearing and SMS text, fax and e-mail capabilities.

Wireless telephony
- Our Movistar Fácil (Movistar 'Easy') range added new products that will particularly benefit the elderly.

- We are now offering induction loops, which cut out background noise for users with hearing aids.

- Working with relevant associations, we created personalised solutions for hearing, intellectually and visually impaired customers.

Working with associations

We collaborate with leading disability organisations on activities such as conducting studies, checking products and running training programmes. In 2007, we worked alongside ATAM, signing new agreements with FEAPS, ASPAYM, SERVIMEDIA, the ONCE and CNSE Foundations. We also renewed existing arrangements with CERMI and FIAPAS

Telefónica took part in the "2007 European Year of Equal Opportunities for All".

Our aim is to combine our responsibility to consumers with technological advances, so that technological progress equals responsible progress.

For more information:
www.telefonica.es/cr07/responsibleuse

We are encouraging our customers to use new technologies responsibly through a new campaign

Telefónica will launch a worldwide awareness campaign about the responsible use of ICT in 2008. The recommendations of the Telefónica Responsible Progress campaign take in safety, child protection, recycling, data protection, and copyright or intellectual property protection. To agree on the areas we needed to cover, we worked with social organisations as well as our own customers and employees.

New technologies have become so much a part of our lives it is hard to imagine a world without them. We often use them without even being aware of it. But inappropriate, excessive or careless use, can cause problems or bother other people.

Throughout 2007, Telefónica drew up recommendations for its customers to encourage the responsible use of technology, covering topics such as safety, child protection, recycling, data and intellectual property protection. We worked on this campaign alongside social organisations and our own customers and employees.

Improving security on the internet
To make our customers more secure, we have added robust technical devices and anti-virus and anti-spam procedures to our mail platforms.

Most threats are due to customers' computer equipment being infected by so-called 'malware'. All of the different versions of this malicious software turn a user's PC into a generator of spam for other customers.

As a rule, e-mail service providers only take protection measures when mail already contains spam or viruses from other networks. Telefónica takes a direct, dual-action approach.

- Preventing e-mail from other service providers: our platforms are capable of identifying and deleting spam and mail containing viruses. Every day they filter tens of millions of e-mails from other service providers.

- Preventing e-mail generated by our customers: Telefónica has developed a unique service that detects 'infected' equipment. As well as identifying victims of malware, the system informs customers about the state of their equipment and offers suggestions for removing unwanted programs.

Since introducing the tool in 2007, we have improved spam and infected e-mail detection and deletion by nearly 95%.

How to reduce spam

- Do not buy products advertised via spam.
- Use filters and disable automatic delivery receipt options.
- Do not open suspicious e-mails.
- Never reply to spam or forward chain mails.
- Consider blocking port 25 on the PC, which is often used by pirates.

Teaching to create

A collaboration between NBC Universal, Cedro, Microsoft and Telefónica, "Teaching to create" addresses the protection of intellectual property rights in education.

The project came out of a study which revealed a lack of knowledge and shared concerns about the breach of intellectual property rights in Spain among authors and creators, as well as the institutions and organisations involved.

For more information:
www.educarparacrear.org

Interactive Generations and Child Protection

Our training initiatives benefited 100,000 children in 2007

For more information:
www.telefonica.es/consejosparapadres
www.protectourchildren.o2.co.uk

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

We are offering parents and children more tools and recommendations to make sure children use our products and services responsibly.

In January 2008, over 4 million of our invoices included recommendations on the responsible use of ICT by children.

In order to foster a safe environment for the use of new technologies, we developed internal regulations around the suitability of our products and services during the year. We also signed a European Commission framework agreement with other leading European mobile operators which commits us to working together on the control and suitable labelling of the content we provide.

Telefónica also joined forces with GSMA in the battle against child pornography on the internet, in particular the blocking of URLs.

Products and services

During the year, Telefónica introduced a range of mobile handsets, packages and tools specially aimed at children and parents:

- The CAM1 for children over 6 years of age includes a digital camera and MP3 player. The product was co-developed with Imaginarium.

- The fourth edition of Play Pack for children aged 8 to 14 offers features such as restricted call lists, reverse charge calling, location-based 'find' services and adult content filters. One euro from each pack is donated to the NGO, Aldeas Infantiles.

- Our Family Management mobile telephony savings and management plan allows users to set usage limits and issues an alert when they are exceeded. Consisting of one main line and a maximum number of dependent lines (either contract or prepaid), the plan also includes a Mobile Babysitter, content filter and other features.

- *Imagenio* subscribers continued to benefit from parental controls and Telefonica O2 Europe also offered parental control features.

- Telefónica O2 Europe gives its customers telephone numbers and websites for lodging concerns or reporting inappropriate third-party use of its services.

- In UK, Telefónica's Nuisance Call Bureau provided customers with advice on child bullying and useful information on schools.

Educating parents and children

Last year, we continued to take an active part in the Safer Internet Plus initiative sponsored by the European Commission. Together with the NGO Protégeles (Protect Them) we provided training on safe internet browsing and mobile telephony usage for 100,000 children in 400 schools in Spain.

Telefónica O2 Europe also worked with the NGO Childnet International to launch educational programmes. In-store, the Company provides brochures on subjects such as handset theft, nuisance calls and the prevention of bullying. And in the UK, Telefónica O2 Europe developed its 'Champions' programme, a voluntary training scheme to address child protection in the area of new technology usage.

In Latin America, Telefónica launched an "Interactive Generations" project to encourage the responsible use of ICT among children and adolescents. The initiative is underpinned by a study on "Interactive Generations in Latin America: Young people in front of screens - Educational and Social Challenges". The study was spearheaded by Telefónica and developed by Navarre University in conjunction with the Telefónica Foundation's EducaRed program. To date, a total of 28,917 surveys have been conducted. At the same time, a range of other initiatives are being drawn up, including the development of school material, the organisation of a seminar and communication programmes.

Telefónica launched a series of internal
initiatives to fight Climate Change

For more information:
www.telefonica.es/cr07/climatechange

Last year, we took our first inventory of greenhouse gas emissions based on recognised standards, such as the GHG Protocol

In 2007, we emitted just over 1.6 million tonnes of CO_2 equivalent,
which equates to 7kg of CO_2 per connection.

Our part in the Climate Change solution

In March 2007, the Intergovernmental Panel on Climate Change (IPCC) concluded that there is an almost 90% certainty that Climate Change exists and is caused by man.

As most of the energy used to produce electricity, power vehicles or supply industry comes from fossil fuels, efforts to reduce greenhouse gas emissions need to focus on reducing energy consumption.

Due to its low greenhouse gas emissions the telecommunications sector is classified as carbon light. What's more, the industry's potential to cut emissions by reducing the need to travel, means it can legitimately be seen as "part of the solution to the Climate Change issue".

In line with Telefónica's overall strategy to increase our commitment to sustainable development, we are working with the top organisations in the field to pool our efforts and move closer to achieving ambitious goals.

In 2006 the European Network Operator Association, ETNO, of which we are a member, and the WWF embarked on a joint initiative "Saving the Climate @ the Speed of Light". Its first aim is a 50 million tonne CO_2 reduction through ICT usage by 2010.

Meanwhile, the Global e-Sustainability initiative (GESI), which we also form part of, will publish a study in the next few months on the role of ICT in mitigating Climate Change and the ICT sector's carbon impact.

Movilforum 2008

In the latest edition of Movilforum, Telefónica showcased the use of mobile services in tackling Climate Change:

Mobile Marketing
- Reduction in paper consumption.
- Elimination of marketing resources and logistics costs.

Fleet management
- Route and travel management.
- Reduction in fuel costs.

Productivity gains
- Reduction in paper consumption.
- Mobile and tele-working.
- Better internal and commercial management.

Remote and domotic control systems
- Reduction in travel.
- Environment/domestic sensors and surveillance devices with remote control.
- Controlled energy use.

Strategic Climate Change Plan

In July 2007, we launched our Strategic Climate Change Plan across the entire Telefónica Group. Its aims are to:

- Collect and standardise carbon emission data in all of Telefónica's operating markets and companies
- Identify risks associated with future emission limits as well as the opportunities to cut them and improve our environmental record
- Draw up an Energy Efficiency Plan
- Calculate to what extent the products and services marketed by Telefónica reduce carbon emissions
- Raise awareness of the need to fight Climate Change among social and economic agents
- Establish a company-wide culture of awareness around Climate Change and energy savings

Committed to climate care

In July 2007, Telefónica and 152 other companies joined the Caring for Climate initiative. The initiative is endorsed by the UN Global Pact, together with the United Nations Environment Programme (UNEP) and the World Business Council for Sustainable Development. As part of this project, we have made a voluntary commitment to tackle Climate Change by following the guidelines in set out in our CR policy and corporate strategy.

Our stated aim is to boost efficient energy usage and reduce CO2 emissions, while publicly reporting our achievements each year. We also promise to integrate environmentally-friendly measures into our corporate strategies, to cooperate with other industry players and reach agreements with suppliers that champion standards to reduce environmental risks.

Cornerstones of the plan

Measurement

It is important for us to have a system in place that can monitor our energy consumption and greenhouse gas emissions, and suggest improvements where necessary. In line with this, we established a method of measuring our greenhouse gas emissions, using the benchmark standards GHG Protocol, IPCC and ISO 14.064-1. In 2007, we emitted just over 1.6 million tonnes of CO_2 equivalent, which equates to 7kg of CO_2 per connection*.

Internal emission reduction plan

During the year we put measures in place to encourage energy savings at our offices and operational buildings. In 2008 we will launch a plan to reinforce this activity with specific targets.

Promotion of telecommunications services

In view of the way ICT can reduce greenhouse gas emissions, we will continue to push for new solutions in this area in 2008. Just as important, we will develop a means of measuring the role of ICT in tackling Climate Change.

Transparency

To keep all interested parties informed of our progress, we publish an inventory of the greenhouse gases our company emits, as well as the principles we're following to mitigate or adapt to Climate Change each year. This document also addresses stakeholders' concerns about our position on Climate Change.

To understand the relationship between Climate Change and the telecommunications industry, we carried out a Delphi study. The experts conducting the study pointed to the unique and leading role that telecommunications companies play in the fight against Climate Change, given their international presence, the social penetration of their products and their ability to communicate and raise awareness.

Telefónica O2 Europe Saves energy 'Together'

Telefónica O2 Europe is one of the founding partners of the Together campaign, working with some of Britain's leading companies to promote easy, affordable environmentally-friendly products that everyone can use to help tackle Climate Change.

Since its launch in April 2007, the campaign has saved 100,000 tonnes of CO_2 (to see the latest CO_2 savings, go to www.together.com).

As part of the campaign, Telefónica O2 Europe is encouraging customers to keep their current mobile phones and save 7.7kg of CO_2 emissions in the process. Anyone who does decide to change their handset is encouraged to recycle their old phone. Every time a customer chooses one of these options, the company donates £5 (6.60 euros) to the Telefónica O2 Europe Energy Saving Fund.

Energy Saving Fund

The Telefónica O2 Europe Energy Saving Fund helps communities become "greener" by consuming less energy, generating less waste and contributing less to Climate Change. The communities taking part receive free expert advice from the Energy Saving Trust and free energy-saving solutions, including the installation of thermal insulation and energy saving light bulbs.

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

Social and cultural action

"We will strive to cooperate with public, community and non-profit organisations and take part in initiatives that reduce social problems wherever we operate, mainly by drawing on our own capabilities and technology."

Business Principles

Social
and Cultural
Action

Investment
in the
Community

We concentrate mainly on initiatives that are
rooted in Information and Communication
Technologies

Para más información:
www.fundacion.telefónica.com

Telefónica spent close to 90 million euros on community and cultural projects in 2007

To better measure and evaluate our performance, last year we adopted the international LBG (London Benchmarking Group) model. This method measures areas of contribution that we had not previously taken into account, such as the number of work hours donated by our volunteer employees.

In total, we invested a total of 88.8 million euros in community and cultural projects. The Telefónica Foundation remains the strategic driving force behind the Group's community actions: last year it channelled 51.1 million euros into more than 700 projects, benefiting 39.8 million people, 95% of them through the use of ICT.

At Telefónica we want everyone to benefit from progress, regardless of their cultural or socio-economic circumstances. To improve people's quality of life and promote equal opportunities, we develop community and cultural initiatives that have ICT at their core.

Our initiatives are carried out through:

- Telefónica Foundation. Set up 10 years ago the Foundation is the bedrock of our community and cultural activities. Through it, over 145 professionals work mainly on education-related projects. Many of our employees also take part in initiatives through our Company Volunteering programme.

- ATAM. This Telefónica association works to improve the quality of life of people with disabilities.

- The Telefónica Group. Sponsors social and cultural activities aimed at benefiting the community, the arts and culture.

- Telefónica O2 Europe. The company gets involved in community initiatives with a range of different groups including at-risk youths and people with autism. This often involves working with different charities.

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

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

* 69,963 includes 52,991 children, 6,507 teachers, and 7,465 social agents

Telefónica Foundation: involved in over 700 social projects

Telefónica Foundation was set up in 1998 to coordinate our social and cultural activities. Our strategic goal was revised in 2005 and now focuses on the use of ICT in education.

The Foundation operates directly in 8 countries: Argentina, Brazil, Chile, Colombia, Mexico, Peru, Spain and Venezuela. Adding projects such as the Telefónica Foundation's Pronino and Volunteering programme, we are represented in a total of 14 countries, including Ecuador, El Salvador, Guatemala, Nicaragua, Panama and Uruguay.

In 2007, the Foundation continued its work on a range of programmes, notably:

- **Proniño** - aims to help eradicate child labour by getting children into school. In 2007, it provided schooling for over 52,000 children in Latin America.

- **EducaRed** - seeks to improve the quality of education through new technologies, combining online resources for teachers and students with events that promote education. Nearly 60 million people visited the EducaRed website in 2007.

- **Telefónica Volunteering** - encourages employees to take part in community initiatives. Our employees gave over 164,408 hours of their time to the scheme in 2007.

- **Forum** - looks at knowledge creation in the information society and its social impacts.

- **Art and Technology** - aims to make contemporary art and culture more available and linnks cutting edge creativity with technology. Keeps and safeguards Telefónica's artistic, historical and technological heritage.

To meet our objectives, the Telefónica Foundation works with public and private educational, social and cultural institutions. Last year we collaborated with 416 organisations.

TELEFÓNICA'S CULTURAL AND SOCIAL ACTION

LBG methodology since 2007 - Data in thousands of euros

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

[1] In 2007, LBG methodology does not allow counting the contributions of the 60,000 employees collaborating with ATAM nor the expenditure aimed to benefit handicapped people related to employees. Amounts of previous years have been adjusted.
[2] According to LBG methodology criteria, sponsorships with a positive impact on society, art and culture are considered as social and cultural sponsorships. In 2006 and 2005, amounts have not been readjusted.

CULTURAL AND SOCIAL ACTION BY REGIONS
LBG methodology

Europe 4.8%

Latin America 37.5%

Spain 57.7%

CULTURAL AND SOCIAL ACTION BY ACTIVITY
LBG methodology

Environment 1.5%

Economic development 11.5%

Art and culture 20.0%

Education and youth 37.5%

Health and handicapped 7.5%

Social Comfort 22.0%

Note: More information about the different categories of activity at www.telefonica.es/cro7/socialandculturalaction

Corporate Citizenship's Reporting Method helps verify our community activities

The LBG model is used by leading multinationals such as Microsoft, Shell, Citigroup and Siemens, to measure their social and cultural contribution.
In order to measure our own social and cultural action in LBG terms, Telefónica has engaged Corporate Citizenship to audit our application of the methodology.

Auditors Ernst & Young, not Corporate Citizenship, have reviewed all the quantitative data as part of the general report.

LBG assurance statement – Telefónica

Telefónica commissioned Corporate Citizenship to assure its application of the LBG measurement model in 2007 (year ended 31 December 2007).

The London Benchmarking Group model helps companies to better manage, measure and report on their community contributions and commitments. It moves beyond straightforward donations to include a full range of community involvement - for example, time spent by employees and contributions made in-kind as well as monetary. It also measures the benefits for both communities and the Company.

The model was developed by a group of companies in 1995 as an internal evaluation tool and a means of ensuring greater consistency and comparability of their reported information. Today, over 150 companies around the world use this model.

Telefónica is a founding member of LBG Spain and, alongside MBAS Business (which leads LBG Spain) and other founding companies, is an active promoter of measuring charitable contributions to the Spanish community. In our opinion, Telefónica broadly understands the LBG model and principles in measuring its community contributions in Spain and abroad. Our work has not warranted an independent audit of the data by Ernst & Young and has been limited to ensuring correct application of the LBG model in its first year of use.

Visit Telefónica's web page to see the full text of the LBG assurance Declaration.

Corporate Citizenship
www.corporate-citizenship.com
April 2008

Our aim is to help more than 100,000
children in 2008

For more information:
www.fundacion.telefonica.com/pronino

Proniño provided schooling for more than 50,000 boys and girls in 13 Latin American countries

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

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

The development of Proniño in 2007 was only made possible through the cooperation of the 93 NGOs that worked directly with the project, and the schools and public and private institutions that worked with the communities where the children live. Telefónica Volunteers also continued to play a key role, giving their time and talents to support a wide range of activities.

Strategic principles

Over the past year, Proniño has based its activities on three strategic principles. These were announced in April 2007 in Bogotá and will continue to guide the project in 2008:

Protecting minors involved in child labour
In order to help keep them at school and gradually eradicate the circumstances that drive children into the world of work, Proniño supports children themselves and their families and surrounding communities.

Quality of education
As well as improving the infrastructure of the centres it supports, Proniño uses information and communication technologies (ICT) to familiarise even the youngest children and introduce digital technology into their environment. We believe this is the only way to provide real opportunities for development and dignified access to the world of work.

Providing high-quality education will create ample opportunities for synergies with EducaRed in 2008:

- Experience from EducaRed can be applied to the schools sponsored by Proniño, with free connections, the creation of Telefónica Foundation classrooms and the development of the EducaRed channel, all helping Proniño teachers.

- Taking these applications into new social environments will improve education among socially at-risk communities.

Strengthening social and institutional commitment
The Foundation makes good use of Telefónica's institutional clout to guarantee the long-term sustainability of the activities undertaken in these areas:

- Generating and communicating knowledge about child labour and its impact on the children involved, their families and the community.

- Raising social and institutional awareness to achieve commitment to change.

- Supporting those in the front line of the struggle against child labour.

- Creating intervention and preventative networks that can respond effectively to the problem.

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

A problem for us all ...
Despite the progress made in recent years, child labour remains one of the most troubling problems of our world. According to the International Labour Organisation (ILO), there are currently 211 million boys and girls aged 5 to 17 working in the world, some 5.1 million of them working in Latin America and the Caribbean. Success in reducing child labour in recent years is due to the work of Governments and the many social agencies involved, including Proniño, which is recognised by the ILO.
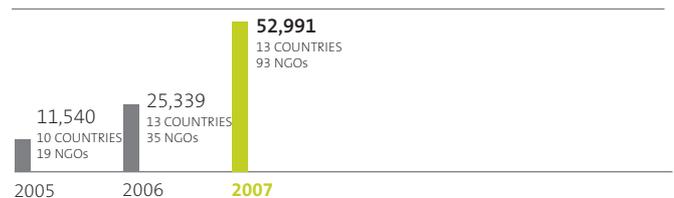
How does Proniño work?

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

The selection process for the programme is made up of three strands: **1)** Educational authorities present a list of schools that meet the criteria for the programme. **2)** NGO field workers identify children who are working or at risk, and those who could go to school but are too poor. **3)** Institutions working through child protection organisations in settings such as schools and minors' courts inform the Proniño coordinator or an NGO about a child who is working, or ask that they be admitted to the programme.

Proniño provides the appropriate grants, incentives and other forms of support. These are followed up by home visits from NGO sponsors and Proniño workers who monitor a child's progress by sitting down with them and their parents to discuss issues such as performance, attendance, awareness of child labour as a problem, and any problems they may have in keeping to commitments.

FAVOURED CHILDREN

Year	Children
2005	11,540 — 10 COUNTRIES 19 NGOs
2006	25,339 — 13 COUNTRIES 35 NGOs
2007	52,991 — 13 COUNTRIES 93 NGOs

CHILDREN SUPPORTED IN 2007[1]

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

[1] Calculation criteria according the school year (until June)

Social
and Cultural
Action

Corporate
Volunteering
and Art and
Technology

Initiatives by Telefonica's volunteers
benefited 246,427 people

For more information:
www.fundacion.telefónica.com

Some 19,000 employees took part in the Company Volunteering programme in 2007

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

Corporate Volunteering

Nearly 19,000 Telefónica Group volunteers in Spain and 13 countries of Latin America took part in community projects last year as part of the Telefonica Foundation's volunteering programme. They got involved in more than 443 initiatives and volunteered more than 164,408 hours of their time. The projects sought to help nearly 246,427 children, the economically disadvantaged, the elderly, and victims of natural disasters such as Peru's earthquake.

Among the highlights of 2007 was the support given to Proniño. The Euro Solidario campaign raised funds and employees took part in Solidarity Holidays to help in Proniño schools. In 2008 we hope to include volunteers from Latin America and Telefónica O2 Europe in this scheme. Telefónica's annual International Volunteering Day was dedicated to Pronino for the first time.

In Spain we introduced the cyber-volunteer when our employees volunteered to be trained online in ICT teaching, so that they could pass on their knowledge and skills to others. There were also initiatives to support people with disabilities, including sports activities in conjunction with the "También Foundation" and the Special Olympics, and schemes to help young people at risk of dropping out of school, through Junior Achievement educational programmes.

Europe
Nearly 900 workers for Telefónica O2 Europe volunteered in different countries.

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

Art and Technology

During the year our Art and Technology initiative made further progress within its four areas of activity: collections, exhibitions, the Vida awards and arsVirtual.

■ The Luis Ramón Marín exhibition involved three years of preparation to restore a unique archive of photographs and received a record number of daily visits - 773. The Nam June Paik "Retrospective" was the first to be staged in Europe after the death of the Korean artist and father of video art.

■ We relaunched the International Edition of the 'Vida Artificial' Awards, which was created to acknowledge artistic originality in robotics, bio-IT and cinetics. Telefónica Foundation took the awards' 10th anniversary as an opportunity to revitalise the Vida prizes and unveil plans for the future: 172 artists from 32 different countries participated in 'Vida 10.0'.

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

■ Contemporary Spanish art collection
■ Cubist art collection
■ Contemporary photography collection
■ The Telefónica historic photographic archive
■ The Telos collection

Our Telecommunications Museum, inaugurated in 1992, was closed for renovation at the end of 2007.

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

<table>
<tr><td>Social and Cultural Action</td><td>ATAM</td><td>The association has a member services network

For more information:
www.atam.es</td></tr>
</table>

ATAM raised 13.9 million euros in contributions and benefited nearly 4,000 people with disabilities

ATAM has the support of 60,000 active and retired Telefónica employees

ATAM

ATAM is the Telefónica Group and Telefónica employees' support association. Its aim is to improve the quality of life for those living with disabilities. The Spanish Administration acknowledges it as a Public Service organisation.

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

Milestones in 2007
To extend the support network for members, ATAM opened new offices in Seville and Granada to cover the whole of Andalusia, Oviedo (Asturias), Zaragoza (Aragon) and Palma de Mallorca (the Balearic Islands). It also created a system of quality control using techniques such as surveys, suggestion boxes and inspections. In addition, it deployed a new methodology to improve services, adding clinical diagnosis to the support process.

The Telefónica Foundation agreed that ATAM will take over the technical management of the Mercadis job portal, draw up a training plan for those Telefónica Volunteers who work with the disabled, and helping to improve the technical tools offered by Retadis, the Spanish network of accessible computers.

ATAM also worked with Telefónica to develop a Handbook of Concepts and Methodological Guidelines for Action to help attract employees with disabilities to the Company.

Other initiatives by Telefónica O2 Europe

- Just Ask Me mentoring programme - set up in the UK in partnership with charity organisation Weston Spirit to help young people make the most of their futures.

- Prison, Me - No Way! - targeted at young people regarding the effects of anti-social behaviour. Telefónica O2 Europe employees visited 34 schools across the UK in 2007 (www.pmnw.co.uk).

- Schola-21 - an internet based portal for raising educational standards, with which Telefónica O2 Europe in Germany collaborates.

- Irish Autism Action (IAA) - in partnership with Telefónica O2 Europe in Ireland, IAA aims to improve the lives of people who suffer from autism. It opened Ireland's first dedicated diagnostic and assessment centre last year.

It´s Your Community

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

It's Your Community carries the slogan: If you could change one thing about where you live, what would it be? With separate awards ranging from £100 to £1,000, the programme has already donated £362,947 to over 500 projects.

The projects backed include transforming derelict sites into community gardens, repairing bicycles donated by neighbours and supporting a youth fishing club.

www.itsyourcommunity.co.uk

The views of our stakeholders are the most accurate assessment of our performance as a responsible company.

For more information:
www.telefonica.es/cr07/indicators

Telefónica has a series of indicators that show our environmental, social and economic behaviour. Next, we show how our performance has evolved since 2005.

TELEFÓNICA GROUP INDICATORS OF PERCEPTION

	2007	2006	2005	% Chg previous year
Commitment of our employees	64.7%	62.1%	58.4%	4.1%
Executives	85.2%	80.2%	79.2%	6.2%
Middle Management	76.5%	70.0%	64.2%	9.3%
Rest of the staff	62.5%	59.8%	56.6%	4.4%
Customer satisfaction[1]				
Spain	6.67	6.78	6.85	−1.6%
Europe	7.37	7.25	7.37	1.7%
Latin America	6.62	6.36	5.92	4.1%
Supplier satisfaction[2]	6.4	–	6.7	−5.1%
Telefónica's model of purchases	3.1	–	3.5	−12.9%
Buyers management	3.4	–	3.7	−9.5%
Corporate Responsibility of Telefónica	3.8	–	4.3	−11.2%
Relationship with Telefónica	3.2	–	3.5	−8.6%
e-Commerce system	3.2	–	3.7	−13.5%
Reputation in front of society (RepTrak)[3]	62.2%	62.0%	60.8%	0.3%
RepTrak - Product	62.1%	61.4%	60.5%	1.1%
RepTrak - Workplace	63.5%	63.2%	66.1%	0.5%
RepTrak - Governance	60.9%	60.3%	57.5%	1.0%
RepTrak - Supports good social causes	60.5%	60.8%	61.8%	−0.5%
RepTrak - Protects the environment	57.1%	57.8%	60.7%	−1.2%
RepTrak - Innovation	68.3%	69.7%	68.8%	−2.0%
Spontaneous brand familiarity (top-of-mind)[4]				
Spain	56.5%	54.0%	55.5%	4.6%
Latin America	41.7%	45.3%	42.0%	−7.9%
Europe	23.0%	–	–	–

[1] Refers to the degree of customer satisfaction in relation to the service provided by the company, on a scale ranging 1 to 10, where 1 means "not satisfied" and 10 means "completely satisfied".
[2] Shows a total of 7,094 suppliers for 2007. 2,010 suppliers have answered this survey. This represents a participation of a 13.5%.
[3] Results of Colombia, Germany and United Kingdom were incorporated in 2007. Data up to 2007 include Spain, Argentina, Brazil, Chile, Peru and Mexico
[4] 2007 accumulated data. Data for Latin America in 2007 includes "Telefónica Telecom Colombia", which top of mind is 2%.
  Note: visit www.telefonica.es/cr07/indicators for more information about the methodology of this kind of perception studies
.

CR Key Indicators	Operational Indicators

In 2007 we set up a CR management structure with key performance indicators that tie in with our commitment to Business Principles.

For more information:
www.telefonica.es/cr07/indicators

RESPONSIBLE MANAGEMENT PERFORMANCE

	2007	2006	2005	% Chg previous year
Economic Impact				
Revenues Telefónica Group	56,441	52,901	37,383	6.7%
Stock Market	106,067	79,329	62,548	33.7%
Investment in technological innovation	4,384	4,301	2,900	1.9%
Payments to public administrations	9,895	8,069	8,511	22.6%
Payments to employees	6,458	5,291	4,213	22.1%
Investments in infrastructures	8,027	8,003	5,359	0.3%
Volume of awarded purchases	25,240	24,179	15,690	4.4%
Employment				
Total number of employees	248,487	234,900	207,641	5.8%
% of women in middle and executive management	32.8%	22.7%	21.8%	44.5%
Number of training hours per employee[1]	62	51	48	21.6%
Number of preventive medical examination	135,080	77,590	36,666	74.1%
Customers				
Total number of customers (thousands)	228,538	203,180	153,526	12.5%
Total number of complaints (thousands)	20,908	–	–	–
ISO 9001 certified operations				
Estimated market share	53%	-	-	-
Spain	36%	-	-	-
Latin América	18%	-	-	-
Europe	70.5%	67.4%	70.1%	0.6%
% of prepay mobile accesses	6,168	6,411	6,062	−3.8%
Prepay fixed accesses in Latin America (thousands)				
Environment and responsible network rollout	3,251	5,477	-	−40.4%
Wastes electronic systems (tons)	1,410	1,375[4]	804[4]	2.5%
Indirect CO_2 emissions (equivalent tones)	244	96[4]	-	154.2%[3]
Electromagnetic emissions (number of locations measured)	15,167	12,279	6,856	23.5%
Investment on visual impact adaptations (euros)	5,268	-	-	
Suppliers				
Total number of awarded suppliers	28,000	19,079	18,834	46.8%
Number of suppliers that report CR information	1,167	0	0	(.2.
Society				
Total social investment (LBG) (thousands)[2]	88,770	41,616	36,070	113.3%
Fundación Telefónica number of beneficiaries (thousands)	39,828	33,520	41,597	18.8%
Proniño Programme benefited children	52,991	25,339	11,540	109.1%
CR				
DJSI (%)	81.4	75.8	79.9	7.4%
Country CR Reports	17	7	5	142.9%
Employees trained on Business Principles	36,000	-	-	-
Countries that have not talked with stakeholder groups	7	4	1	75.0%

[1] Does not include *on line* training.
[2] Numbers for 2007 according to LBG. Numbers for 2006 have not been calculated according to LBG criteria.
[3] No data available of all the operations of 2006.
[4] 2005 and 2006 reports data have been recalculated according to a new methodology, GHG Protocol.

We will continue to work on several of our 2007 projects, and take on some new initiatives

For 2008, we have set more than 20 Corporate Responsibility targets

In addition to extending our Business Principles, in 2008 we will undertake environmental projects and work in the following areas: Customers, Employees, Suppliers and Society.

CORPORATE RESPONSIBILITY AND BUSINESS PRINCIPLES

1	Business Principles training	Extend training on business principles to 80% of Telefónica employees (excluding Atento teleoperators). Employees must pass the 1.5-hour online training course.
		The goal is to increase employee awareness of the need for all Company activities to align with our Vision, Values and Business Principles.
2	Tell our employees about Business Principles	Improve internal communication in the 10 countries where we operate.
		We aim to set up confidential areas where employees can meet with the Head of Business Principles in their office to talk about compliance with the Company's principles.
3	Engage with stakeholders	Telefónica has established a way of engaging with its stakeholders in Spain, Germany, Argentina, Brazil, Chile, Colombia and Peru. In 2008 we aim to: – Repeat the exercise in these seven countries and extend it to another three countries in Latin America and Europe – Invite experts to take part in public debates – Set up a panel to take part in ongoing dialogue
4	Create strategic CR plans in each country	Using the results of CR self-assessments made in 2007, at least 10 business areas will put forward strategic CR plans for 2008-2009.
		The aim is to promote initiatives that ensure we act responsibly with stakeholders and promote a positive image of Telefónica to the wider world

ENVIRONMENT

5	Develop a standard management system for the entire Group, bringing together fixed and wireless operations	During 2008, we will develop a management system that meets minimum environmental standards and includes specific operational rules. At the same time we will put together a multi-country taskforce.
6	Climate Change: Design a low-carbon procurement model	Design a low-carbon procurement model based on an analysis of the product life cycle. We will also communicate our environmental compliance obligations to suppliers.
7	Climate Change: Develop an Energy Management System (efficiency programmes)	Develop an energy management system as a way to introduce appropriate energy-saving measures in our operations.
8	Introduce and rollout an Environmental Performance Index	Using a balanced scorecard of environmental indicators, create an environmental performance index at Telefónica.
9	Define, standardise and implement environmental criteria in the network rollout	Standardise environmental criteria in our operations:Implement visual fragility, acoustic and field measurements in all our operations.
10	Establish and deliver an Environmental Communication Plan	Develop and rollout our internal environmental communication plan and export to all operations.
11	Set up regional waste management systems (Latin America)	Conduct an analysis and feasibility study of the integrated waste management model in Latin America.

CUSTOMERS

12 Increase our Customer Satisfaction Index by 4%

Customer satisfaction is one of the key elements of Telefónica's strategy for the future.

In 2006 we started developing a 'Customer Experience' programme with the aim of increasing customer satisfaction by meeting their needs effectively. Our target is to increase our rating to over 7 out of 10.

13 Establish programmes for compliance with competition standards

We are committed to complying with our Business Principles on free and open competition. As a first step, we have introduced programmes to make sure Group companies comply with competition rules in countries including Spain, Brazil, the UK, Germany and Ireland.

Over the coming years the Company will gradually extend these programmes to the other countries where we operate. The programmes cover the causes, aims and main breaches of antitrust rules (price collusion agreements and abuse of dominant market positions) and how to detect and prevent them.

14 Carry out the Responsible use of technology campaign

Used responsibly, telecommunications can be a strong promoter of technological, social and economic development.

Our campaign aims to advise customers and the general public on the responsible use of technology with recommendations on safety, recycling, the use of ICT by children, intellectual property and using technology in public places.

15 Implement the 'Interactive Generations' project in 6 Latin American countries for the defence and protection of children in the ICT use

In 2005, we drew up standards on adult content to help ensure children use technology responsibly. In 2008, Telefónica's business units plan to implement the rules.

At the same time, we will run initiatives to raise awareness and teach parents, tutors and children about the use of technology, and develop specific products and services for children.

16 Introduce a Responsible Advertising Policy

In 2007, Telefónica produced a Group-wide Responsible Advertising Policy. This will help us to control our advertising so that it respects human rights and avoids messages that may harm viewers,stray from our values, or mislead.

In 2008 we aim to implement the policy in the creative agencies we work with, as well as in all broadcast commercials.

EMPLOYEES

17 Raise the work climate index by 2 percentage points

One of our goals in 2006 was to become the best place to work by 2010. To achieve this, we launched our 'Employee Promise' project. One of the project's priorities is to create a high performance and international culture that attracts global talent.

In 2008 we want to raise the employee satisfaction index by two percentage points. We see this as a way also to improve customer satisfaction.

18 Develop our Diversity Project

The project will be drawn up to cover three areas: awareness, measurement and Group-wide internal policies.

19 Health and Safety

Standardise the industrial accident frequency index..

SUPPLIERS

20 Establish Supply Chain Evaluation Programmes using CR criteria

In 2007, Telefónica approved corporate guidelines to extend our Business Principles to our supply chain. In 2008, we want over 1,000 high-risk suppliers to be approved under our CR assessment process. We plan to carry out 50 CR audits at suppliers.

The aim is to encourage our suppliers to adopt a CR culture and thus limit the risks to our reputation associated with failure of our supply chain to comply with our Business Principles.

SOCIETY

21 Help 100,000 children via the Proniño initiative

The Telefónica Foundation is active in the struggle to eradicate child labour through its Pronino initiative. In 2007, more than 50,000 children were helped by the scheme, twice as many as in 2006.

In 2008, we have set ourselves an ambitious target to yet again double the reach of Pronino, to help 100,000 children and include ICTs in Pronino's operating model

22 Implement a digital inclusion strategy in Latin America

We have a number of initiatives on the go aimed at promoting social inclusion in Latin America. In particular we are investing in bringing technology to rural areas and tailoring products for people on low incomes.

The existence of technology itself is no guarantee it will be used to help solve social problems. Our objective for 2008 is to draw up a digital inclusion strategy that helps bridge the educational and ICT divide in the region.

23 Promote the Accessible Telefónica Plan

To promote accessibility to Telefónica's services in five of the 14 areas covered by our "Accessible Telefónica" rules. Carry out initiatives to raise awareness about integrating people with disabilities.

Independent Verification

A message from Ernst & Young

We were engaged by the Audit Commission to review the Annual Corporate Responsibility Report of Telefónica, S.A. The report consists of two parts: this written document and the complete on-line version, available at **www.telefonica.es/cr07**

Scope of the work

Our work consisted of verifying that the contents of the report complied with:

• The principles stated in the AA1000 Assurance Standard guide issued by AccountAbility (Institute of Social and Ethical Accountability) for the business activities carried out by Telefónica in Spain, Argentina, Colombia, Chile, Peru, Brazil, Mexico, United Kingdom, Ireland and Germany.

• The principles and guidelines established in the G3 Global Reporting Initiative (GRI) reference guide for the worldwide scope of Telefónica, including for 2006 verifications in Ecuador, Venezuela, Uruguay, Panama, Guatemala, Nicaragua and El Salvador.

In addition Telefónica has engaged us to verify the local reports in Spain, Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela, Ecuador, Central America, United Kingdom, Germany, Ireland and the Czech Republic. These reports will be published in the coming months and will be available at:**www.telefonica.es/corporateresponsibility**

The verifications consist of:

▪ *Verification of compliance with GRI standards*

1. Adaptation of the structure and content of the report to the principles and guidelines established in the Guide G3.

2. Adequate traceability of information and data corresponding to core and additional indicators and the Telecommunications sector supplement, as well as the reasonableness of the criteria for classifying indicators, where appropriate, as not applicable.

▪ *Verification under AA1000 Assurance Standards*

The verification procedures were carried out to evaluate that, for the aforementioned scope, the RC Report complies with the following principles:

1. Materiality or relevance of the information provided based on the needs and requirements of the interest groups.

2. Integrity in identifying, understanding and managing impacts through systems and processes, including commitment processes with interest groups.

3. Response capacity to the objectives and expectations of the interest groups and the appropriate and opportune communication of plans addressed to these groups.

The guidelines established in ISAE 3000 on performing limited scope verifications of non-financial reports were likewise taken into account.

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

Our Independence

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

Our independent verification report contains the scope of our work, the level of verification, the conclusions and our independence. This report is available at **www.telefonica.es/cr07/verification**

ERNST & YOUNG SERVICIOS CORPORATIVOS, S.L.

Madrid, April 22, 2008

Prizes and Awards

CORPORATE RESPONSIBILITY, SOCIAL AND CULTURAL ACTION

Corporate Responsibility Strategy

- Telefónica ranked the best company in Spain, in its sector and in Europe in Corporate Social Responsibility (CSR) in the 2007 Good Company Ranking.
- Telefónica was included again in the DJSI and FTSE4good indices, making it one of investors' top picks on sustainability criteria.
- According to a UGT study, Telefónica's CSR practices are among the best of any Ibex 35 company.
- Telefónica receives honourable mention by the panel in the "Latin American Corporate Responsibility Award" given by Foro Ecuménico Social.
- Telefónica joins the Global Fortune ranking, which rates the CSR reports of the world's 100 largest companies by revenues.

Social and Cultural Action

- Telefónica is among the three most recognised companies for social action in Spain, according to an annual survey conducted by Fundación Empresa y Sociedad.
- Telefónica's Proniño program is recognised by the OAS (Organization of America States).
- The Telefónica Foundation wins the "Most Charitable Business" Award in Telecinco's fourth annual "12 months, 12 causes" Awards.

Equal Opportunities

- The Telefónica Chile Foundation wins first prize at the national "We are all Chile (Chile somos todos) contest for 2006 in Diversity and Non-Discrimination", in recognition of its "Bank of six projects for people with disabilities" initiative.
- The Peruvian government's special taskforce on disability recognises the Telefónica Foundation's commitment to people with disabilities.

Education

- Chile president Michelle Bachelet gives the Proniño initiative the "2007 Bicentenary Stamp Prize" in recognition of its work.
- Virtual Educa acknowledges the Telefónica Foundation for its contribution to the field of education in Latin America.

The Environment

- Distrito C wins "2007 Sustainability Award" for its commitment to the environment.

Best Place to Work

- The Great Place to Work Institute ranks Telefónica Móviles Colombia "The Best Company to Work" in Colombia.
- Telefónica O2 is named "Most Desired Employer 2007".
- The Great Place to Work Institute ranks Atento among "The Best Companies to Work for" in Argentina, Peru, Uruguay and Mexico.
- Atento Peru wins the "Pro-Joven Award" given by the Peruvian Ministry of Labour for its contribution to the career development of the country's youth.
- Telefónica SP Brazil is among the "100 Best Companies to Work for" in the Great Place To Work Institute's ranking for the third straight year.

Transparency

- Telefónica wins Award for the transparency of its reporting by the "El Nuevo Lunes" weekly magazine.
- Telefónica O2 Europe wins the "Golden Peacock Award" for its excellent CSR reporting
- Telefónica del Peru wins the "ProCapitales Award" for best annual report.
- Telefónica stands out as one of the best Spanish companies for the effectiveness of its investor relations, based on rankings drawn up by UK consultancy the Institutional Investor Research Group.
- Telefónica wins the "Good Corporate Governance Prize" by the "Mi Cartera de Inversión" magazine.
- Telefónica is among the top three Ibex-35 companies for CSR reporting, according to a study by Observatorio de RSC.

CORPORATE LEADERSHIP

Best Company

- Telefónica is one of Standard & Poors' 30 top stock picks: it is the only Spanish company of the 10 chosen from Europe and the only telecommunications company included in the S&P Global Picks 2008 portfolio.
- Telefónica is the listed company that has created the most value in the last 15 years (nearly 63 billion euros) according to the IESE's "2007 Profitability and Value Creation among Spanish Companies study".
- Telefónica climbs in the Fortune Global 500 ranking of the 100 largest companies in the world by revenue, climbing from 108th position to 77th and fourth position among global telecommunications firms.
- Telefónica ranks 47th among the world's 500 biggest companies and 3rd among integrated telecommunications operators, according to a study by "Financial Times" based on market cap.
- Telefónica wins the "Best of European Business 2007 Award" given each year by Roland Berger Strategy Consultants.
- A study by Ipsos consulting names Telefónica the most successful company for the future, the best managed and the company with the strongest and clearest corporate strategy.
- Fonditel, selected best Spanish pension fund by "Investment Pension Europe".

Brand and Reputation

- Telefónica moves up Barron's ranking of the world's most respected companies.
- Telefónica is the second best reputed company in 2007 according to the Spanish Monitor of Corporate Reputation (MERCO).
- Telefónica is the fourth most valued brand in Europe, according to the European Brand Institute.

FTSE4Good

fRC

Dow Jones
Sustainability Indexes

Global Reporting Initiative
Organizational Stakeholder 2008

THE GLOBAL COMPACT

Telefónica S.A.
Corporate Responsibility Report 2007

www.telefonica.es/cro7
If you have any comments on this report, please address them to:
responsabilidadcorporativa@telefonica.es

www.telefonica.es