



2009

Annual Corporate
Responsibility
Report Telefónica, S.A.

*transparency
and integrity*
to transform the future

Telefónica

About the Report

Telefónica, maintaining its commitment with transparency, presents its eighth Annual Corporate Responsibility Report (CR).

This new report model is structured in **3 blocks**, which provides comparable and relevant information in the telecommunications sector.

A new approach to the report

This year Telefónica sets out to take its CR Report a step further, by incorporating the requirements most demanded by the investment community and responding to existing global trends, which seek to make the Annual Corporate Responsibility or Sustainability Report the cornerstone of transparency and reliability.

As in previous years, Telefónica aims to innovate in its report in order to offer an advance that provides global companies with a new line of reporting that meets the following criteria: overall sector and inter-sector comparability; sectoral relevance or materiality; and adaptation to local requirements.

To this end, and coinciding with the tenth anniversary of the UN Global Compact, Telefónica offers a new CR Report line based on three main blocks:

• Block 1

that corresponds with the printed Annual Corporate Responsibility Report 2009 which you are reading, the objective of which is to build a common basis for CR reports with an intersectorial approach, responding both to the Principles of the Global Compact and the requirements of the Global Reporting Initiative.

• Block 2

available at www.telefonica.com/rc09, which includes discussion of the most relevant matters identified in the materiality analysis carried out by the Company based on the impact on the strategy of the Group and the priority for the stakeholder groups.

• Block 3

available in the local Corporate Responsibility reports which respond to matters relevant to the reality of each country.

This new form of report has been validated with:

- **The United Nations Global Compact** in New York. At an initial meeting we informed them of the report's focus, and subsequently held working sessions in which we analysed each of the principles, their content and indicators.
- **Global Reporting Initiative (GRI)**. As well as giving information on the new report model the indicators for each principle against the GRI G3 standard were also checked.
- Corporate, academic and public organisations, as well as foundations linked with Corporate Responsibility.

In addition to that, the Company publishes Annual Corporate Responsibility Reports in 18 local countries following GRI G3 guideline and AA1000AS following the Principles of, inclusivity, materiality and responsiveness (AccountAbility). Currently the reports of El Salvador, Guatemala, Nicaragua, Panama and Uruguay are only checked according to the GRI G3.

The assurance of this report has been carried out for the fifth consecutive year by Ernst & Young. Who has checked each of the statements contained in this Report.

- Block 1
Set of common and comparable requirements



Human Rights

Principles 1 - 2

1. Businesses should support and respect the protection of internationally proclaimed human rights .
2. Businesses should make sure that they are not complicit in human rights abuses.

Labour Standards

Principles 3 - 6

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
4. Companies should support the elimination of all forms of forced and compulsory labour.
5. Businesses should uphold the effective abolition of child labour.
6. Businesses should uphold the elimination of discrimination in respect of employment and occupation.

Environment

Principles 7 - 9

7. Businesses should support a precautionary approach to environmental challenges.
8. Businesses should undertake initiatives to promote greater environmental responsibility.
9. Businesses should encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

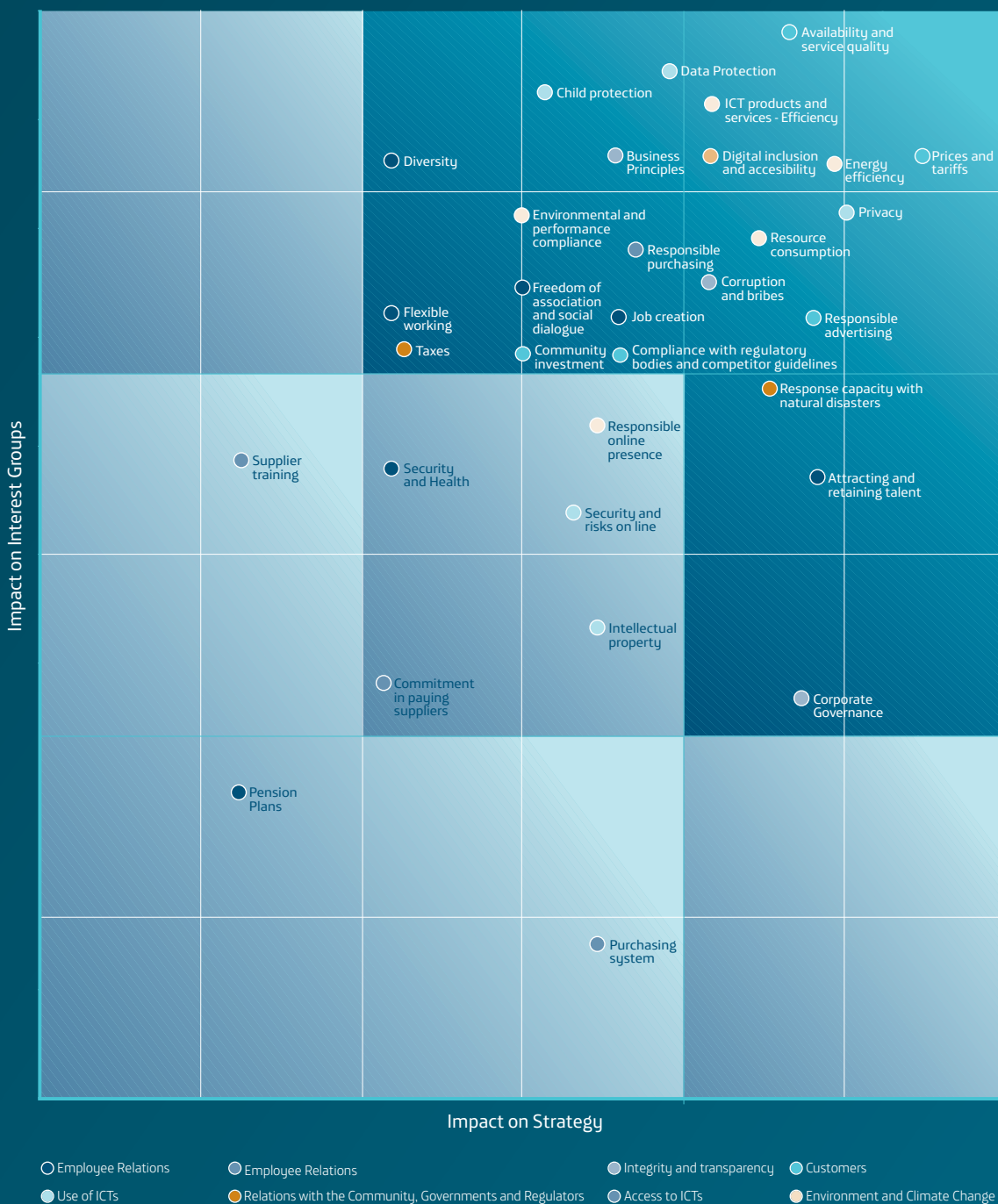
Principle 10

10. Businesses should work against corruption in all its forms, including extortion and bribery.

Material issues for the telecommunications sector



Identification of the material issues for Telefónica and its stakeholder groups



• Block 3

Local materiality for the Company

Through its Local Corporate Responsibility Reports, Telefónica presents the social, economic and environmental impact of its local operations, outlining the initiatives and challenges that contribute to the progress of these communities.



* Since 2009 these countries have been publishing the CR Report separately. Previously they were published as part of the Central America CR Report.

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Summary



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01

Letter from the Chairman



It gives me great pleasure to present the eighth Telefónica Corporate Responsibility Report, which serves as an introduction to the various documents –a total of 18 this year– which our companies have produced at a local level with two aims: to be transparent with stakeholders and highlight the integrity of our management. At Telefónica, we are aware that integrated, transparent management plays a key part in trust-building in any organisation.

2009 can be regarded as highly positive for Telefónica for three reasons. The first of these was the recognition of the Company as a sector leader within the telecommunications industry in the prestigious Dow Jones Sustainability Index (DJSI), with a rating of 86 points out of a possible 100. This index defines sustainability as “a business focus which seeks to create long-term value for shareholders by taking advantage of opportunities and the efficient management of the risk that is inherent in economic, environmental and social development”. At Telefónica we fully identify with this definition, as it highlights not only our financial strength but also the way in which the Company generates revenue.

A comprehensive analysis of the DJSI indicates that Telefónica has excellent performance in terms of economic sustainability (corporate governance, risk and crisis management, codes of conduct, customer relations and privacy framework and policy management); that the Company's social management has also been outstanding (workplace and employment practices, human capital development, the attraction and retention of talent, supplier policies, stakeholder dialogue, philanthropy, social reporting, digital inclusion and the impact of telecommunications services); and, that Telefónica environmental sustainability still has room for improvement (environmental policy, eco-efficiency, environmental reporting and climate impact strategy). For this reason, by 2015 and through our Climate Change Office, we are

Telefónica promotes its commitment to the Global Compact with its Corporate Responsible *Reporting model*

now committed to reducing the impact of our activities, by ensuring reductions in electricity consumption in networks of 30% per access point and in offices by 10% per employee.

The second reason which allows us to consider the past year to be a positive one was the decision taken to renovate our method of Corporate Responsibility reporting. This year, coinciding with the tenth anniversary of the UN Global Compact which Telefónica signed in 2002, we've sought to take a further step forward by offering the business community a comparable reporting model, one which is relevant and capable of combining local demands with those of global initiatives (Global Compact and Global Reporting Initiative), and the responsible investment indexes (the DJSI and the FTSE4Good).

The reporting framework that we now present features three levels. The first of these (as set out in this printed document) seeks to make our responsible behaviour fully accountable as a global company and allows the comparison of Telefónica with any other multinational company, whatever its sector. The 10 Principles of the UN's Global Compact have therefore been taken as a point of reference along with the criteria and measurement indicators offered by the Global Reporting Initiative (GRI). This document will be identical in all the countries in which the Company operates. The second level of the report is fundamentally based on the relevant areas for the telecommunications sector (available at www.telefonica.com/cr09) such as the responsibility in the supply chain, the safety and protection of children, digital inclusion and energy efficiency. These areas have been identified as being relevant through global work groups with all the relevant key players and through the Global e-Sustainability Initiative, (GeSI) an association which brings the Information and Communication Technologies (ICT) sector together. The third and final level recognises local concerns with decision making corresponding to each of the countries in which we operate.

To conclude, the third reason that we can consider 2009 to have been a positive year in terms of Corporate Responsibility can be found in the bravo! Programme. This is a transformation programme which Telefónica has set up to ensure that by 2012 it is the leading global communications company in the digital world. With this programme, strategic priorities and key initiatives have been established based on five pillars: customer-centred focus; a comprehensive range of services; new platforms to support an innovative and efficient operating model; and a common culture that creates confidence in the countries in which the Company operates. It is this last pillar that demonstrates the depth of our commitment to be responsible in our communities.

Once again I would like to reiterate my thanks to all those who deal with Telefónica each and every day. It is you who make our work worthwhile every day, because it is you who daily give your very best.



César Alierta Izuel
Chairman of Telefónica, S.A.

Corporate Responsibility Strategy

Organisation

In order to ensure the supervision of aspects related to Corporate Reputation and Responsibility, since June 2002 Telefónica appointed a Board of Directors Commission dedicated to promoting Corporate Reputation and Responsibility. The functions of this Committee include responsibility for analysing and examining questions related to Human Resources (HR).

The functions of this Committee, which is composed of six Directors (four independents and two nominees), is to look at the following areas related with Corporate Reputation and Responsibility:

1. Promote the development of Company values.
2. Promote and develop the Corporate Reputation Project.
3. Ensure ethical and responsible behaviour at Telefónica.
4. Be aware of and promote the verification of the CR Report or the intangible asset balance sheet of the Group.

Corporate Reputation and Responsibility within bravo!

Over the coming two years, the Corporate Reputation and Responsibility strategic plan will converge with the bravo! programme. bravo! is the first global transformation programme which involves the whole Company in order to meet a series of common goals set for 2012.

The Programme is founded on four key strategic pillars: Customer, Offer, Platforms and Culture, which will outline the path to be taken and the guidelines that will govern the passage to the future.

Corporate Reputation and Responsibility comes under the **Culture** pillar where the idea is to generate confidence, building sustainable relationships with stakeholders and having commitment with society as one of Telefónica's key factors in this objective.

There are also numerous CR projects that interact in a transversal manner with the other programme pillars, which help to build emotional relations with our **Customers**, taking advantage of opportunities in new services in order to improve our **Offer**, with more efficient **Platforms**.

Working Framework

Telefónica sees Corporate Responsibility as a tool which creates added value, it allows sustainable relations to be built with stakeholders and ensure their confidence, through the efficient management of risk and opportunity. All of this contributes to increasing the legitimacy in the society in which Telefónica operates.

We are working in three strategic lines:

- **Effective Risk Management** (with a direct impact on the reduction of costs) are linked to non-compliance with **Business Principles**, which are the basic standard from which are derived specific policies and rules for compliance the various stakeholder groups.

The management body responsible for disseminating these Principles is the **Business Principles Office**, which answer to the HR and Corporate Responsibility (the only such case among IBEX-35 Companies). Among its functions is that of ensuring awareness of the Business Principles among stakeholder groups, guaranteeing the existence of processes which are suitable for implementing and promoting the elaboration of policy and regulations.

This Office is also responsible for identifying, evaluating, managing and monitoring risk derived from the breach of these Principles. The result of this is a global risk matrix per operation which permits the identification and prioritisation of global and local projects.

In order to guarantee continuity in project management, Project Office has been created as part of the Corporate Principles Office. Among its responsibilities, special mention should be made of the definition of minimum common standards of action through general statements, policies regulations, with a scope that covers the whole Group and local implementation; as well as the definition of management indicators and project monitoring.

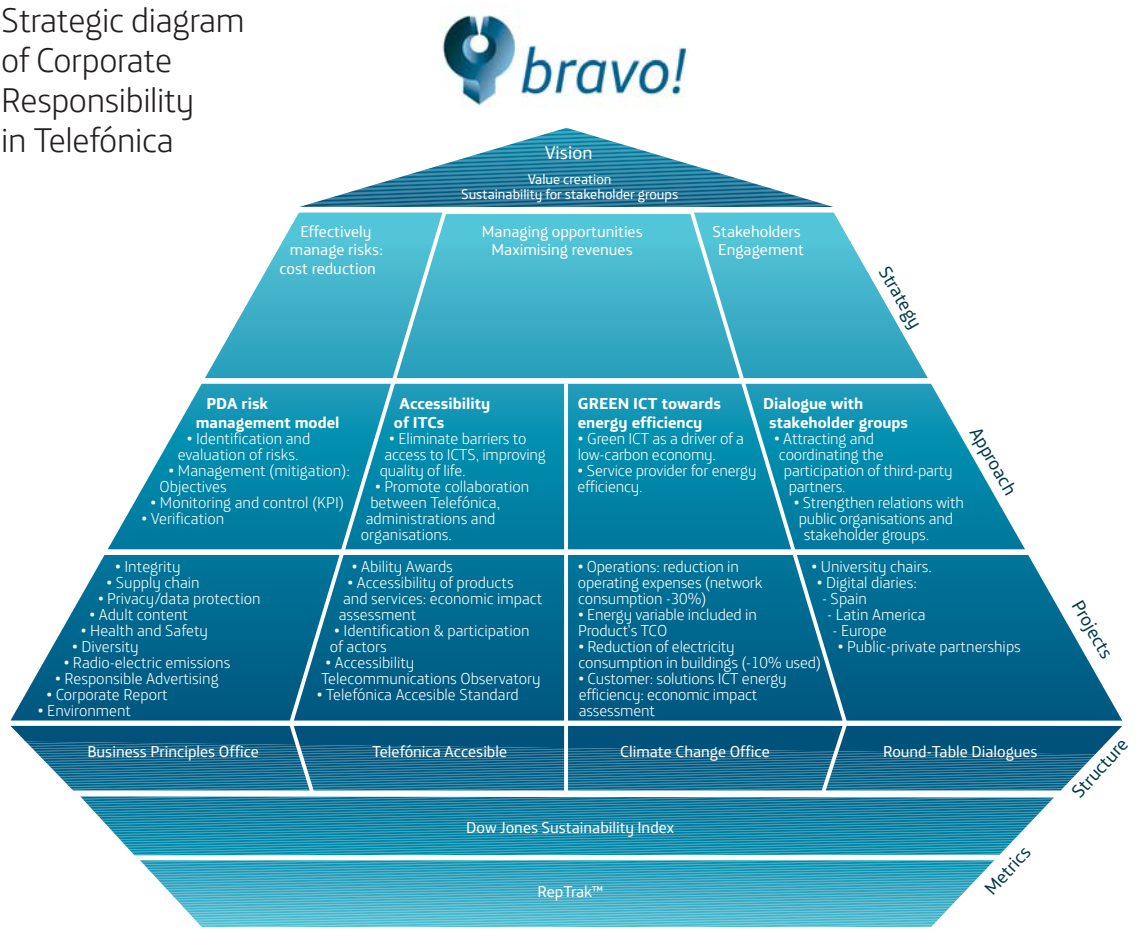
- **Management of Opportunities**, in order to maximise the positive effects on our operations, and with the clear goal of improving and contributing to society. Telefónica is currently working in two areas:
 - Accesibility to Information and Communication Technologies (ICTs): here the objective is to incorporate, manage and implement the global **Telefónica Accesible** programme in all processes, products and services to ensure that the needs of those with special requirements are met, such as the elderly, the disabled or children and young people.
 - *Green ICTs*, for greater energy efficiency. Telefónica's **Climate Change Office** which reports to the Transformation Department and the General Secretary to the Chairman, is responsible for achieving reductions in the Company's energy consumption; promoting the development of more efficient services for customers; and promoting the sector as a driver of energy efficiency.
- **Stakeholders Engagement**, through transparent communication and effective dialogue with stakeholder groups, building relations of trust which enable us to position Telefónica as a

driver of economic, technological and social progress.. Dialogue processes with stakeholders are essential in ensuring that the Company's initiatives remain in line with expectations and allow us to better respond to their most pressing needs and interests. All of this helps Telefónica to adjust its CR strategy and take its business closer to its *stakeholders'* priorities, serving as their mouthpiece.

To evaluate achievement of the Company's strategic goal, in addition to the internal management indicators, the Company has two monitoring indicators.

- The Dow Jones Sustainability Index is the world's most important sustainability index to consider Corporate Responsibility from a business viewpoint. Telefónica was leader in the Telecommunications sector in 2009, with a score of 86.
- RepTrak™, a Reputation index measured by Telefónica since 2005 which allows us to know Stakeholder regarding the Company. This indicator is used in Spain, UK, Germany, Czech Republic, Ireland, Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru and Venezuela. El Salvador, Guatemala, Panama and Nicaragua use the Pulse index.

Strategic diagram of Corporate Responsibility in Telefónica



Principle 1 of the Global Compact

“Business should support and respect the protection of internationally proclaimed Human Rights”.

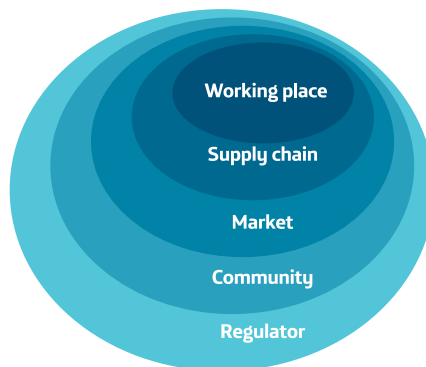
Telefónica is firmly committed to Human Rights and strives to integrate them within its decision making.

Telefónica officially declared its commitment to Human Rights in 2008 through the initiative “Human Rights: A Call to Action”. This initiative was promoted by the Global Reporting Initiative (GRI), Global Compact, and the Ethical Globalization Initiative to evaluate and publish reports on corporate respect for Human Rights, reporting in depth and analysis on Human Rights implementation measures.

The company is an important agent with substantial impact on Human Rights for all in which it comes into contact, particularly its stakeholders: employees, suppliers, the communities in which it operates, the regulator, customers and so on, and it should involve these in its decision making.

Being committed to this, in 2009 Telefónica worked proactively to integrate all aspects related to Human Rights, both in the management of its processes and in its everyday business content, paying particular attention to the development of its international business.

The area of influence of Human Rights¹



¹ Chart prepared by the Danish Human Rights Institute.

Global Reporting Initiative Indicators*

S03 Percentage of employees trained in organisation's anti-corruption policies and procedures.

HR3 Total hour of employee training on policies and procedures concerning aspects of Human Rights.

PR5 Practices related to customers satisfaction, including results of surveys measuring customer satisfaction.

PR8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.

Telefónica indicator	Measurement unit	2008	2009
Employees completing business principles training	Percentage	49.01%	57%
Customer Satisfaction Index	Unit	6.92	6.98
Monetary value of substantiated complaints from regulatory bodies regarding customer privacy ²	Euros	1,064,000	3,832,652

* For further information, see GRI tables (www.telefonica.com/cr09).

² All of these fines correspond to Spain as a result of breaches of privacy or data protection. Although some of them are pending appeal.

Privacy, adult content and on line security, are all aspects with which Telefónica was involved in *during 2009*

Telefónica works actively to ensure the responsible management of different aspects of its business in order to be able to build and maintain the confidence of its customers. These areas include privacy, protection from inappropriate content and the creation of a safe environment which merits the trust of its service users.

Protection of personal data and privacy: Telefónica has made an extraordinary effort in 2009 in implementing a Corporate Protection of Personal Data policy. The aim of this policy is to establish minimum regulations which must be complied with and that guarantee a common level of security for personal information, applicable to all companies within the Group.

Additionally a large number of initiatives have been undertaken aimed at both the company's employees and customers. Worthy of special note among these programmes are the online and classroom training courses, and the modification of the general contract terms and conditions applicable to companies with a view to informing them of their rights and responsibilities regarding matters of privacy and data protection.

Telefónica has also begun to set up compulsory contractual mechanisms to ensure data protection concerning the Group's outsourcers and suppliers.

Provisions concerning adult content: Telefónica is committed to developing an environment in which children can use new technologies in a safe way. As a result, Telefónica Europe blocks content classified as being for adults by default (opt-in). This service is currently installed for prepay mobile phone cards. It has extended this service to telephones on contract in Germany and the UK.

In 2009, it extended the obligation on content suppliers to clearly label content which is suitable for all and that which is specifically aimed at adults in Panama, Ecuador, Spain, Colombia, Peru. Access to adult content requires proof of age and assignment of a code, paid for by credit card.

Online security: Telefónica works to reinforce the idea of "digital confidence" among service users. Among these initiatives we should highlight the SIGA project which seeks to identify internet threats which might affect customers, as well as activities such as *phishing*, which attack the image of the Company, control over Internet sales channels and customer fraud.

Telefónica undertakes numerous initiatives aimed at better listening to our customers

Telefónica always seeks to place its customers at the very centre of all it does. In 2009 numerous programmes and projects were initiated aimed at improving how we listen to them and developing strategies better suited to their priorities.

Among the numerous examples of the Company's new approach to its users the following are worthy of special mention:

- **The Customer Defence Service in Spain**
The Customer Defence Service in Spain handled 5,138 cases in 2009, 62% more than in 2008, continuing the positive development of this service since it was launched.

Of all the complaints received, the Customer Defence Service accepted 63%, and of the cases completed so far, 80% have had a favourable outcome for the customer (75% up on 2008).

- **The Telefónica SP Ombudsman**
This service received 146,749 complaints in 2009. The three main areas of complaints were: Speedy (broadband) (36%); fixed telephony accounts (13%) and fixed telephony lines (11%). The remaining complaints related to over 58 issues.

81% of the complaints were resolved within 5 working days whilst the rest were so complicated that they needed more time, as a result of which the customers were contacted to inform them how long it would take to resolve the issue.

In 2009 Telefónica España developed its Anti-Spam Project which aims to alleviate the problem of *spam* for residential ADSL customers. The initiative identifies *spam* which contains viruses, worms and other *malware* which seeks to infect our customers' computers. Customers are given information on how best to "clean" their equipment and eliminate the problem.



"We shall respect the principles of the United Nation's Universal Declaration of Human Rights, as well as the declarations of the International Labour Organisation. We shall strive to promote equality of opportunities and treat everybody fairly and impartially, without prejudice as to a persons race, colour, nationality, ethnic origin, religion, gender, sexual orientation, civil status, age, disability or family responsibilities".

Human Rights in Colombia

According to the "Annual Report on Human Rights Practices" drawn up by the US State Department, Colombia has become one of the world's most at-risk countries in this regard.

Telefónica Colombia is continuing the efforts it has made over recent years to put into practice its commitment to Human Rights, particularly with regard to the eradication of child labour, extending its business principles throughout the supply chain in Colombia and demonstrating its concern for the welfare of its employees.

In addition, in 2009 it launched a Human Rights projects which will enable it to identify the Human Rights implications and critical factors for the company in the local context, enabling it to implement preventive measures and to react and adjust existing measures.



Through these measures, Telefónica is contributing to the achievement of the following Millenium Development goal: **Goal 8. Develop a global partnership for development.**

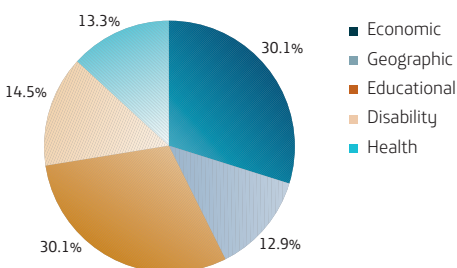
Principle 2 of the Global Compact

“Business should ensure that their businesses are not accomplices in Human Rights abuses”.

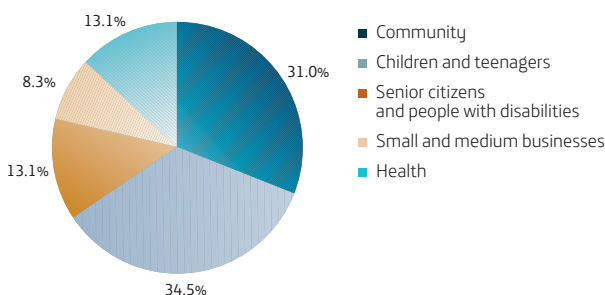
Telefónica undertook 84 digital inclusion programmes in 2009

One of the Company's commitments is to contribute to developing an inclusive society through use of Information and Communication Technologies (ICTs). In 2009 Telefónica invested over 426 million euros in 84 projects with a total of 7 million beneficiaries.

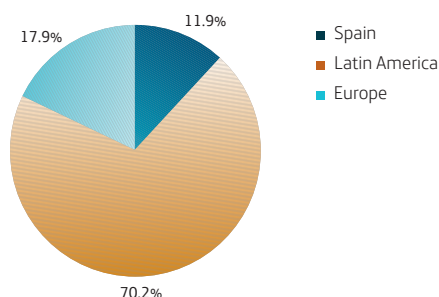
Inclusion initiatives by type of divide



Inclusion initiatives by type of beneficiary



Inclusion initiatives by geographical area



Telefónica is committed to respect for Human Rights in the 25 countries in which it operates, for its more than 260 million customers, 257,000 employees and the 28,000 suppliers¹ involved in its supply chain.

Corporate complicity which violates Human Rights may be passive, direct or indirect. Telefónica has developed three paths of action in order to combat complicity in all its manifestations:

1. Passive. To ensure that lax or unequal laws do not affect Human Rights, Telefónica supports initiatives which promote global action for development, such as the creation in October 2009 of a Regional Centre for the **Global Compact for Latin America and the Caribbean**. The Company is a founder member and plays an active role, which it reinforces by acting as president of this Centre.

2. Direct. Guaranteeing the Human Rights of:

- **Over 257,000 employees** through a strategy which aims to provide the best “Employee Experience” where the employee satisfaction index increased by 4 points in 2009. *For more information, refer to Principle 4*
- **Over 260 million customers** to whom the Group aims to provide the best “Customer Experience”. In 2009, the Company implemented 10 initiatives to consolidate its position as leaders in customer satisfaction. *For more information, refer to Principle 1*

¹ Audited data.

- **In 25 countries** by promoting public private partnerships aimed at improving environmental conditions, avoiding mistreatment and guaranteeing education for children and teenagers, particularly through the Fundación Telefónica Proniño programme, which has over 300,000 beneficiaries. *For more information, refer to Principle 5*

3. Indirect. Working with our suppliers to ensure respect for Human Rights throughout our value chain.

In 2009 the Company continued to implement its Guidelines for extension of its Business Principles throughout its Supply Chain.

Telefónica has evaluated some 6,500 suppliers who voluntarily completed a self-evaluation questionnaire. This was implemented in late 2008. More than 780 suppliers in 14 countries classified as critical for its activity/the country, were required to complete a specific evaluation questionnaire. A total of 7,200 suppliers were assessed.

In 2009, the Company performed 840 supplier audits, 63 of which were in response to the Group's standard criteria. The results have shown significant improvements in Human Resources and Health and Safety, particularly with regard to legal compliance in sub-contracting.

Global Reporting Initiative Indicators*

HR2 Percentage of significant suppliers and contractors that has undergone screening on Human Rights and actions taken.

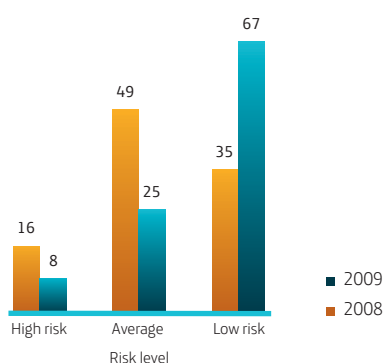
Telefónica indicator	Measurement unit	2008	2009
Nº of risk suppliers assessed	Units	1,100	782 ¹
Number of audit at risk suppliers	Units	55	840

* For further information, see GRI tables (www.telefonica.com/cr09).

¹ 100% of suppliers with risk with activities in 2009 were evaluated.

In 2009, over 7,200 suppliers were assessed and 840 audits were *carried out*

Self-evaluation of at-risk suppliers (%)



Training and awareness raising

The Company is aware that raising awareness among suppliers is a key aspect to ensure the future and the spread of Responsible Supply Chain Management at all levels.

1. As a member of GeSI, in 2009 Telefónica was involved in the launch of two e-learning training modules, which presented the environmental and social aspects which should be taken into consideration in any responsible purchasing process.
2. In 2009, Telefónica held a training workshop in Shenzhen, China which was attended by over 200 people from Chinese companies which supply the ICT sector.
3. Working with the Company Forum since 2007, the Group has been holding Corporate Social Responsibility workshops for small and medium companies in Latin America in order to promote these activities in their corporate responsibility activities. Workshops were held for the first time in Ecuador, Mexico and El Salvador in 2009, completing the list of countries which have taken part in this initiative.

Training for small and medium companies workshops

Nº of participating companies since 2007



Spain: "Somos Humanos" Programme



This programme was launched in 2009 by the Residential Mobile Channel of Telefónica España to promote team work with suppliers, dedicating time to people (customers and suppliers) because *we are all human*.

In participating Call Centres, customer satisfaction increased by 4.6% in just two months from the start of the programme.

Europe: Leading GeSI's Supply Chain Group



Through Telefónica O2 UK, the Company has promoted initiatives in the ICT sector which guarantee respect for Human Rights and sustainable development. Worthy of special mention is the eTASC tool, which allows us to attend to the demands of multiple customers in matters of the sustainable development.



In addition, in early 2010, the Telefónica Group signed a collaboration agreement with ITRI* for implementation of a traceability system which can identify the source and processing of minerals which are critical for the sector (tantalite, coltan,...). The project was put into operation through a pilot programme in eastern Democratic Republic of Congo.

* A non-profit making organisation which represents the tin industry (www.itri.co.uk).



"We require our suppliers to apply similar principles in running their businesses to our own business principles; and we require them to comply with the law".

2 Principles

Promoting Responsible Purchasing



The Telefónica Group's Supply Chain consists of over 28,000¹ suppliers, with a truly worldwide presence and scope. Guaranteeing responsible management is therefore a matter of major importance.

The Company has produced guidelines for the extension of its business principles to its supply chain; these detail the minimum requirements for any supplier wishing to work with Telefónica.

- Child labour is not permitted.
- Forced labour is not acceptable.
- Working conditions which represent a risk to the life of workers, and inhumane treatment at work are not permitted.
- Compliance with environmental laws is required.

In addition, Telefónica actively participates in sector and inter-sector initiatives such as GeSI, ITRI and the Company Forum, which aim to achieve sustainable development, guaranteeing Human Rights and respect for the environment.

These actions demonstrate the commitment undertaken by joining the Global Compact in 2002, which was reinforced by holding the presidency of the Regional Centre for the Global Compact for Latin America and the Caribbean.

¹ Audited data



Through these measures, Telefónica is contributing to the achievement of the following Millenium Development goal: **Goal 4. Reduce child mortality.**

Principle 3 of the Global Compact

“Business should uphold the freedom of association and the effective recognition of the right to collective bargaining”.

Latin America: Aliados Programme



In 2008, Telefónica launched a programme to guarantee compliance with socio-employment standards, and to promote development of partner companies¹ in Latin America in relation to hiring, training, compensation and improving the work environment.

By the end of 2009 the programme was underway in every country in the region and covered:

- Over 170,000 people in collaborating companies who received commercial training (both in person and through e-learning).
- Over 12,000 people in collaborating companies certified in ESTELA² since 2007.
- The iCampus e-learning platform with over 6,000 users.
- Over 900 people from Telefónica and managers of partner companies trained in correctly managing collaborating companies.
- More than 200 participants in Corporate Responsibility workshops.
- More than 800 external audits.

As a result of standardisation, regional tools are now available which will make it easier to implement the programme in 2010:

- Activity outsourcing manual.
- Contract administrator manual.

¹ Companies whose activity originating in productive decentralisation.

² The Latin America Technical School: This pioneering programme in the Region has been set up with suppliers led by the Telefónica Customer Service Department and is integrated within the Aliados programme.

In 2009, the employment conditions of 73% of Telefónica employees were covered by collective agreements affecting more than 186,000 employees.

At the present time there are a number of international treaties which include (directly or indirectly) freedom of union rights. These include the 1948 Universal Declaration of Human Rights and the 1987 International Labour Organisation Agreement, which is dedicated exclusively to this issue.

Each and every one of these treaties recognises Principle 3 of the Global Compact as a fundamental workers' right.

Telefónica is working to ensure that all its workers –both direct and indirect– are able to form or join the union of their choice, without threat of reprisals or intimidation, in accordance with the local legislation of the countries in which they are operating.

As a result, one of Telefónica's commitments to its employees is to respect their right to freedom of association and their involvement in trade union activities. In 2009, Telefónica maintained this commitment, continuing to protect all Group employees irrespective of the country in which they work, guaranteeing their union and employment rights.

The Company is guided in this area by its Business Principles, and by the Social Protocols of International Agreements and the Code of Conduct it has agreed with the Union Network International (UNI).

The employment conditions of 186,970 Telefónica Group employees are regulated by collective agreements (compared to 146,300 in 2008). This is clear evidence of the importance which the Company gives to dialogue between management and the workforce.

The right to collective bargaining was once again upheld in every region where the Telefónica Group operates. This resulted in 64,902 employees taking part in free and fair elections for workers' representatives in 2009.

- In Spain, the 5th Collective Agreement was signed by Telefónica Móviles España (TME) and its workers for the period 2009-2010. In addition, during the last year, TME agreed a workforce restructuring plan (ERE) with the majority of the representatives of its employees. This was based on principles of volunteering, universality and non-discrimination, and affects all TME and Telefónica Soluciones employees.

Global Reporting Initiative Indicators*

LA4 Percentage of employees covered by collective bargaining agreement

Telefónica indicator	Measurement unit	2008	2009
Employees covered by collective bargaining agreements ¹	Percentage	56.9%	72.6%

* For further information, see GRI tables (www.telefonica.com/cr09).

¹ The percentage of employees with collective agreements, where such agreements are negotiated through trades unions (guilds, workers' representatives, etc.).

64,902 employees where directly involved in the election of *workers' representatives*

- In Latin America a number of collective negotiations took place: these included negotiations in Brazil which gained the support of 60% of employees for the proposals jointly agreed with the unions; and negotiations in Peru where the two negotiations which took place during 2009 for the collective agreement for 2008-2011 are awaiting negotiations with the Fetratel Workers' Federation and arbitration.
- Meanwhile, in Europe, there was continuous dialogue with workers' representatives about organisational changes. The most significant changes included the integration of Telefónica Deutschland into Telefónica O2 Germany, which affected some 400 employees, and the restructuring of the company in the UK, which affected 1,000 jobs.

Transparency and Communication

As part of its continuous improvement model, Telefónica is in constant communication with its employees, using internal channels to keep them promptly informed of agreements and organisational changes.

In addition, the Company involves workers' representatives –as one of its main stakeholders– in day-to-day matters which could affect employees. One example of this was the meeting between the Chairman of the Telefónica Group in Brazil, Antonio Carlos Valente, and the leaders of the Telecommunications Workers Union of Sao Paulo (Sintetel) to inform them of the action plan prepared by the Company in the context of the regulator's decision to suspend sales of the *Speedy* service.

Another factor which should be taken into account is the opportunity which the Company offers all its employees to express their opinions and concerns about the tasks they perform; their working conditions; the management style; and their general opinion of the Company, through Employee Satisfaction Surveys which it performs annually. All employees can lodge any complaints they have about any incident which contravenes their right to freedom of association using the confidential help channel made available on the Company's Business Principles webpage.

Telefónica Argentina's Commitment to Social Dialogue

In January 2009, Art. 92 of Argentina's Employment Contract Law, relating to extension of the working day for part-time contracts, was modified. As a result of this change, Telefónica Argentina, with the cooperation of its unions, amended all contracts so that they are in accordance with the maximum limit on the part-time working day or two-thirds of the normal working day.

Likewise, in 2009, the Supreme Court of Justice passed a sentence which signified a change in the remunerative nature of meal vouchers, rectifying the existing legislation. Following this legal change, Telefónica Argentina, together with its unions, took the initiative in establishing a compensation mechanism which recognises benefits equivalent to those flowing from the new criteria. This will avoid potential conflicts on the issue with employees.

The Company's proactive attitude, in collaboration with the unions, has enabled employee conditions to be rapidly modified to adapt to the new legal situation.

Telefónica also supports freedom of association and rights to collective bargaining indirectly through its suppliers. As part of the registration process, suppliers are required to complete a questionnaire including questions about their standards in relation to the UN Declaration of Human Rights and International Labour Organisation Agreements. The Company thus deals with these issues directly with its suppliers, and encourages them to promote and adopt these principles in their own Supply Chains.

For more information, refer to Principle 2



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

Agreement of the 5th Telefónica Móviles España Collective Agreement

The 5th Telefónica Móviles España SAU Collective Agreement was signed in June 2009, covering the period 2009-2010. This Agreement was signed by the main Spanish trade unions: UGT, CCOO and STC.

This agreement represents a step forward in the creation of a framework for working conditions which will make it possible for the Company to confront new challenges, particularly in a converging environment, to continue strengthening its position in the telecommunications sector in a framework of social dialogue and agreement.

Within this collective agreement it is worth highlighting key aspects such as maintaining spending power levels, commitments to professional development and training, the conversion of 3% of variable payment to fixed payment with the subsequent reduction of the variable percentage, the regulation of a convergent framework governing telecommuting, the adaptation to changing Equal Opportunities requirements, improvements in social aspects and a new range of fixed telephony products and services for employees.

All of these represent a continuity of the existing framework of social harmonizing, as well as ensuring both employment stability and improvements in working conditions for all workers. These measures also represent an improvement in Telefónica Móviles España's strategic positioning.



Through these measures, Telefónica is contributing to the achievement of the following Millenium Development goal:
Goal 1. Eradicate extreme poverty and hunger

Principle 4 of the Global Compact

“Business should uphold the elimination of all forms of forced and compulsory labour”.

In-company dialogue in Atento Morocco

In Morocco, the right to join a union and to negotiate collectively is recognised in the Constitution under the international agreements ratified by this country, such as the International Labour Organisation Agreement and the Arab Labour Organisation Agreement for this area.

Faced with the non-existence of unions in Morocco, Atento uses Internal Delegates chosen in internal elections to represent employees in all areas and to ensure legal compliance with internal procedures. These delegates form two internal committees: The Company Committee and the Health and Safety Committee.

ATENTO:

The Company Committee consists of an employer representative and two delegates. This body has a consultative role for the following:

- Structural and technological changes within the company.
- Attending approval of the company balance sheet.
- The Company's production strategy and the means for increasing production.
- The preparation and implementation of company projects to benefit employees.
- Continuous employee training programmes.

The Health and Safety Committee, consisting of the employee or his representative, the security manager, the company doctor and two delegates, is the body responsible for:

- Detecting professional risk.
- Ensuring compliance with legal regulations regarding health and safety measures.
- Guaranteeing the upkeep of internal devices and their correct usage.
- Intervening in all decision-making processes concerning new material, its usefulness and adaptation to working conditions.

The Telefónica Group is committed to its goal of reducing workplace accident figures by 4% with respect to 2008 over the coming three years.

In accordance with the United Nations Global Compact, organisations should determine whether forced labour is a problem within their sector. Whilst forced labour is more common in developing countries, it is also present in developed countries, and we should therefore consider this a global problem. The extent of this problem means that it is essential that there is cooperation between the companies and the community to guarantee its total eradication.

The Telefónica Group, which has a presence in 25 countries, is committed to ensuring the abolition of forced labour, or labour which is carried out under coercion in its operations. This concern, which initially concentrated on company staff, has in recent years extended its focus to employees of our suppliers, above all those who, given their activities or location, are at greater risk, according to the World Bank's definition. (www.worldbank.org)

The Company's Business Principles expressly state that Telefónica does not tolerate any forced labour, or any type of coercion, abuse or intimidation in the workplace, whether directly or indirectly.

Telefónica uses the following specific measures to guarantee that there is no forced labour of any form **directly in its companies**:

- **Contract agreement** Employment relationships with all employees are formalised in employment contracts, which establish the terms and conditions of the work they perform. In addition, the working conditions of the majority of employees of the Telefónica Group are covered by current collective bargaining agreements. Despite the local nature of all such agreements, they have as a minimum standards which guarantee optimum employment conditions in the workforce.

Global Reporting Initiative Indicators*

HR2 Percentage of significant suppliers and contractors that have undergone screening on Human Rights and actions taken.

Telefónica indicator	Measurement unit	2008	2009
Number of suppliers assessed	Units	1,100	7,200
Number of risk suppliers assessed ¹	Units	1,100	782 ¹

LA10 Average hours of training per year per employee by employee category.

Telefónica indicator	Measurement unit	2008	2009
Total training expenses	Miles de euros	64,514	63,298

* For further information see GRI tables (www.telefonica.com/cr09).

¹ 100% of suppliers with risk with activities in 2009 were evaluated.

The Employee Satisfaction Index improved 4 percentage points in 2009

- **Fair wages.** The starting salary for all company employees is always higher than the local minimum wage. For example, in the case of Atento in Morocco, employee wages are 169% higher than the legal minimum wage in the country.

This fixed starting salary is supplemented in many cases with variable remuneration and social perks such as pension plans, medical insurance and life insurance.

- **Flexibility.** In the last year we continued with the implementation of our New Ways of Doing Things: mobile working, tele-working, collaborative networks, incorporating techniques such as target-based management, increased autonomy, responsibility and communication and managing on a human scale.

By the close of 2009, almost 7% of the Company's employees had a telecommuting contract (4% without Atento) and over 15% saw a reduction in their working day (2% without Atento).

- **Safety.** As in previous years, the safety of our employees has an important place in the corporate management of the Telefónica Group. The prevention of workplace accidents is one of the principal areas of focus in attaining this objective.

Workers are involved (through their representatives) in all aspects related to Health and Safety at Work; this is not just a legal requirement for Telefónica but rather it is fundamental to ensuring that the prevention of employment risks is fully integrated into the operations of the Company in a way which is both proactive and agreed. A clear example of this intention is Telefónica España's Health and Safety Central Committee which in 2009 revised the Company's General Employment Risks Evaluation, which assesses the risks associated with each and every post in the Company based on the processes and tasks involved, specifying the applicable preventive measures in each case.

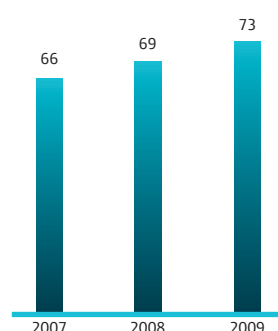
Health monitoring, as a preventative measure, constituted a large part of the activities undertaken in 2009. The principle aim of these measures is to ensure the medical aptitude of its workers in carrying out their work. The protocols to be followed in carrying out this monitoring are mainly based on processes and activities set out in the general risk assessment.

In 2009 in-depth qualitative and quantitative analysis of Telefónica accident figures was undertaken, allowing the company to obtain greater information regarding the circumstances in which they occur.

Workplace accident indicators for 2009 were as follows: Incidence Rate 7.47; Severity Ratio 145.29 and Average Duration Rate 19. Whilst these results are slightly higher than in 2008, the increase is due to an improvement in the methodology employed in compiling information for the Group. In any event, we are still well on course for our target of reducing the accident rate by 4% over the coming three years (based on 2008 figures).

The goal of these measures is for the Telefónica Group to become "the best place to work" through promotion of the satisfaction and commitment of all employees. The Working Environment and Commitment Index, based on an 2009 interview with a total of 90,407 employees of 76 companies stood at 73%, 4 p.p. more than in 2008 and 2 p.p. above planned targets.

Employee Satisfaction Index (%)



Telefónica's commitment to Principle 5 of the Global Compact is also indirectly extended **through its suppliers**. As a result, last year the Company once again continued with the implementation of its Guidelines for Extension of its Business Principles to the Supply Chain.

Analysis of the self-evaluation questionnaires (implemented at the end of 2008 for most suppliers) found that one of the most salient risks was not having any mechanisms in place to ensure that there was no forced labour, with Latin America being the most vulnerable region.

In order to improve this situation in Latin America, the Company is implementing the Aliados project, which aims to improve socio-employment conditions in suppliers which are intensive labour users. [For more information, refer to Principle 2](#)



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

Telefónica ensures its Value Chain in Ecuador through its Business Principles

In 2009 Telefónica Móviles Ecuador reinforced its Business Principles to ensure transparent and responsible management in the supply chain, through on-site training of partners and small and medium companies and the promotion of our Principles with our authorised distributors.

87% of staff involved in administering contracts for products and services received on-site training in the course "A culture based on our Vision and Business Principles". This is a key requirement in the implementation of our policy for managing relations with third parties.

During the course on Corporate Responsibility, 17 small and medium supplier companies received training on preparing a code of conduct based on principles similar to those of the Company.

Through the electronic "Red Movistar" newsletter, 160 executive managers and sales coordinators in Authorised Distributors received messages related to our Business Principles.

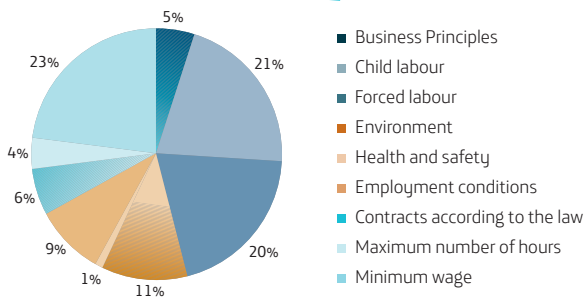


Through these measures, Telefónica is contributing to the achievement of the following Millenium Development goal:
Goal 1. Eradicate extreme poverty and hunger.

Principle 5 of the Global Compact

“Business should uphold the effective abolition of child labour”.

2009 self-evaluation by suppliers: Main causes of risk



Telefónica, the benchmark company for workers

In 2009 the Company had the largest number of companies considered the best place to work according to *Great Place to Work* rankings in Latin America.

Position	Operators
1	Telefónica O2 Germany
1	T. Móviles Uruguay
1	T. Móviles Ecuador
1	T. Venezuela
2	Telefónica O2 Ireland
4	T. Móviles Chile
4	T. Móviles Colombia
10	T. Telecom
11	T. Móviles Argentina
11	T. Central America
13	T. Móviles Peru
18	TSC Peru
24	Terra Peru
25	T. Móviles Mexico
25	Terra Argentina
41	T. Argentina
48	Terra Mexico
35	Telesp
53	Vivo
56	Terra Brazil
	T. Peru (*)



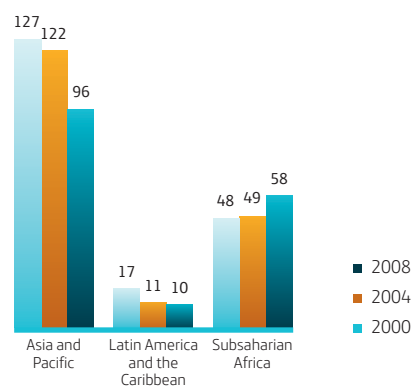
Special ranking:
 IT & Telecom ranking
 (*) Among large companies with over 700 employees

Almost 170,000 children benefited in 2009 from the Proniño programme through 1,185 alliances, which made it possible to mobilise more and better resources against child labour.

Child labour continues to be one of the most worrying blights on our society. Telefónica works on two fronts in order to make a significant contribution to its eradication: the first focuses on the responsible management of the supply chain, promoting mechanisms that guarantee the absence of child labour whilst the second works through Proniño, the Group's social action programme which strives to ensure the future of children and adolescents, working to ensure their access to quality education. [For more information, refer to Principle 2](#)

Child labour (age group 5-14)

Million



Source: International Programme on the Elimination of Child Labour

Proniño, set up in 1998 and aligned to the regional targets of the International Labour Organisation (ILO)¹, is jointly managed by the Fundación Telefónica and Group operators in 13 countries of Latin America: Argentina, Brazil, Chile, Colombia, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, Panama, Peru, Uruguay and Venezuela.

The programme seeks to significantly contribute to the eradication of child labour in Latin America through the schooling of working children and adolescents, using Telefónica technology and management systems in order to improve the educational quality and integral protection of the affected children.

Initiatives of this kind make it possible to reduce child labour which the ILO regularly monitors and publishes. Nevertheless there are still 10 million children aged between 5 and 14 who continue to work.

The Proniño programme has three focal points:

- **Comprehensive protection:** This ensures the measures necessary for the schooling of working children or who are at risk from being coerced into working. This not only includes the schooling and material, but also health check-ups,

¹ The International Labour Organisation (ILO) seeks to eradicate the worst forms of child labour before 2015, and all child labour by 2020.

Global Reporting Initiative Indicators*

HR6 Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour.

* For further information, see GRI tables (www.telefonica.com/cr09).

nutritional support and educational activities that promote the productive use of free time, thus avoiding potential risk. The programme also carries out activities aimed at families, the school and the community, with a double objective: create alternative income channels and break the cultural norms that justify child labour. All of these activities are undertaken in collaboration with a number of prestigious NGOs.

- **Educational quality:** Strengthening educational and learning processes in the educational centres used by beneficiaries of the Proniño programme through the use of ICT.
- **Social and institutional strengthening:** Producing and communicating knowledge about child labour to raise social awareness, strengthening all parties involved in implementing the Proniño programme and creating a network of organisations working in this area.

Proniño in figures 2009

- 163,900 children returned to school.
- 144,760 children and teenagers helped in addition to those offered comprehensive protection.
- The Proniño programme is continuously active in 4,092 educational centres with the collaboration of 108 NGOs.
- 275 Fundación Telefónica Classrooms set up and more than 5,034 educators trained.
- 1,185 alliances will make it possible to mobilise more and better resources against child labour.

EducaRed is another important educational programme led by Fundación Telefónica; the goal of this programme is to provide a service to society by contributing to innovation in education through Information and Communication Technologies (ICTs).

The main strategic approaches of this programme are:

- To facilitate the integration of technology into the classroom and providing the educational community with the tools required to promote its use.
- To promote and maintain leadership in educational innovation, demonstrating the transformative power of ICT.
- To stimulate the creation of virtual communities of teachers, pupils, parents and other members of the educational sector across national boundaries.

Significant indicators for the EducaRed Programme

- 86,623 direct participants in the 2,385 educational initiatives developed.
- 365,352 people registered in 178 virtual work and exchange communities.
- 72,689,811 Visits to the EducaRed website.
- 1,283,551 training hours given.

World Day Against Child Labour

The 12th June is the World Day Against Child Labour, instigated by the International Labour Organisation (ILO).

This date is designed to highlight the serious situation facing children and adolescent workers. Telefónica has promoted and undertaken numerous activities related to child labour, both in Spain and the 13 countries of Latin America where it operates.

Among these activities we should highlight the following: the opening of educational centres, open-house days, the launch of information campaigns through various media and SMS messages, the organisation of debate forums and a number of educational leisure activities. These activities, which enjoy the support of public and social representatives, spread the word about the work and achievements of the children and adolescents that go to make up Proniño.

The 3rd Proniño Forum for combating child labour

Fundación Telefónica took part in the World Day Against Child Labour by Organising the 3rd Proniño Forum, in collaboration with ILO-SCREAM. This year a wide range of senior representatives of public and private bodies were involved in exchanging opinions about child labour and debating possible solutions in the context of the current economic crisis. Some of the issues debated included the role of public bodies and the private sector in tackling new situations related to this issue; innovative experiences aimed at eradicating child labour; schools as a centre for social and educational innovation and prevention through the use of ICT. At the Experiences Roundtable -one of the new features of the Forum- people involved in this fight shared their experiences of projects, activities carried out and the results achieved.

For more information, visit:
www.fundacion.telefonica.com/pronino/foro_pronino



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

Proniño Plus, a high-impact project which aims to increase the programme's coverage

In 2009 the Fundación Telefónica set the target of increasing the scope of the Proniño programme, by defining a high-impact strategy which will enable a gradual eradication of the child-labour deemed to be the most dangerous which can be declared in the countries committed to establishing child labour-free areas.

As far as the free areas of child labour are concerned, special mention should be made of the results obtained in Panama and Uruguay. Other countries have focused on tackling and erradicating the worst forms of child labour, as is the case with Ecuador, with action centring on rubbish dumps, whereas in Colombia, the emphasis is on the country's market places. Such activities have been possible thanks to the solid institutional relations between the Government and the Fundación Telefónica. This close collaboration seeks to ensure that the fight against child labour is included in future development plans and that both institutions may contribute their respective experience in order to respond to the problem. A good example of this are the collaboration agreements signed with the governments of countries in which Fundación Telefónica invests funds to meet the needs of child labourers.

The initiative has allowed almost 40,000 more children and adolescents to join the programme than were originally expected.



Through these measures, Telefónica is contributing to the achievement of the following Millenium Development goal:
Goal 2. Achieve universal primary education.

Principle 6 of the Global Compact

“Business should uphold the elimination of discrimination in respect of employment and occupation”.

In Ecuador, Proniño has undertaken a project to eradicate hazardous forms of child labour in agriculture and services

At the end of 2009, Fundación Telefónica, the Employment Relations Minister, the Education Minister, Expoflores, Hogar de Cristo, the Development and Self-management Centre, the Zone I Chamber of Agriculture and the Sierra and Oriente Farmers' Association undertook a new project which aims to prevent and eliminate the most dangerous forms of child labour in Ecuador.

The project promotes social and educational development through inclusion, permanence and completion of education for 15,400 children in ten provinces of Ecuador who are at risk or who are involved in dangerous work in the agriculture and service sectors. This has established a new front in the fight to prevent and eradicate all forms of child labour, and has combined the commitment of the country's government bodies, civil society and the productive sector.

20.7% of management positions were occupied by women at the end of 2009.

As set out in the United Nation's Worldwide Pact regarding Principle 6, discrimination may arise in a wide variety of work-related situations. These include access to employment and certain occupations, training and career development.

Companies need to ensure non-discriminatory practices, both at the point of access to employment and in the treatment employees who form part of their workforce.

The Telefónica Group, through its Business Principles, makes it clear that it will not tolerate discrimination, either direct or indirect, and promotes equal opportunities for all and at all times.

This commitment is embodied in Telefónica Group's Global Diversity Project. In its second year, the project became the

framework through which the concept of cultural diversity is implemented within the Company.

To this end, through the HR and Corporate Reputation and Responsibility departments, Telefónica continued to work in three main areas: raising awareness, an internal integration policy and careful measurement of indicators for management purposes.

Among the **raising awareness activities**, special mention should be made of the results obtained by Telefónica O2 United Kingdom and its on line training module covering employee diversity and inclusion, launched in 2008. Currently over 93% of the Company's employees have successfully completed this module, exceeding the target 90% set for 2009.

Global Reporting Initiative Indicators*

LA13 Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership and other indicators of diversity.

Telefónica indicator	Measurement unit	2008	2009
Women	Percentage	49.0	50.1
Women managers ¹	Percentage	16.6	20.7
Number of disabled people	Employees	1,542	1,420

HR4 Total number of incidents of discriminated actions taken.

Telefónica indicator	Measurement unit	2008	2009
Incidents registered through confidential help facility related to discrimination incidents	Units	15	0

* For further information, see GRI tables (www.telefonica.com/cr09).

¹ Audited data in comparable terms. The indicator is calculated as follows: Number of women managers (Management and Executive Management) divided by total managers (Management and Executive Management).

50% of the Telefónica workforce are *women*

Meanwhile, Telefónica Móviles Ecuador, through its employment integration and training programme "I'm just like you", has sought to actively contribute to equality of opportunities for disabled people. The initiative, in its second year, was once again carried out in three phases: selection process, training modules, and finally those selected were assigned to the areas in question. This type of programme allows the full integration of 43 disabled employees (3.8% of the workforce as of December 2009).

Similarly, diversity management is a reality, both internal (employees with differing profiles) and external (a variety of clients), meaning that all advantages could be maximised as well as promoting **transformation thanks to this integration**. Telefónica's commitment to the abolition of employment discrimination can be seen in the criteria that lie behind the selection processes of selection, hiring, remuneration, talent management, employee training and promotion. In each of these processes priority is given to capacity, competence and merit as determining factors, thus reflecting Telefónica's business principles.

Once again, we will be working to improve transparency in our selection processes. Through the Vacantes intranet website, Telefónica employees can access the different processes which are available on a global level, for both management and non-management.

Similarly, Telefónica's new corporate website (www.telefonica.com) features a section providing information on career opportunities, offering everybody the chance to access selection processes regardless of their nationality, gender, age or disability.

Telefónica, S.A allows all its professionals to develop their skills and experience to the maximum within an international environment, managing diversity through policies and processes that promote rotation and the exchange of world experiences. Within this context, special mention should be made of the International Assignment Programme for operators in Latin America, which permits the best corporate practices to be shared, knowledge to be spread and essential skills exchanged between the countries and companies in the region, as well as a chance to get to know the various cultures and ways of working in each one.

The promotion of cultural diversity within the company is reflected, for a further year, in numerous **indicators**.

By the close of 2009, Telefónica employed 128,881 women, 50.1% of the Group workforce, up 1.1% on the previous year. Similarly, women constituted 20.7% of Company management (compared to 16.6% in 2008).

The Telefónica Group's commitment to disabled people goes back 35 years, during which time the ATAM - the Telefónica Disabled Attention Association - was founded, an association dedicated to improving the lives of people with disabilities.

Another example of the Company's commitment are the Telefónica Ability Awards, which began in Ireland and which in 2010 were held in Spain. These awards provide public recognition of those companies that develop sustainable models, including disabled people in the value creation chain, either as employees, clients & customers and/or suppliers.

In 2009, Telefónica had 1,420 disabled employees, 8% down on the previous year, mainly due to a legislative change in the Czech Republic.

As well as these internal initiatives, the Telefónica Group also worked externally to promote compliance with the aforementioned Principle 6. In order to do so, it implemented the Supply Chain Business Principles Extension Regulation and in the development and implementation of the Workplace Integration of Disabled People Internal Regulation in Spain. *For further information see Principle 2*



"We shall strive to promote equality of opportunities and treat everybody fairly and impartially, without prejudice as to a person's race, colour, nationality, ethnic origin, religion, gender, sexual orientation, civil status, age, disability or family responsibilities".

6
Principles

ATAM, 35 years of commitment

ATAM is a Telefónica social project undertaken in Spain in collaboration with the Company's employees, which seeks to provide a response to questions of disability and/or dependency. The association, founded in 1974, offers solutions and assistance to family units, with the goal of promoting the social and employment integration of disabled people.

After 35 years, in 2009 the Association underwent a process of transformation based on innovation and outreach to its members, and as a result, the model of organisation has also changed. This transformation has focused on creating the means, instruments and tools required in order to be more useful to members and their families.

The ATAM has thus reinvented itself and adapted its response to its beneficiaries based on their needs, improving its coverage both in terms of services and extending its network of Member Care Offices on a national scale. Currently, nearly 60,000 members can benefit from ATAM services, with a network of over 18 centres across Spain.

Assimilation into working life is one of the foundations of the new ATAM model, something which is particularly evident at Telefónica's Special Employment Centres, such as Laveco (Servicios Sociales de Lavandería S.L.), in Madrid, Mondeco (Servicios Sociales de Manipulados Industriales S.L.), in Valencia, and Servitelco (Servicios Sociales de Telecomunicaciones S.L.), with centres in Barcelona, Seville and Madrid, at which, through a range of methodologies and approaches, disabled people are given real employment training, with the promise of a paid job.

For more information, visit:
www.atam.es



Through these measures, Telefónica is contributing to the achievement of the following Millenium Development goal:
Goal 3. Promote gender equality and empower women.

Principle 7 of the Global Compact

“Business should support a precautionary approach to enviromental challenges”.

The signing of the European Charter of Diversity in Spain



On the 27th of March 2009 Telefónica signed the European Charter of Diversity in Spain in order to promote diversity and inclusivity in its operations. This European initiative which has already been implemented in France, Germany and Belgium is a voluntary code of commitment for companies and institutions aimed at promoting the principles of diversity and inclusiveness in the workplace.

This protocol, part of the framework of the European Union's anti-discrimination regulations adopted in 2000, is run by the Foundation for Diversity, and has the direct support of the European Commission's DG for Employment, Social Affairs and Equal Opportunities.

Telefónica's adhesion to this Charter is in line with its strategy to promote cultural, gender and physical ability diversity within our organisation.

In 2009, Telefónica undertook 979 environmental impact studies, investing over 4 million euros in measures designed to prevent the potential environmental impact of its activities.

Environmental prevention is one of Telefónica's key areas of attention in order to maintain and guarantee compliance with environmental requirements and impact control.

One of the most important tools in prevention is analysing and assessing environmental risk, as well as an evaluation model which assesses defined initiatives in order to mitigate any potential impact. In 2009 therefore, maps outlining environmental risk were prepared and mitigation measures defined in fixed and mobile telephony operations in Argentina, Chile, Colombia, Peru and Brazil (fixed telephony only).

This has allowed us to define environmental control measures associated with the planning, construction, maintenance and dismantling of fixed and mobile telephony networks.

Within the framework of the Company's global environmental management system there are a number of guides which set out the preventive measures to be borne in mind during the deployment of the network:

- Environmental Waste Management Guide. GA-001.
- Evaluation of Visual Impact of Communications Masts Environmental Guide. GA-002.
- Environmental Noise Control guide. GA-003.
- Radio-Electric Emission Control Environmental Guide. GA-004.

Global Reporting Initiative Indicators*

EN14 Strategies current actions and future plans for manging impact of biodiversity.

EN26 Initiatives to mitigate environmental impacts of products and services, and extent of mitigation impact.

EN30 Total environmental protection expenditure and investments by type.

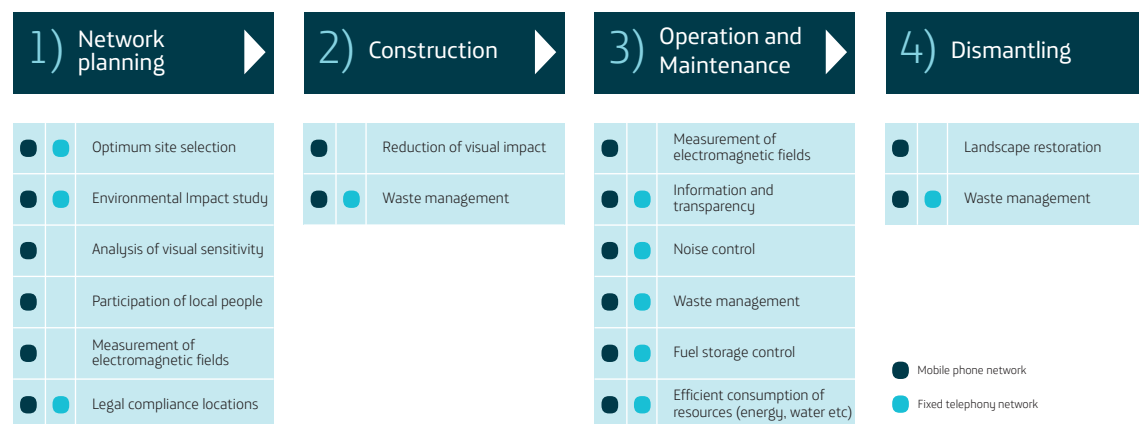
IO05 Compliance with ICNIRP guidelines on exposure to radiofrecuency emissions from base stations.

IO07 Policies and practices on the siting of masts and transmission sites including stakeholder consultation, site sharing, and initiatives to reduce visual impact.

Telefónica indicator	Measurement unit	2008	2009
Environmental impact studies	Units	1,104	979
Noise measurements	Units	906	1,273
Measurement of electromagnetic fields	Units	5,865	16,884
Hours of employee environmental training	Units	34,607	16,491
Investment and expenses in measurement of electromagnetic fields	Thousands of euros	2,208	4,045
Acoustic impact adaptation investment	Thousands of euros	3,099	1,259
Expenses in Network deployment environmental impact studies	Thousands of euros	740	449
Visual impact adaptation investment	Thousands of euros	3,310	3,092

* For further information, see GRI tables (www.telefonica.com/cr09).

Environmental practices in network deployment



Planning and Construction

During network design, Telefónica uses a range of measures in order to prevent possible future impact. All environmental impact studies to reduce the potential effect of installation required by the public authorities are carried out, and the necessary corrective measures proposed. In 2009, 979 studies of this kind were undertaken.

As a voluntary measure, Telefónica undertakes visual sensitivity analysis on the majority of its mobile telephony operations in order to ensure that the impact of each particular infrastructure is as limited as possible. As a result of this, two types of operations are undertaken. The first is visual adaptation, which seeks to integrate the infrastructure within the environment through the use of paint finishes or by simulating the structures and textures which are similar to the buildings or landscape in which they are located. The second measure involves sharing the infrastructure with other operators. In 2009, 3 million euros were invested in visual impact adaptation whilst 25,206 installations were shared with other operators.

During this development period, much dialogue and working together with interest groups –clients and customers, neighbourhood organisations, non-governmental organisations, local town councils, etc.– helps the Company to improve. Certain operations require radio-electric emission studies to be undertaken before the base station can come on line.

Maintenance

During the network maintenance phase Telefónica applies the precautionary principle, Telefónica controls and monitors its radio-electric emission levels in order to ensure compliance with European and international regulations and recommendations. Thus, in 2009, the Company undertook 16,884 measurements at its base stations, confirming that 100% were within the limits established in the applicable legislation.

The Company is conscious of the concern that exists within society regarding radio-electric emissions, and therefore maintains ongoing and transparent communication regarding the matter. Wherever required, the Operator provides information to neighbourhood organisations, administrative bodies and any other interested third parties.

Another relevant aspect concerning Telefónica installations is that of noise. The sources of noise emissions are closely monitored and evaluated in order to ensure their regulation and control. Throughout 2009, 1,273 measurements of sound levels were undertaken, and 1.3 million euros invested in order to reduce their impact.

Dismantling

There are also a series of preventive measures in place for whenever a Telefónica infrastructure is dismantled. Steps are therefore taken in order to restore the area to its original condition in such a way that there is no sign that a facility ever existed there, applying minimum restoration criteria to all such facilities.

Training and awareness raising

Another key prevention aspect is training and employee awareness raising. In 2009, 16,500 hours of training were delivered throughout the Group, with practically all our companies undertaking awareness raising campaigns.

Telefónica suppliers also play a key role, and the passing on of our environmental requirements to these companies and individuals is of great importance in ensuring respect for the environment. To this end, environmental clauses are included in all contracts, training is provided –in 2009 this totalled approximately 1,000 hours– and specific audits are undertaken.

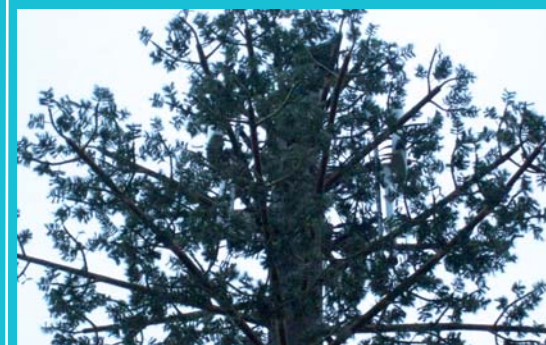
“We are committed to sustainable development, the protection of the environment and the reduction of any negative impact arising from our operations in the environment”.

Minimising visual impact

During 2009, 114 base stations in Ecuador were visually integrated with their surroundings.

The application of visual integration measures has seen new designs which guarantee greater impact reduction. 3 examples are worthy of particular note:

1. Bahía Centro Station, Bahía de Caráquez, implemented July 2009.
2. Estación Recoleta, Quito, implemented July 2009
3. Puerto Ayora Jetty Station, Galapagos, implemented January 2009.



Example of a mobile communication tower camouflaged under a structure which simulates vegetation.



Through these activities, Telefónica is contributing to achieving the Millennium Development Goal:
Goal 7. Ensure environmental sustainability

Principle 8 of the Global Compact

“Business should undertake initiatives to promote greater environmental responsibility”.

Telefónica's activities are undertaken with the strictest of guarantees for local people

As well as ensuring strict compliance with existing regulations governing exposure to electromagnetic fields, in order to respond to the need for information that the general public demand, Telefónica España as a socially responsible company has established a series of channels with which to ensure that the most relevant information can be passed on to its customers and other interested parties through its website, as well as keeping employees up to date through its intranet (internal newsletters, Q&A documents, suggestions boxes, etc.). In order to do so, Telefónica:

- Maintains continuous collaboration on an institutional level with the Administration and other institutions, with a view to harmonising network deployment and ensuring greater and better dissemination of information. In 2009, Telefónica undertook a series of dialogues with Town and City Councils and regional governmental bodies, supervised by the company's Territorial Committees, with a view to catalysing collaboration with all levels of the Administration, especially within a local context. The aim was to facilitate discussions on deployment of the infrastructure that is necessary to support mobile services in an environment of understanding, that would contribute to more flexible procedures offer maximum assurances.
- Collaborates in the holding of Informative One-Day Conferences, open both to the Public Administration and the general public, at which questions which cause social concern may be examined as well as giving an impetus to the deployment of the infrastructures that are required for the mobile telephony services that the public demand. These one-day conferences cover subjects such as the functioning of mobile telephony networks, aspects which determine the design of networks in relation to their locations (vicinity or dispersion) and the technical requirements involved in installing base stations in an area, references to framework legislation regulating such facilities at a national, regional and local level, the definition of municipal powers relating to such infrastructures and guarantees in place covering the deployment of telecommunications networks (the conclusions reached by the World Health Organisation's scientific committees and the Spanish Ministry of Health, among others). In 2008 and 2009 Telefónica collaborated in nearly 50 such one-day conferences.

In 2009, our new Madrid headquarters was awarded the environmental management certificate by AENOR, having met the international standard ISO 14001:2004.

Global Reporting Initiative Indicators*

EN01 Materials used, by weight or volume.

EN03 Direct energy consumption by primary energy source.

EN04 Indirect energy consumption by primary source.

EN08 Total water withdrawal by source.

EN16 Total direct and indirect greenhouse gas emissions by weight.

EN22 Total weight of waste by type and disposal method.

EN23 Total number and volume of significant spills.

EN27 Percentage of products sold, and their packaging materials, that are reclaimed by category.

EN29 Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations and transporting members of workforce.

EN30 Total environmental protection expenditure and investments by type.

Telefónica indicator	Measurement unit	2008	2009
Total white paper consumption (including invoices)	Tonnes	16,281	16,943
Total recycled paper consumption	Tn	683	657
Fuel consumption in fleets	Miles de litros	27,677	24,443
Electricity consumption in office buildings ¹	MWh	874,730	695,989
Electricity consumption in operational buildings ¹	MWh	4,279,832	4,528,070
Water consumption	Thousands of litres	4,871,780	4,470,909
CO _{2e} direct emissions ¹	Tn	156,566	119,999
CO _{2e} indirect emissions (electricity) ¹	Tn	1,918,623	1,925,781
CO _{2e} indirect emissions (from travel) ¹	Tn	27,909	59,682
CO _{2e} Total	Tonnes	2,103,098	2,105,462
Paper and cardboard waste	Tonnes	3,587	2,237
Telefónica electrical and electronic equipment waste	Tonnes	2,509	1,978
Battery waste	Tonnes	2,110	2,681
Other Telefónica facility waste	Tonnes	37,202	81,221
Customer electrical and electronic equipment waste	Tonnes	1,632	1,895
Total waste recycled	%	n/a	75
Oil	Thousands of litres	112	89
Reuse of equipment	Units	1,512,892	1,377,990
Fuel spills	Units	27	37
Fuel spill volume	Thousands of litres	4	13
Work travel by plane	Units	72,338	117,709
Work travel by train	Units	45,525	88,550
Work travel by car	Units	13,965	18,946
Expenses and investment in environment	Thousands of euros	20,089 ²	32,936

* For further information, see GRI tables (www.telefonica.com/cr09).

¹ Energy and emission data through auditing processes and external verification.

² Incomplete perimeter.

Environmental management systems play a key role in the protection of the environment and the correct control and use of resources. Such systems ensure the establishment of a series on minimum standards that in turn guarantee the protection of the landscape from the possible impact by Telefónica activities.

In 2009, the Company approved the implementation of its Global Management System, guaranteeing compliance with certain common standards applicable to the management of all the Group's operations. The implementation process will be extended until late 2012. We will therefore be working to ensure that all Telefónica companies have solid Environmental Management Systems (EMS) in place which are fully integrated across all Company processes.

This global EMS, designed to conform with the international ISO 14001 standard, sets out the common directives applicable to all Group companies. This common, global focus seeks to establish the best possible environmental practices which, on occasions go further than existing environmental legislation, and achieve synergies which as well as ensuring the best possible overall Telefónica environmental practices, contribute to more efficient management.

Currently, over 50% of Group companies hold certification which confirm that their EMSs comply with ISO 14001 and make all possible efforts to ensure ongoing improvements in environmental matters, whilst 100% manage their environmental aspects.

Waste and Consumption Management

- Waste management.** The generation of waste is one of the most significant environmental impact issues resulting from Telefónica activities. Waste type is varied, and all are managed separately by authorised treatment companies based on the danger they represent. The most relevant are waste from electrical and electronic equipment (WEEE - 1,978 tonnes in 2009), other network and office waste (87,086 tonnes), and hazardous waste, the most significant of which in the case of Telefónica is batteries (2,681 tonnes). From its total amount of generated waste, Telefónica managed to recycle almost 75%.
- As well as its commitment to the environment, in most of its operations, the Group offers its clients and customers the option to deposit all unused telephones in recycling containers. In 2009, 1,895 tonnes were recycled as a consequence of this practice.
- Paper consumption.** In 2009, 2,732 tonnes of white paper were recycled in company offices along with 657 tonnes of recycled paper. Telefónica implements practices aimed at reducing consumption and promoting the use of recycled paper which, year by year, will spread across the group, extending the "paper-free office" model.

At the same time, the Company is seeking to promote paperless billing of its customers, further reducing paper consumption. In 2009 more than 12 million users have opted for the e-invoice option.

- Water consumption.** While it is undoubtedly true that water is a scarce resource, Telefónica activities do not rely on its large-scale consumption, and therefore the company's actions focus on implementing good practices. In 2009, the company consumed 4 million m³ of water.
- Electricity consumption: Energy Efficiency.** In 2009, the operations divisions began to implement efficiency measures at their facilities in order to reduce the consumption of electricity in the Group's operations, basing such implementation on the Telefónica Group's Manual of Good Energy Efficiency Practices. The implementation of these measures represents a process of transformation that allows compliance with the corporate goal of reducing Telefónica Group network electricity consumption per equivalent access by 30% by 2015 compared to 2007.

In 2009, the Company consumed 5,224.06 Gwh.

District C obtained the ISO 14001 certificate in recognition of its environmental management

In 2009, the Company's new headquarters office in Madrid was awarded the environmental management certificate by AENOR, having met the international standard ISO 14001:2004. These offices house 12,000 employees across 10 group companies in an open plan business complex with a floor area of almost 370,000 m². These offices are the largest of their size and characteristics to hold such a certificate in Spain.

Since the planning stage, District C was conceived as a sustainable campus. The building has 16,600 solar panels on its roof, and an architectural and landscape gardening policy that at all times seeks to ensure the greatest possible efficiency in the use of resources.

In 2009 a series of measures were implemented aimed at reducing the environmental footprint of District C. These saw electricity consumption cut by 4.4% through steps such as the installation of LEDs, improvements to lighting timer programming and the installation of associated activity detectors. Paper consumption across the office complex was also reduced by 15% with of all paper sourced from rented material 88%. All of these measures were accompanied by the Efecto Eco environmental campaign, which, in collaboration with the WWF, seeks to involve all the Group employees.



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

Telefónica Group Environmental Policy

Our Global Environmental Management System framework is implemented based on this policy. This system is based on a series of Regulations and Application Procedures, the aim of which is to set Environmental Management directives for Telefónica Group companies, in such a way that a series of common elements can be established to ensure better environmental behaviour across the Company.

This Regulation is in line with ISO 14001:2004 directives on Environmental Management Systems.

8 Principles

Breakdown of environmental management at Telefónica

	Externally certified EMS	Externally certified management system
Spain fixed telephony	☺	☺*
Spain mobile telephony	☺	☺
Argentina fixed telephony	☺	☺
Argentina mobile telephony	☺	☺
Brazil fixed telephony	☺	☺
Chile fixed telephony	☺	☺
Chile mobile telephony	☺	☺
Colombia fixed telephony	☺	☺
Colombia mobile telephony	☺	☺
Ecuador mobile telephony	☺	☺
El Salvador mobile telephony	☺	☺
Guatemala mobile telephony	☺	☺
Mexico mobile telephony	☺	☺
Nicaragua mobile telephony	☺	☺
Panama mobile telephony	☺	☺
Peru fixed telephony	☺	☺*
Peru mobile telephony	☺	☺*
Venezuela mobile telephony	☺	☺
Germany mobile telephony	☺	☺
Ireland mobile telephony	☺	☺
United Kingdom mobile telephony	☺	☺
Czech Republic	☺	☺
Uruguay	☺	☺

* Certificate does not cover the entire company



Through these activities, Telefónica is contributing to achieving the Millennium Development Goal:

Goal 7. Ensure environmental sustainability

Principle 9 of the Global Compact

“Business should encourage the development and diffusion of environmentally friendly technologies”.

Smart metering in the UK

Telefónica O2 UK has been implementing a smart metering system in its networks since 2008. The company has, invested over 1.4 million pounds in the installation of intelligent measurement equipment in 3,500 mobile telephony base stations, retail sales areas and offices. These metering systems permit real-time control of energy consumption, something that has helped O2 to identify additional areas on which to focus its attention.

This policy has ensured specialist management of the energy used in company operations, resulting in savings of 32 MWh since in terms of energy and an electricity bill saving of 740,000 € (£647,194) in 2009 alone. This intelligent management of energy use has meant a reduction of almost 16,000 tonnes of CO_{2e} in 2009.

The installation of energy metering is one of the measures established in the Telefónica's good practice manual, which in the medium and long term should be implemented in all Group operations.

With this and other activities, Telefónica O2 UK was given an Honourable Mention at the 2009 Green Company awards 2009 in the United Kingdom for its focus on reduction in carbon emissions and its future plans in the area. The judges commented that “O2 has made an admirable effort when one takes into account its rapid growth”, also highlighting the use of smart meters. It has therefore become the first Telecommunications company to be awarded the Carbon Trust certificate.

Telefónica promotes a low-carbon economy through its products and services. The automation service permits reductions of up to 30% in building electricity consumption.

Information and Communications Technologies (ICTs) allow us to use resources more efficiently. This industry plays a crucial role and offers real opportunities, along with other sectors, in the design and development of the solutions required in order to help build a society with low carbon emission levels.

In total, ICTs can provide emissions savings of approximately 7.8 GtCO₂, representing 15% of the estimated emissions in 2020. In economic terms, energy efficiency resulting from ICTs means a cost saving of approximately 600 billion euros¹.

Conscious of the importance of this role, in 2009 Telefónica worked with the Group's various business lines with a view to identifying those products and services that promote a low carbon emission economy, depending on the segment they are aimed at - the residential segment, Small & Medium Companies and Major Clients.

Within the **residential segment** we have worked to ensure the provision of products and services that allow customers to be more efficient in their use of energy. Here we should highlight the marketing by Telefónica O2 UK, Germany and Ireland of the Sony Ericsson Naite handset from its GreenHeart range, which boasts lower energy consumption and an eco-friendly design. Product sales have been solid to date. In Ireland 184 handsets have been sold, in the UK 7,500 and in Germany 7,527.

¹ Smart 2020 report, *Enabling a low carbon economy*.

Virtual Hosting, an energy-efficient option

Telefónica offers its corporate customers a Virtual Hosting service, the aim of which is to provide virtual servers with capacities equivalent to physical servers, set up on Telefónica's virtualisation platforms located at Data Management Centres (DMCs). Such centralisation allows, for example, the use of a single server as a storage device and a single environment in order to work with various operating systems and applications. In the past, these operations required extensive physical equipment with the corresponding high levels of energy consumption.

In 2009, Telefónica España's Virtual Hosting service for its major customers was recognised as a *Green IT* service.

For more information, visit:
www.pulso.telefonica.es

Global Reporting Initiative Indicators*

EN6	Initiatives to provide energy-efficient or renewable energy-based products and services and reductions in energy requirements as a result of these initiatives
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved

* For further information, see GRI tables (www.telefonica.com/cr09).

Similarly, in Latin America nearly 13,000 handsets have been sold in Venezuela, Colombia, Argentina and Peru. In Brazil, 42,000 handsets have been sold through Vivo.

In the Small & Medium Companies Segment, Telefónica España has been a pioneer of including information for customers on energy savings through integrated solutions. In Spain, high performance installations are supplied to workplaces with annual customer savings of 120 kwh. Almost 45,000 such solutions have been sold.

This programme was launched in collaboration with a local Town Council in the Comunidad de Madrid region, marking Spanish Small & Medium Company Energy Efficiency Day. A web page has been designed aimed at customers - www.movistar.es/eficiencia. The efficiency message has been spread throughout Spain through the Plan Avanza with 161,000 visits to the 13 cities in which it is present.

As far as the Major Client Segment is concerned, Telefónica supplies a range of products and services which offer energy efficiency and a reduction in costs and CO₂ emissions to numerous companies around the world.

An example is provided by services such as **tele-presence and videoconferencing**. A very conservative calculation indicates that teleconferencing and videoconferencing could replace between 5% and 20% of business trips. Telefónica offers 2 services which promote virtual meetings. The first of these, I-meeting, uses Webex technology, aimed at companies of all kinds and sizes, whilst the second, Tele-presence, is aimed at large-sized companies.

Telepresence - A solution for our customers?

Telefónica makes extensive use of its 17 telepresence facilities. The elimination of unnecessary employee travel has represented a CO_{2e} emission reduction of almost 7,500 tonnes of CO_{2e} per year. This service, aimed at business segment customers, has been designed, implemented, commercialised and operated on a global level by the Telefónica Group. It is positioned not only to bringing company members closer together, but also to their customers, suppliers and allies within a real Business to Business (B2B) environment.

In order to reach the customer and pass on the overall benefits of installing such facilities, business divisions have developed a tool which measures the impact of the use of tele-presence systems in real economic terms, return on investment periods and environmental benefits (tonnes of CO_{2e} avoided) in a clear visual manner.

For further information:
www.global.telefonica-data.com/es/catalogo/telepresencia/calculotelepresencia.html

The efficiency measures achieved through the application of intelligent **Transport and Logistics**, which control, optimise and direct operations, helps to fuel consumption storage needs for inventory purposes, kilometres travelled and the amount of journeys in empty or only partially loaded vehicles.

The Movistar App Ruta application, marketed by Telefónica España directo drivers which through voice instructions and moving maps via mobile phone such. The optimisation of logistics through the use of ICTs will produce a reduction of 16% in transport emissions by 2020².

As far as the issue of **Intelligent Buildings** is concerned, there is a collection of technologies available which ensure that design, construction and building management are more efficient. These technologies are applied to both existing and new buildings. They include **building management systems** (BMSs) that control the building's heating and cooling systems according to the needs of its occupants, with software that disconnects all PCs and monitors after everybody has left the building.

So-called **Intelligent Networks** serve as another example - ICTs form a part of the various new technologies that make up an intelligent electricity supply network. Through its R&D, Telefónica leads BeyWatch, the European Research Project whose aim is to promote ICT services in conjunction with players in the electricity sector, targeted at residential customers, allowing them to control energy consumption in real time.

² Smart 2020 report, Enabling a low carbon economy.

Building Automation Service for Energy Efficiency

Building Automation allows for the remote and centralised management of automatic devices at a company's premises. Thanks to the supervision of temperature and lighting levels etc, with the corresponding control and implementation of a warning system based on pre-determined parameters, energy consumption can be significantly reduced. Telefónica's building automation service is a good example of the multiplier effect which telecommunications can have on current practices concerning the reduction of energy consumption by enabling its extension beyond a building, to the whole network of offices of a geographically disperse company, regardless of the physical size of its sites.

The estimated energy savings and CO_{2e} emission reduction attributable to building automation solutions are between 20 and 30%. Telefónica Soluciones currently supplies this service to a number of commercial and financial institutions across Spain, including, for example, companies such as C&A and Caja Navarra.



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

Renewable Energy in Ireland

In December 2008, Telefónica O2 Ireland commissioned the first self-sustainable base station in Ireland in Knockaleva, Colon, Co. Louth. The base station is supplied directly by electricity generated by a small wind turbine and solar panels, completely independently from any connection to the national grid. Telefónica O2 has reduced its carbon footprint by 44 tonnes of CO_{2e} a year with this base station alone. The solution is scalable and other similar variants for base stations are currently being examined which currently use ESB connections. This project was presented at the prestigious Sustainable Energy Ireland Awards in 2009, and was the winner of the Pioneering Renewable Energy Projects category. The judges commented that the project constituted an "innovative project in the field of renewable energy efficiency with strong potential for duplication. The project presents a self-sustainable mobile communications station fed by a hybrid system consisting of a small-scale wind power generator and solar panels with battery storage which substitutes a conventional diesel generator".



Eamonn Ryan T.D., Minister of Communications, Energy and Natural Resources giving the SEI award for Pioneering Renewable Energy Projects to Patrick Patton and Bernard Colgan at SEI 2009.



Through these activities, Telefónica is contributing to achieving the Millennium Development Goal:
Goal 7. Ensure environmental sustainability

Strategic alliances

The Nokia - Telefónica agreement on energy efficiency

The chairmen of Nokia and Telefónica S.A, Olli-Pekka Kallasvuori and César Alierta, signed an agreement establishing joint alliance based on principles and values of sustainability and energy efficiency. Through this initiative, both companies are seeking to find synergies, focusing their activities on the development of mobile telephony solutions that are compatible with the environment based on sustainable products and innovative applications.

This agreement marks the first in a projected chain of initiatives which centre on, among other areas, offering mobile phone services that promote energy efficiency among customers in the residential sector.

The Green Power for Mobile Programme - Collaboration in the development of renewable energies

Telefónica participates with the GSMA in the development of an international inventory of renewable energy networks around the world. In 2008, the Company joined the Green Power for Mobile programme in order to contribute to the aim of reaching a total of 118.000 base stations (new and existing facilities), in developing countries by 2012.

In 2010 and 2011 Telefónica will continue to work with this association to promote the use of renewable energies in Latin American networks.

For further information:
www.wirelessintelligence.com/green-power

03

Principle 10 of the Global Compact

“Business should work against corruption in all its forms, including extortion and bribery”.

Telefónica's structure features organisational elements which constitute a control environment that guarantees total intransigence with regard to corruption and illegal activity.

Telefónica has developed several organisational elements in order to ensure a control environment in line with the corporate message and its unswerving commitment to total intransigence regarding corruption and illegality. The benchmark here has been the United Nations Accord on corruption, signed in Mérida, Mexico, in December 2003. Telefónica was party to this agreement, which also established the definition of corruption that includes the principle of International Transparency (IT).

Telefónica firmly believes that the eradication of corruption will facilitate the cascade effect as applicable to global economies and will work towards the eradication of poverty. To this end the company has a structure in place with a series of organisational elements that ratify this commitment:

- An Audit Committee, answerable to the Board of Directors of each of the publically-quoted companies that make up the Group, as well as the Human Resources, Corporate Reputation and Responsibility committee.

There is also a centralised Inspection Unit, specialising in the prevention of fraud and the investigation of complaints and other matters, as well as a Payment Intervention Unit.

- Business Principles, the company's code of ethics, which covers, among other Principles, political neutrality, regulations which prohibit the acceptance of gifts and bribes, conflicts of interests and corruption.

There are also regulations that are binding across the organisation and which regulate the processes of greatest potential risk (purchasing, payments and accounting and the communication of information). These regulations include control principles aimed at securing fraud-related risk.

- Independent verification of the financial statements of the companies within the Group.
- Complaint channels which are made available to employees, in compliance with the Sarbanes-Oxley Act, governing aspects relating to internal control of financial statements, accountancy and the auditing of accounts and other aspects, as possible breaches of non-observance of Business Principles.

Global Reporting Initiative Indicators*

S04: Actions taken in response to incidents of corruption

Telefónica indicator	Measurement unit	2008	2009
Number of staff dismissed due to breaches of our Business Principles	Units	0 ¹	8
Incidents registered through confidential help facility related to corruption incidents	Units	1	13

* For further information, see GRI tables (www.telefonica.com/cr09).
¹ We have made some amendments on the definition of the indicator. The 2009 and 2008 data are not comparable. During 2008 Telefónica reported 358 interventions in all business's Group to ensure fulfillment of Business Principles.

1,300 internal audits resulting in almost 7,000 recommendations for improvements

Additionally and with a view to guaranteeing this control environment, special mention should be made of the following:

- The Company performed almost 1,300 internal audits and inspections across all the Group's companies and in all the countries in which it operates, resulting in 7,000 recommendations for improvements. 95% of these recommendations include an action plan which has already been agreed upon and which is due to be implemented.

The majority of these audits covered the existence and efficiency of controls concerning the revelation of information in business processes that affect the Group's main accounts and accounting processes. Processes relating to the spending and investment cycle (purchasing, payments to third parties, payments to employees, logistics, etc.), fraud prevention, the investigation of complaints or the review of actions by individuals and, finally, the verification of compliance with other legal requirements (employment, data protection etc).

- In general, the Telefónica Group does not use investment structures which are based in so-called tax havens.

As an example of this commitment, in 2009 Telefónica paid 20.7% of its revenue in tax in the countries where the group operates.

Notwithstanding this policy, Telefónica has stakeholdings in companies based in certain such territories, namely Panama, the Isle of Man and Hong Kong, the justification of which has no connection to the Group's commitment to reducing its tax burden. The majority of these investments are currently either inactive or undergoing liquidation.

These structures are a result of the Group's business activities, as in the case of Panama and Manx Telecom Ltd, and at other times they are due to structures inherited from third-party acquisitions, as is the case with the Isle of Man and Hong Kong after the purchase of O2.

- Telefónica, through its Business Principles, and regardless of the different regulations that exist in each of the countries in which it operates, has a declared commitment to political neutrality.

In 2009, there was no record of any donations to any political parties or associated foundations, having analysed payment databases for this period.

Presence of the Telefónica Group in territories described as tax havens

Name	Activity	Country
Terra Panamá	Internet website	Panama
T. Móviles Panama	Mobile telephony services	Panama
Manx Telecom Ltd	Operator, Telecommunication Services	Isle of Man
O2 Assurance Ltd	Inactive insurance company	Isle of Man
Kilmaine Ltd	Holding company	Isle of Man
O2 Isle of Man	Inactive company	Isle of Man
O2 Online Hong Kong	Inactive company	Hong Kong
Atento Panamá	Call Centre Services	Panama



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

Integrity

In 2009 Colombia approved and implemented a Conflict of Interest policy with a view to guaranteeing ethical and transparent operations to prevent possible situations arising.

Among the mechanisms that it included, it is worth highlighting that the organisation has a confidential channel which can be used to report such situations, and the creation of a Conflict of Interest Sub-Committee for the analysis and monitoring of critical cases.

Telefónica Europe also apply corporate policies which refer to conflicts of interest and the acceptance of gifts and hospitality, which are reviewed annually.

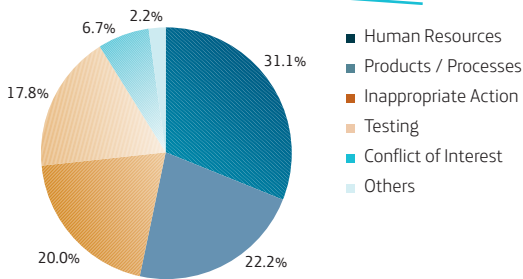
These regulations are designed to develop the directives outlined in Telefónica's Business Principles, the Group's code of ethics.

Confidential line associated with Telefónica Business Principles

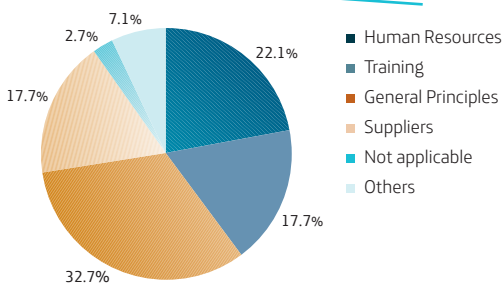
In 2009, the Business Principles channels open to employees, received a total of 158 communications, either anonymously or personally. Of these, 113 concerned the application and implementation of Business Principles, and 45 were in regard to possible breaches, 43 of which are currently closed. 17 communications were deemed to have valid grounds.

As a consequence of the investigations undertaken, 19 cases of disciplinary action were initiated.

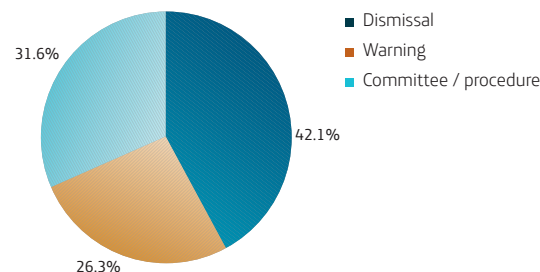
Communication associated with the failure to observe Telefónica Business Principles



Communications associated with the application of Telefónica Business Principles



Disciplinary action associated with the failure to observe Telefónica Business Principles



04

Analysis of materiality

In order to draw up an Annual Corporate Responsibility Report, and to ensure that it focuses on the most relevant matters regarding Telefónica's characteristics and peculiarities, a relevance study has been undertaken.

This study, which has been carried out since the first Telefónica, S.A. corporate responsibility report, was prepared to identify relevant subject matters.

As a starting point, we took the analysis undertaken by the **Global e-Sustainability Initiative (GeSI)** and prepared by **Business for Social Responsibility (BSR)**¹.

The aim of this study was to determine the contribution that the Information and Communications Technology (ICT) sector makes to sustainable development; focusing on those areas where the contribution of the sector is the most critical.

In carrying out this analysis four key audiences were taken into consideration: companies, investment analysts, civil society and Non-Governmental Organisations.

The relevant subjects that were identified were: Climate change, residual waste and the use of materials, access to ICTs, freedom of expression, privacy and security, employee and customer relations, suppliers, use of products, and economic development.

On the basis of these relevant subject areas, an internal analysis was carried out which took the following into account:

- Requirements of International Bodies, such as the OECD, ILO, European Commission and national legislation.
- Market indexes, such as the Dow Jones Sustainability Index and the FTSE4Good.
- Telefónica Group risk analysis.
- Contrast with interest groups, in particular the discussion forums in place in Ecuador and Colombia.
- Review of the subject matters at the Business Principles Office, as well as local Offices.

Once the relevant areas of concern for the Company have been identified, we can move onto a second phase which concentrates on categorisation and prioritisation. This stage is undertaken

depending on two variables impact on strategy, and impact or influence on interest groups.

Impact on Telefónica strategy

Criteria

Customer Satisfaction
Employee Satisfaction
Growth
Efficiency
Shareholder Return

Influence on Stakeholder Groups

Criteria

Millennium Goals
Human Rights / Global Compact
Resources
CR Reports, ICT Sector
Public Policy
GRI Guides

As far as prioritisation is concerned, this is carried out with the units responsible for the management of relevant issues, as well as serving as a filter for risk analysis in each country, consisting of the evaluation of the impact on strategy and reputation.

This analysis allows us to confirm the importance for Telefónica S.A of the various aspects covered by such subject areas, such as:

- Employee Relations.
- Supply Chain
- Integrity and Transparency.
- Customers
- Responsible Use of ICTs
- Relations with the Community, Governments and Regulators
- Access to ICTs
- Environment
- Climate Change and Energy.

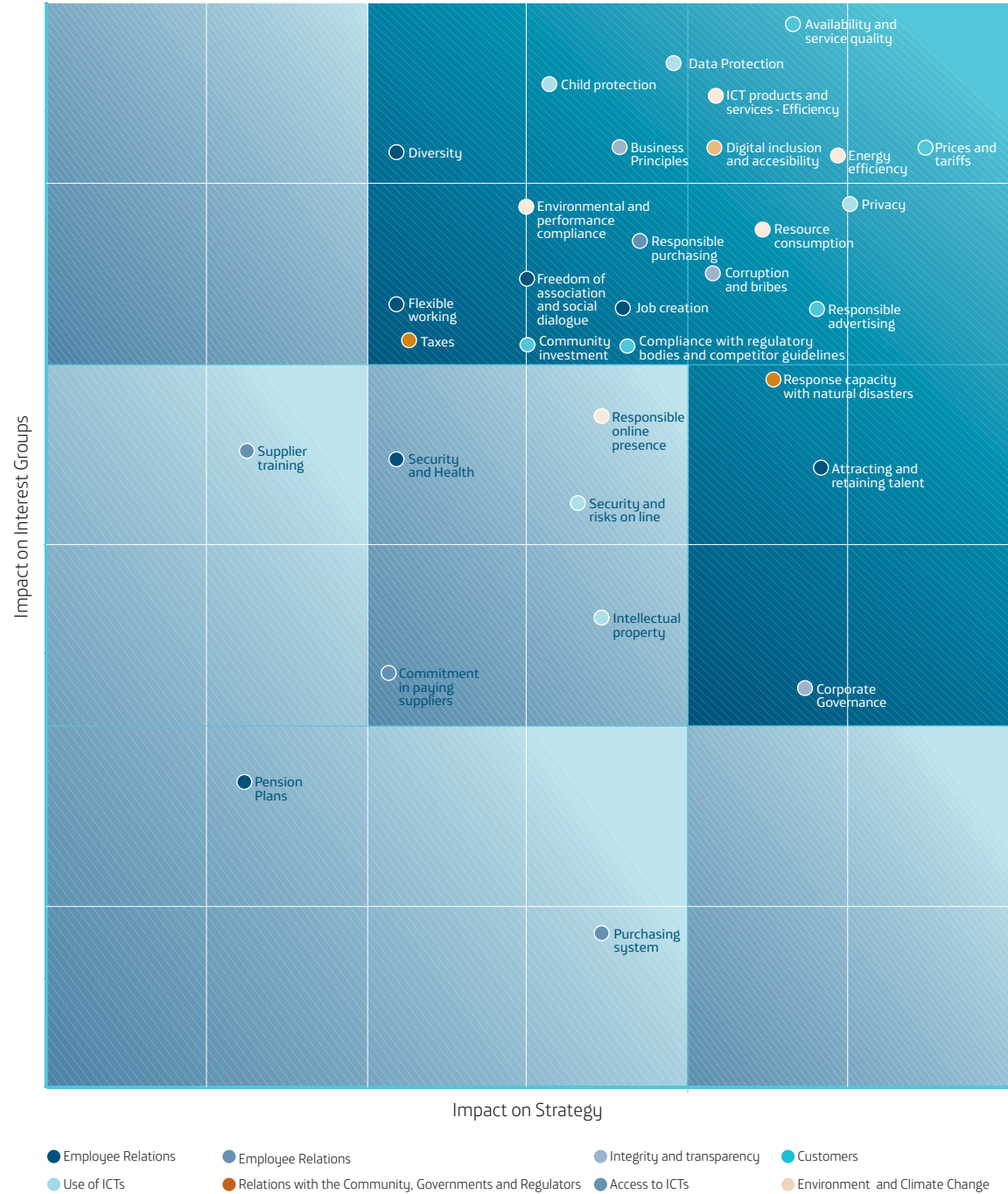
The information included in the 2009 Corporate Responsibility Report is structured to provide a response to this analysis (www.telefonica.com/cr09).

¹ The Contribution the ICT Industry can Make to Sustainable Development. Report by Business for Social Responsibility for the Global e-Sustainability Initiative (GeSI).

Identification of matters deemed relevant to Telefónica and its Groups of interest

Relevant subject matters for Telefónica

Telefónica materiality table (2009)



- **Employee Relations.** Here we should highlight aspects such as the creation of net employment, and practical steps to promote employment. Also flexible working practices (initiatives such as Telecommuting, mobility and the effect on CO₂ emissions, the tools available for mobility with regard to work, flexible job types, conciliation policies such as maternity and paternity leave), the freedom of association and social dialogue, programmes to assist the management of high-potential, and practices designed to promote diversity of gender, age, physical ability, sexual orientation, ethnic background and religious belief within the Company in matters of health and safety.
- **Supply Chain.** Here we should highlight practices and regulations to ensure compliance with social and environmental standards in the Telefónica Supply Chain. Other aspects of average relevance are those such as supplier training and payment commitment.
- **Integrity and Transparency.** Practices to promote compliance with the Company's Business Principles and Ethical Code.
- **Customers.** Clear communication concerning pricing and tariffs the Company's services and which ensure that service and network quality are matters of central importance and that marketing initiatives are honest and ethical.

05

Indicators

Matters which are relevant to the ICT sector

- **The use of Information and Communication Technologies.** Here we should stress the growing importance of aspects related to the confidence of telecommunications users due to the extensive use of areas such as data protection, privacy, network security and the protection of children.
- **Relations with the Community, Governments and Regulators:** Matters such as tax payment, the capacity to respond to natural disasters, complaints or fines resulting from breaches of regulation and competence issues, as well as relations with local communities (neighbourhood and local groups, indigenous peoples) in order to better develop infrastructures, and Investment in the Community programmes are just some of the especially relevant aspects to be taken into consideration.
- **Access to ICTs.** It is of great importance to ensure the development of programmes which allow access to telecommunications services to be extended in emerging countries and local communities is of great importance, as is extending products and services to low-income groups and businesses with reduced revenues and the disabled, and facilitating access to education through the use of ICTs.
- **Environment and Climate Change.** Aspects such as the intensive use of ICTs and their capacity to reduce energy consumption through the metering of energy efficiency, the ability to supply efficiency solutions to other sectors, guarantee compliance with environmental standards, as well as the control of materials in both the manufacture and use of products are all of fundamental importance to the sector.

Telefónica counts with key indicators that show its economic, social and environmental performance.

Economic Impact

	2009	2008	2007	% var. Previous year
Millions of euros				
Telefónica Group Revenue	56,731	57,946	56,441	-2.1
Market capitalization	89,089	74,574	106,067	19.5
Investment in technological innovation	4,291	4,614	4,384	-7.0
Payments to governments	11,743	10,336	9,895	13.6
Payments to employees	6,775	6,767	6,458	0.1
Investment in infrastructure	7,064	8,401	8,027	-15.9
Total supplier spend	22,802	25,926	25,240	-12.0

Social Impact

	2009	2008	2007	% var. Previous year
Total social investment (LBG) ¹ (Thousands of euros)	108,471	113,181 ²	93,339	- 5.4
Number beneficiaries Fundación Telefónica (Thousands)	56,339	40,248	39,828	40.1
Child care Social Programmes (Thousands)	163,900	107,602	52,991	- 52.3

Human Rights Impact

	2009	2008	2007	% var. Previous year
Principles 1-2				
Employees completing Business Principles training (%)	57.0	49.0	28.3	16.3
Customer satisfaction index (Units 1 to 10)	6.98	6.92	6.77	0.9
Monetary value of significant fines regarding breaches of customer privacy ² (Euros)	3,832,652	1,064,000	n.a.	260.2
Number of suppliers assessed (Units)	7,200	1,100	1,167	554.5
Number of risk suppliers assessed (Units)	782 ³	1,100	n.a.	-28.9
Number of audits at risk suppliers (Units)	840	55	n.a.	1,427.3

¹ 2009 figures for LBG calculation.

² All of these fines correspond to Spain and result from breaches of privacy or data protection, although some are pending appeal.

³ 100% of at-risk suppliers with whom activities commenced in 2009.

Labour Standards Impact

Principles 3-6	2009	2008	2007	% var. Previous year
Total number of employees (Units)	257,426	257,035	248,487	0.2
Employees covered by collective bargaining agreements ⁴ (%)	72.3	56.9	21.3	27.1
Total spend on employee training during the year (Thousands of euros)	63,298	64,514	57,365	-1.9
Percentage of women (%)	50.1	49.0	48.3	2.2
Percentage of women directors ⁵	20.7	16.6	19.7	24.7
Number of employees with disabilities	1,419	1,542	1,538	- 8.0

Environment Impact

Principles 7-9	2009	2008	2007	% var. Previous year
Environmental impact studies (Units)	979	1,104	862	-11.3
Noise measurement (Units)	1,273	906	980	40.5
Electromagnetic field measurement (Units)	16,884	5,865	15,167	187.9
Hours of employee environmental training (Thousands of euros)	16,491	34,607	n.a.	-52.3
Investment and expenses - measurement of electromagnetic fields (Thousands of euros)	4,045	2,208	1,166	83.2
Acoustic impact adaptation investment (Thousands of euros)	1,259	3,099	5,075	-59.4
Network deployment environmental impact study costs (Thousands of euros)	449	740	890	-39.3
Visual impact adaptation investment (Thousands of euros)	3,092	3,310	n.a.	-6.6
Total white paper consumption (Tonnes)	16,943	16,281	7627 ⁶	4.1
Total recycled paper consumption (Tonnes)	657	683	504	-3.8
Fleet fuel consumption (Diesel and gasoline) (Thousands of litres)	24,443	27,677	27,838	-11.7
Electricity consumption in office buildings (MWh)	695,989	874,730	830,177	-20.4
Electricity consumption in operation buildings (MWh)	4,528,070	4,279,832	4,196,477	5.8
Water consumption (Thousands of litres)	4,470,909	4,871,780	5,844,040	-8.2
Total CO _{2e} (Tn) ⁷	2,105,462	2,103,098	2,004,971	0.1
CO _{2e} direct emissions (Tn) ⁷	119,999	156,566	151,661	-23.3
CO _{2e} indirect emissions (electricity) (Tn) ⁷	1,925,781	1,918,623	1,853,311	0.3
CO _{2e} indirect emissions (travel) (Tn) ⁷	59,682	27,909	n.a.	113.8
Waste				
Paper and cardboard (Tn)	2,171	3,587	2,370	-37.6
Telefónica electrical and electronic equipment waste (Tn)	1,960	2,509	3,205	-21.9
Battery waste (Tn)	2,681	2,110	3,610	27.1
Other Telefónica facility waste (Tn)	81,221	37,202	38,070	118.3
Customer electrical and electronic equipment waste (Tn)	1,895	1,632	1,178	16.1
Total waste recycled (%)	75	n.a.	n.a.	-
Oils (Thousands of litres)	89	112	82	-20.5
Reuse of equipment (Units)	1,377,990	1,512,892	27,193 ⁶	-8.9
Fuel spills (Units)	37	27	8 ⁶	37.0
Fuel spills volume (Thousands of litres)	13	4	2.9 ⁷	225.0
Travel				
Work travel by plane (Units)	117,709	72,338	n.a.	62.7
Work travel by train (Units)	88,550	45,525	n.a.	94.4
Work travel by car (Units)	18,946	13,965	n.a.	-5.1
Spending and investment on the Environment (Thousands of euros)	32,936	20,089 ⁶	7,132 ⁶	64.0

Anti-corruption Impact

	2009	2008	2007	% var. Previous year
Number of staff dismissed due to breach of our Business Principles (Units)	8	358 ⁸	n.d.	-
Incidents registered through confidential help facility related to corruption incidents (Units)	13	1	n.d.	-

⁴ Percentage of employees covered by collective bargaining, where such agreements are negotiated with trade unions.

⁵ Audited data in comparable terms. Woman Management and Executive Management divided by total managers number of Directors in Management and Executive Management.

⁶ Scope incomplete.

⁷ Energy and emission data will be assured in 2010. A Ton of CO₂ (equivalent).

⁸ Data published in 2008 corresponded to internal systems of Telefónica O2 UK. (358 employees from customer service). In 2009, criteria of reporting was changed to incidents occurred in Business Principles Help line.

Partner for transformation progress

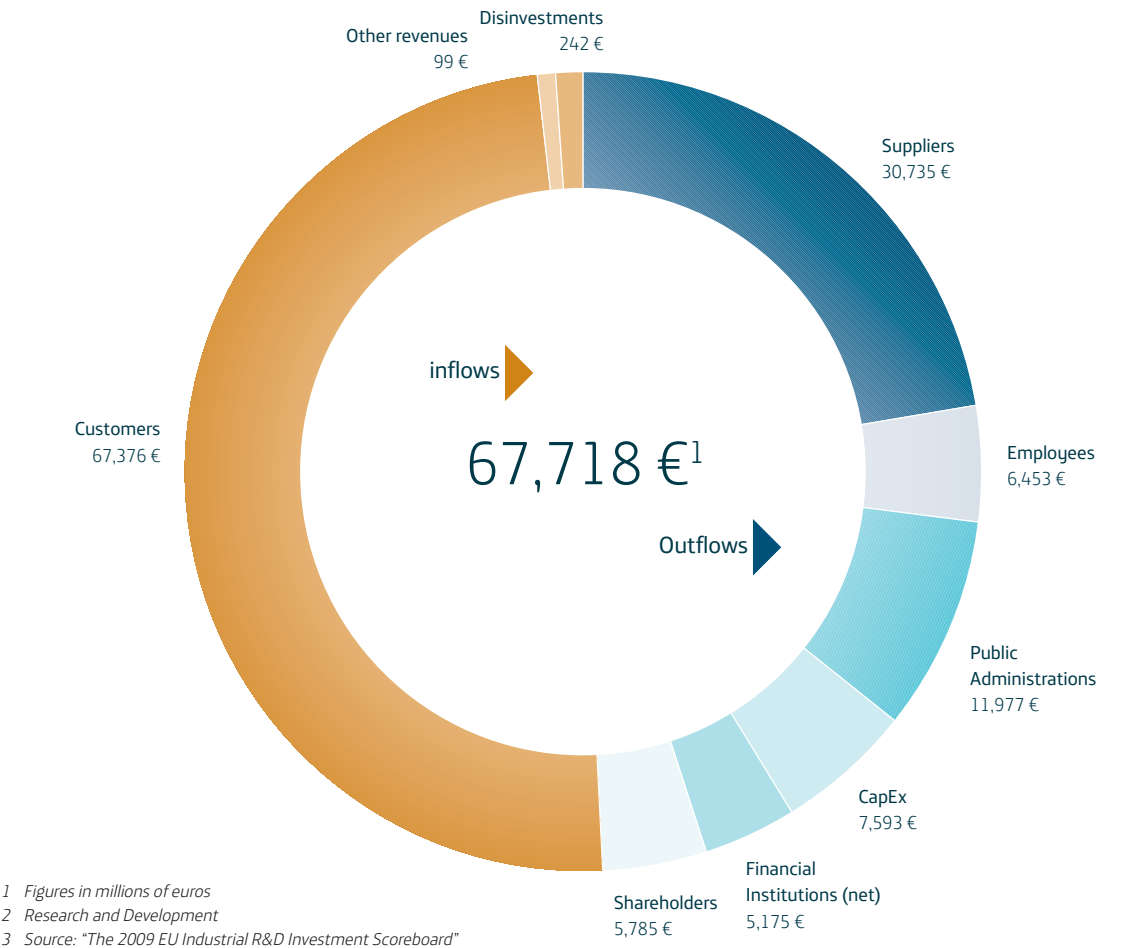
In 2009, the Company created wealth valued at 67,718 million euros.

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

In 2009, the Company earned more than 67,000 million euros in revenues. This revenue resulted in payments of 6,453 million euros to its employees, 11,977 million euros to the Public Administration, 30,735 million euros to suppliers and 5,785

million euros to shareholders. This is how the Company allotted the wealth it created.

In 2009, the Company invested over 4,290 million euros in technological innovation. Of this total, 692 million euros were invested in R&D², making Telefónica the world's 4th largest operator in the sector in this regard³.



1 Figures in millions of euros
2 Research and Development
3 Source: "The 2009 EU Industrial R&D Investment Scoreboard"

Note:
This information has been calculated on a payments basis, whereas the information on the following page is shown on an accruals basis.
The information published on this page has been obtained from internal sources of the cash flow of the Telefónica Group, and verified by the assurance provider of the CSR Report. The information referred to may be subject to changes resulting from subsequent events and developments. For a detailed analysis of the consolidated financial statements of Telefónica Group, the audited information is included in the financial statements.
Disinvestments carried out were by way of real estate disposals

Contribution to progress

	Economic impact	Revenues/GDP	Key Figures
Spain	Revenues Payments	1.9%	Employees Suppliers awarded contracts Total Accesses 52,060 4,012 (90.5%) 46,778
Germany	Revenues Payments	0.2%	Employees Suppliers awarded contracts Total Accesses 5,214 1,907 (84.6%) 17,109
Ireland	Revenues Payments	0.5%	Employees Suppliers awarded contracts Total Accesses 1,406 581 (92.1%) 1,714
Czech Republic and Slovakia	Revenues Payments	1.1%	Employees Suppliers awarded contracts Total Accesses 11,307 258 (86.1%) 8,363
United Kingdom	Revenues Payments	0.4%	Employees Suppliers awarded contracts Total Accesses 11,307 7,264 (83%) 21,891
Argentina	Revenues Payments	1.2%	Employees Suppliers awarded contracts Total Accesses 23,241 1,569 (76.5%) 21,900
Brazil	Revenues Payments	0.8%	Employees Suppliers awarded contracts Total Accesses 83,897 3,675 (98.6%) 66,960
Chile	Revenues Payments	1.7%	Employees Suppliers awarded contracts Total Accesses 10,603 1,705 (72.5%) 10,654
Colombia	Revenues Payments	0.8%	Employees Suppliers awarded contracts Total Accesses 6,348 1,092 (78.5%) 11,163
Ecuador	Revenues Payments	0.8%	Employees Suppliers awarded contracts Total Accesses 1,136 393 (65.2%) 3,806
USA & Puerto Rico	Revenues Payments	0.0%	Employees Suppliers awarded contracts Total Accesses 908 241 (87.7%) n.a.
El Salvador	Revenues Payments	0.7%	Employees Suppliers awarded contracts Total Accesses 349 324 (50.1%) 1,202
Guatemala	Revenues Payments	0.7%	Employees Suppliers awarded contracts Total Accesses 3,338 376 (57.7%) 2,402
Mexico	Revenues Payments	0.3%	Employees Suppliers awarded contracts Total Accesses 20,203 717 (94.2%) 17,735
Nicaragua	Revenues Payments	1.9%	Employees Suppliers awarded contracts Total Accesses 311 264 (48.8%) 1,129
Panama	Revenues Payments	1.0%	Employees Suppliers awarded contracts Total Accesses 485 368 (49.9%) 1,532
Peru	Revenues Payments	1.9%	Employees Suppliers awarded contracts Total Accesses 15,672 1,916 (76.4%) 15,917
Uruguay	Revenues Payments	0.8%	Employees Suppliers awarded contracts Total Accesses 644 719 (22.9%) 1,615
Venezuela	Revenues Payments	1.5%	Employees Suppliers awarded contracts Total Accesses 6,930 1,114 (76.4%) 11,808

Financial data in EUR millions (revenues, personnel expenses, tax paid, purchases and investment (capital expenditure). Timing adjustments (accruals, prepaid expenses, etc.) have not been included.

Revenues: the figure for consolidated revenues refers to all the Telefónica business units in the country in question.

Revenue TEF/GDP: ratio of revenues of Telefónica S.A (contribution of the country to the consolidated revenues of the Telefónica Group) and the country's estimated GDP (Source: IMF).

Employees: consolidated data for direct employees of the Telefónica Group in the country (effective workforce as of the 31st of December 2009).

Suppliers: total number of suppliers awarded contracts. The percentage represents the percentage of locally-adjudicated purchase volume.

Accesses: equals the number of fixed and mobile accesses+broadband+pay TV (in thousands).

Recognition

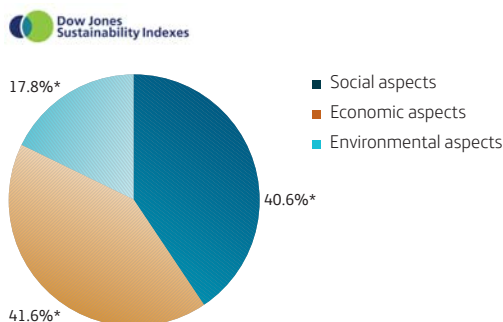
Telefónica, a worldwide leader of the Dow Jones Sustainability Index in the telecommunications industry with a score of 86.4.



A sustainability index of international repute which considers corporate sustainability from a business viewpoint. This promotes long-term value creation for shareholders, taking advantage of new opportunities and managing risks relating to social, economic and environmental aspects.

- In 2009, Telefónica was the only Spanish company to be a world leader in any business sector.
- The Company achieved a score of 86, i.e. 28 percentage points more than the average for the sector.
- In an economic context, the index highlights our advances in areas such as customer satisfaction, framework, global risk management, corporate government, and code of conduct. Telefónica was considered the leading company in the industry.
- As far as the environmental area is concerned, the setting up of the Climate Change Office was regarded as highly positive, as were global environmental management and reporting. A key area for improvement is that of energy efficiency in products and services.
- In the social area, special mention should be made of the extension that has been made to the suppliers code of conduct, social action and CR reporting. Nonetheless, the areas which received the highest valuation were those concerning digital inclusion and child protection.
- The DJSI highlighted the Group as the company with best practices in risk management, suppliers, digital inclusion, impact of telecommunications services, brand; business principles and social action.

Aspects and weights valued by the DJSI in the telecommunications sector



* % weight within the index total.

"Telefónica views sustainable management not just a necessity but above all an opportunity to differentiate itself and increase its value in the long term. For us, being leaders in sustainability in our industry according to DJSI is proof that we are doing things right. In fact, it represents the achievement, two years ahead of time, of our goal for 2011: to be at the top of the Dow Jones Sustainability Index, with a very important additional recognition, to be the best company in economic sustainability," explained Luis Abril, Technical General Secretary of the Office of the Chairman of Telefónica.

Independent Review

A message from Ernst & Young

At the request of the Audit and Control Commission, we have reviewed the 2009 Annual Corporate Responsibility Report from Telefónica, S.A. The report consists of two parts: this printed document and the complete online version thereof, available at www.telefonica.com/rc09.

Scope of work

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

- The principles and indicators established in the Global Reporting Initiative (GRI) G3 Reference Guide for Telefónica's global perimeter.
- The principles included in Norm AA1000 AP (2008 version) issued by AccountAbility (Institute of Social and Ethical Accountability) for activities done by Telefónica in Spain, Argentina, Colombia, Chile, Peru, Brazil, Mexico, Venezuela, Ecuador, United Kingdom, Ireland, Germany and the Czech Republic.

Additionally, Telefónica requested that we audit its local reports in Spain, Argentina, Colombia, Chile, Peru, Brazil, Mexico, Venezuela, Ecuador, Panama, Nicaragua, Guatemala, El Salvador, Uruguay, United Kingdom, Germany, Ireland. These reports will be published in the coming months and will be available at [www.telefonica.com/es/responsabilidad corporativa](http://www.telefonica.com/es/responsabilidad_corporativa)

Audits consist of:

- **Checking compliance with GRI standards**

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

- **Assurance in terms of Norms AA1000 AP (2008)**

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

1. **Inclusivity:** related to the implication and requirements of the interest groups in the determination of the contents to be included.
2. **Materiality:** related to identify the relevance and significance issues to be included.
3. **Responsiveness:** related to the capacity to respond in light of the objectives and expectations of the interest groups and proper and timely reporting of the plans sent to them.

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

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

Our Independence

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

Our independent audit report contains the scope of work, audit level, conclusions, and our independence. This report is available at www.telefonica.com/rc09.

ERNST & YOUNG, S.L.

Madrid, 17 May 2010

Telefónica, S.A.

2009 Annual Corporate Responsibility Report

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

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

Additionally, all information required by current legislation is at the disposal of shareholders and the general public

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