------------------------------------------------------------------------------------------------ Telefónica 2003

Letter from the Chairman

Dear Friend,

This is the second consecutive year Telefónica has presented its Corporate Responsibility Annual Report. All the information provided in it is in keeping with our vision: we wish to be your trusted operator; and we know the only way to deserve that confidence is, on the one hand, to fulfil the commitments acquired day by day, and on the other, to maintain an attitude of proximity and nearness based on an understanding of your needs, expectations and legitimate interests. Whether you are a customer, shareholder, employee, supplier, or simply a citizen in any of the countries we operate in, Telefónica has a commitment to you.

The report you now have in your hands stems from a basic premise: the foremost and major responsibility for any company is to do well what it endeavours to do, that which arises from its core business activity. Therefore, this Report provides information on processes, management systems, and performance indicators…

in the day to day business we share with each of our stakeholders. From this extensive, comprehensive document, I would like to highlight some key ideas.

First of all, the sum and consolidation of most of the data in the Report makes us aware of a reality of which we feel legitimately proud: Telefonica is a powerful driving force of social, economic and technological development in the countries where it operates. A company the size of the Telefónica Group has an unquestionable ability to contribute to the development of the societies in which it is present: creating employment, driving the economy, offering innovative products and quality available to all; and taking technology to all walks of life so as to reduce the social and digital divide and provide access for citizens to that future represented by the information society. Only by contributing in a responsible manner to a sustainable development of society will Corporate activities also be sustainable in the medium and long term.

Secondly, the Corporate Responsibility Report shows the enormous ability of Telefónica to create value beyond its financial assets. Good corporate governance, brand awareness, investment in research and development, commitment to social responsibility or institutional presence, are assets of great value to a company in particular and to its area of operation in general. Telefónica gives evidence of its commitment to transparency by gathering, quantifying and communicating the value that exists beyond its financial assets. However, we are sure that all the information we now provide is but the beginning of what is yet for us to discover day by day.

Thirdly, linked to the above, there is the importance for a company to maintain relations based on the confidence of all those who approach it, be they employees, customers, shareholders, suppliers or citizens at large. Right from the first edition of this Report, our objective has been to record through facts, data, graphs and figures how the values and commitments of the Telefónica Group are implemented. However, we think we could go further, that there is still a lot more hidden value to be found in our daily commitments undertaken with each one of our one hundred million customers, one million six hundred thousand shareholders, one hundred and fifty thousand employees, seventeen thousand suppliers and more than five hundred million citizens of the countries where we work. To maintain the confidence of all these groups is undoubtedly one of our main challenges and one of our most valuable assets.

Lastly, a technical conclusion: this Report has been prepared following the 2002 Global Reporting Initiative Guidelines, resulting in a balanced and reasonable presentation of the economic, environmental and social performance of our organisation. The Corporate Responsibility Report of Telefónica has also become an internal engine to extend best practices within the Group. On the one hand, the information published in it is helping us improve our specific policies for management of our intangible assets, and fulfil our commitments to every one of our stakeholders. To do so, we are using key indicators to know where and how to improve our performance through the design and implementation of specific policies adapted to each country where we operate. On the other hand, several subsidiaries (Telefónica Móviles, TPI...) have already prepared their own 2003 Responsibility Report on these same bases and schemes. Moreover, this same reporting and working methodology has been extended to our companies in countries such as Brazil and Peru during 2004, which will allow us to determine the local contribution made by the Telefónica Group.

The aim of this report is thus to reassess and renew our commitments. Essentially, they are the same as one year ago, as they are based on our values but, certainly, they are all reinforced and extended by another year of work and shared culture. Additionally, they encourage us to undertake the coming year with optimism.

Precisely as it is a core element of the culture we share, we cannot forget that Corporate Responsibility is being built by everyone working at the Telefónica Group. Only if each one of

us internally takes on this commitment, whether our individual contribution be small or great, and only by assuming our responsibility in each process, in each gesture and in each decision we take as employees of this company, will we make it a responsible institution.

Finally, I would like to convey my gratitude, to all those who continue to trust in the Telefónica Group; to everyone who has taken an interest in our activity; and, most especially, to all those who directly or indirectly have helped us improve our Corporate Responsibility performance through dialogue and constructive criticism.

Sincerely,



César Alierta

Chief Executive Officer of Telefónica, S.A.

------------------------------------------------------------------------------------------------ Telefónica 2004

Letter from the Chairman

Dear Friend,

Telefónica would like to take this opportunity to present its Annual Corporate Responsibility Report for 2004. As a further example of our commitment to transparency, this is the third consecutive year in which we have published the most relevant information on how the Telefónica Group interacts with its stakeholders. This report is aimed, therefore, at our customers, investors, shareholders, employees, suppliers and to the general public.

In 2004 Telefónica established itself as the third largest telecommunications company in the world in terms of market capitalisation, reached the 122 million-customer mark and set itself the goal to become the largest and best integrated telecommunications group in the world. Our aim to be the biggest group is inextricably linked with international markets and innovation. To be the best, however, we must deliver on excellence and commitment. With this in mind, one of the objectives we have set in our Strategic Plan is to commit ourselves to act responsibly in the societies in which we operate. At Telefónica, we place the same emphasis on how we achieve our objectives and financial results as on the actual objectives and results themselves.

In this respect, the Corporate Responsibility Report is more than just an information report; it is a document we can rightly feel proud of. It represents an extraordinary opportunity for the Group to publish data and indicators and reveal, in the process, that behind every indicator lies a management process, a dedicated team of people and solid policies. Above all, however, behind every single piece of information there is a desire for continuous improvement and a series of realities that spur us on to reach even greater achievements.

The first of these realities concerns Telefónica’s role as a driving force for the social, technological and economic development of the societies in which it is present. Our business activity generates significant social wealth: business opportunities for suppliers, employment, digital inclusion, education, product and service innovation, and a host of other assets. Although some of these assets are intangible, we have been able to gauge them in this Report using quantitative and qualitative indicators.

The second reality involves our status as a global company and everything that this entails. The values we hold and the key values demanded by society are one and the same. Equal opportunities, diversity and social inclusion are inescapable realities for all companies, and form a vital component in the relationships we enjoy with our stakeholders. Innovation is a lever used to create value both for society and the Company, and we are firmly committed to it. Similarly, solidarity with society is an essential element in any company’s operations and which the vast majority of Telefónica employees are wholeheartedly supportive of in this respect. As a global citizen, Telefónica shares the concerns and values of society, having identified with them for many decades now.

The third reality concerns the significance of corporate responsibility itself. For Telefónica, responsibility is but a means of managing its business. By making a positive impact through our business activity we can generate sustainability for all. In our quest to reach the standards that ensure we operate responsibly, this year has seen us make significant progress on two fronts. Firstly, our financial auditor has made improvements in the rigorous verification of the data appearing in this report. Secondly, we have restated our commitment to the Global Compact by applying the Communication on Progress model proposed by the United Nations. This initiative, which we have endorsed and supported for many years, encapsulates what we see as the essence of business responsibility from a global and multidisciplinary viewpoint.

As evidence of our high standards, this Report has been prepared in accordance with the 2002 GRI Guidelines. It represents a balanced and reasonable presentation of our organization’s economic, environmental, and social performance. As we announced twelve months ago, several companies within the Telefónica Group will be presenting their own Corporate Responsibility Reports this year, following the same lines as the overall Group report. This reporting and operating framework was also extended to Argentina, Brazil, Chile and Peru in 2004, helping us to assess the specific contribution made by the Telefónica Group in these countries.

Finally, I would like to draw your attention to the dynamic nature of the information provided in this document. The progress and improvements we make or hope to make in the years to come will be founded on dialogue with our stakeholders; it is our belief that by creating value for our stakeholders we can also create value for the Company as a whole. I would also like to express my sincere gratitude to all those of you who, through your constructive criticism, have helped us to progress. Let there be no doubt that we shall continue to promote corporate responsibility, while striving to enhance the quality of information contained in this year’s Report.

Yours faithfully



César Alierta

Chief Executive Officer of Telefónica, S.A.

------------------------------------------------------------------------------------------------ Telefónica 2005

Letter from the Chairman

Dear Friend,

Telefónica would like to present you, for the fourth consecutive year, its Annual Corporate

Responsibility Report, one of the keystones of the Group’s corporate responsibility strategy.

The report we present for FY 2005 is a further step towards Telefónica’s strategic goal of being a committed and responsible Group. Committed, in that we are involved in the progress and development of the countries where we operate, through the transformation of our innovations into global communications solutions. And responsible in that we are focused on permanently improving the way in which we carry out our operations. At Telefónica we understand that as far as we are capable of generating a positive impact on society, we will also be capable of generating profitable and sustainable growth for everyone, thereby guaranteeing the sustainability of our company.

This annual Report introduces improvements with regard to the reports for previous years, in an effort to remain at the forefront of the corporate responsibility movement that has been growing throughout Europe and Latin America for some years now.

The first improvement in this Report has been its ability to consolidate a comprehensive corporate responsibility reporting system at Telefónica. This system has already borne results, such as the CR Reports for Argentina, Brazil, Chile and Peru. These “country reports” are a natural consequence of our commitment to initiatives promoted by the UN such as the Global Compact and the Millennium Goals, as well as the result of our “multidomestic” character. On the one hand, we are global, because of our size, presence and services. In 2005 we have further reinforced our internationality with the acquisitions of Çesky Telecom and O2 in Europe and our strategic alliance with China Netcom. On the other hand, we are also local, because, beyond sharing the same language, especially in Latin America, it is our desire to contribute to the communities we belong to through understanding and addressing their needs.

The second improvement in this Report has been its ability to transform internal management processes and systems on a worldwide scale. In 2005, special progress was made with the environmental management systems and the implementation of specific policies to extend best corporate responsibility practices from Europe to Latin America, and vice versa. To this aim, the

2005 report includes a detailed account of goals and challenges for 2006.

Thirdly, the 2005 Report includes many of the lines for improvement and progress suggested to us by our stakeholders following a detailed analysis of the reports for previous years. The fact is that, as was expressed in a series of dialogue panels held during the financial year, there is great interest in Telefónica's behaviour towards its customers, suppliers, employees of Telefónica Group, etc.

Fourthly, the report on corporate responsibility strives to present what we internally refer to as “the other Telefónica”, that is, the Telefónica that lies behind its financial results. For many of our stakeholders, Telefónica is much more than a telecommunications services provider. Many

already perceive us as a driving force behind the social, technological and economic development of the societies in which we operate. Our activity generates an important wealth in social, employment, digital inclusion and education terms, as well as in product and service innovation, business opportunities for suppliers… The benefits that information and communication technologies can bring to sustainable development provide a great opportunity for our business and for the societies in which we are present.

Lastly, the 2005 Report has taken us a step further in our search for rigour, transparency and relevance of information. Thus, the 2005 Report has been externally verified by Ernst&Young, in accordance with the Standard AA1000/AS, as regards the consolidation boundary in Spain. The aim has been to offer a balanced and reasonable presentation of the economic, environmental and social performance of our organisation. In addition, once again, the Report has been prepared in accordance with the 2002 Global Reporting Initiative Guidelines for all the consolidation boundary of the Group. We are proud that our commitment to transparency has been acknowledged with the inclusion of Telefónica in the main indices of companies who invest responsibly and with the many awards and special mentions received in 2005.

To conclude, I would like to reaffirm our commitment to permanent improvement in this corporate responsibility report. This improvement would be possible without the understanding and support from our stakeholders. That is why I wish to express our sincere gratitude to all those who, through their opinions and suggestions, have allowed us to make progress.

Best regards,



César Alierta

Executive Chairman, Telefónica, S.A.

------------------------------------------------------------------------------------------------ Telefónica 2006

Letter from the Chairman

Dear friend,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



César Alierta

Chairman and CEO, Telefónica S.A..

------------------------------------------------------------------------------------------------ Telefónica 2007

**Letter from the Chairman**

**Telefónica’s commitment**

Dear friends,

Telefónica ended 2007 with spectacular results in every sense. We won the confidence of our customers with more than 228 million connections and efficient management of our resources. As a result we were able to increase profit by 42% on the previous year. These excellent results were reflected in shareholder remuneration: a yield of 42% for all those who kept their shares throughout 2007.

As well as these business results, 2007 was also a key year for Telefónica's drive to become a more responsible company in the way it relates to its different stakeholder groups. In my 2006 letter I was happy to announce that Telefónica had redefined its corporate vision and Business Principles. This year I want to report on the five major steps we have taken to turn this vision and these principles into a common culture of integrity and ethics that will apply worldwide - how we have moved from words to action, from worthy declarations to reality on the ground.

First, Corporate Responsibility (CR) has been integrated into our operational strategies in Spain, Europe and Latin America through the application of our “spirit of progress” vision. Our employees have worked hard to support initiatives that will improve people’s lives and society’s development by the use of Telefónica technology. Fundamentally, it is about turning Telefónica itself into a strategic ally of economic, technological and social progress in the countries where it operates.

We have set ambitious targets over the next few years for improving customer satisfaction and the working environment at Telefónica. We are aware that both these indicators are interlinked and we cannot hope to become the operator of choice for our customers or the company most appreciated by society if we are not, at the same time, seen as the best place to work.

Secondly, we have taken forward the application of the Business Principles to all company operations. Not only have 36,000 employees been trained in our code of conduct, but we have also run major initiatives based on clearly defined policies to ensure socially responsible behaviour in advertising, child protection, data protection, environmental management, accessibility for people with disabilities, compliance with ethical standards throughout the supply chain, and control of the amount of junk mail and spam. Nor will we stop there. We have now set a target of training 80% of our employees in the next twelve months.

For several years now we have argued at Telefónica that CSR is a question of striking the right balance between achieving results and how we achieve them. By implementing the rules associated with our Business Principles we make sure that our day-to-day processes meet the highest ethical standards.

The third CSR front which we developed in 2007 was to incentivise customers to make best use of the possibilities offered by new technologies. We seek to educate customers on the safe use of technology by children, the recycling of handsets and obsolete equipment, protection against computer viruses and other security problems, and the considerate use of mobile phones in public places. We have made a start with messages on bills, on the website, in brochures and in stores...and the campaign will be rolled out on a wider scale in 2008.

In the same vein of promoting responsible progress, Telefónica wants to make sure that all citizens can enjoy the benefits of ICT by breaking down economic, geographical or disability barriers. In 2007, we continued to roll out infrastructure with new commercial offers designed to match the needs of our customers and to promote education in the use of technology through programs such as the Telefónica Foundation’s EducaRed.

We also continued our Information Society Reports and developed many institutional initiatives to take forward the debate on how ICT can help serve social progress. Issues such as computer literacy, health, e-administration and the media were dealt with in a range of publications and events sponsored by Telefónica including the second Latin American conference on ICT and the Millennium Goals, held in Santiago de Chile by AHCIET and the Ibero-American Secretariat General. Finally, we brought the world’s biggest global internet event to Latin America: the Campus Party. In 2008 this was held in Brazil for the first time and was a great success. Colombia is shortly to host its own version.

Fifth and finally, Telefónica has kept up its commitment to education and meeting social needs through investment in social welfare projects. In 2007 the company’s commitment came to nearly 90 million euros based on the criteria of the London Benchmarking Group (LBG). I must highlight the Telefónica Foundation’s Proniño program, which for another year doubled the number of children it helps, ending 2007 with 52,000 direct beneficiaries. In 2008, we want more than 100,000 children to have the chance to go to school, escaping the grim life of child labour, and to have ever more access to the educational possibilities offered by ICT.

This year, too, I want once again to underline Telefónica's firm commitment to the United Nations Global Compact and to the fulfilment of its principles. This initiative embodies what corporate responsibility means to Telefónica: an approach that takes account of all stakeholders, that is simultaneously global and local, that is voluntary and designed to promote excellence in corporate behaviour.

I would like to end by reaffirming to you our commitment to continuous improvement in this Corporate Responsibility report which we are publishing in local versions for each of the countries where we operate. This improvement will only be possible with the understanding and support of our stakeholders. I would like to extend my most sincere thanks to all of those who, with their opinions and suggestions, have helped bring us nearer towards achieving our vision.

**César Alierta**

Executive Chairman, Telefónica S.A.

------------------------------------------------------------------------------------------------ Telefónica 2008

Letter from the Chairman

Dear Friend,

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

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

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

Secondly, the year was good in terms of CR because we made significant progress putting in place systems and internal processes aimed at ensuring management integrity. The Human Resources, and Reputation and Responsibility Committee, attached to Telefónica S.A.’s Board of Directors, was responsible for driving and overseeing all these processes. Over 60,000 employees received training on our Business Principles; action was taken in 360 cases to enforce fulfilment of our Principles; and we signed the ‘Human Rights; a call to Action’ declaration, promoted by the Global Compact of the United Nations to coincide with the 60th anniversary of the Universal Declaration of Human Rights. We also implemented internal procedures to extend our ethical principles to the supply chain and protect children and adolescents when using technologies and approved new processes to regulate risk management, data protection and the integration of disabled people into the workplace...these are all examples of how Telefónica is making progress through measures designed to guarantee the integrity of our management. This has been acknowledged by the two most important indices that measure socially responsible investment: the Dow Jones Sustainability Index (DJSI) and the FTSE 4Good.

The third important point to note in 2008 was that we placed particular emphasis on the positive impact that our products, services and solutions have on society. This

2009 Report has devoted a chapter to describing the programmes (numbering over 60) put in place by the Company that aim to reduce the digital divide – or the inequalities that arise between people and communities who use Information and Communication Technologies (ICT) on a daily basis and those who either have no access to these technologies or lack the skills to use them. We grouped Telefónica’s programmes into four main categories: the economic divide; the technological skills divide; the geographical divide and the health and disability divide.

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

Additionally, we remained highly committed to social and cultural programmes in 2008.

According to the LBG measurement model, the Company invested about 115 million euros in these programmes during the year. I would particularly like to single out ‘Proniño’, the Fundación Telefónica programme, which for the third year running has managed to double the number of children receiving schooling and so contribute to the struggle against child labour: today, over 107,000 boys and girls can look forward to a brighter future thanks to the combined efforts of the Fundación Telefónica and over 100 NGOs operating in Latin America. Alongside

‘Proniño’, the Foundation is actively promoting ‘EducaRed’ (aimed at improving the quality of education through the useof ICT) and corporate volunteering (in 2008, around 22,000 employees across the Telefónica Group volunteered some 340,000 hours).

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

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

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

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

César Alierta Izuel

Chairman of Telefónica, S.A.

------------------------------------------------------------------------------------------------ Telefónica 2009

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 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)](http://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.

----------------------------------------------------------------------------------- Supplementary information

“Telefónica promotes its commitment to the Global Compact with its Corporate Responsible Reporting Model”

------------------------------------------------------------------------------------------------ Telefónica 2010

LETTER FROM THE EXECUTIVE CHAIRMAN

César Alierta Izuel

Executive Chairman of Telefónica, S.A.

Dear Friends,

It is a pleasure for me to present you with Telefonica’s Corporate Responsibility and Sustainability Report, a document which introduces a signiﬁcant change to our strategy on this topic and our achievements in 2010: for the ﬁrst time in nine years we have added the concept of *Sustainability* to the name of the report.

In 2010, we had our best year ever in terms of corporate responsibility. For starters, we led the Dow Jones Sustainability Index (DJSI) for the second consecutive year - the most important socially responsible investment index in the telecommunications supersector including landline and mobile operations. The prestigious magazine Fortune also recognised us as the “Most admired company” in the telecommunications sector among other reasons leading the corporate responsibility ranking in the sector. In addition, Telefónica has led the Carbon Disclosure Project (CDP) in our sector; it is worth recalling that CDP gathers together 475 investors who jointly manage assets valued at 36 billion euros and which compiles information on risks and opportunities identiﬁed relating to climate change, plans to reduce emissions and the transparency of corporate measures to mitigate climate change. In addition, the company has renewed its presence on the ethics investment index FTSE4Good for another year. Finally, to these global achievements, we have the numerous accolades and awards received by all our operators in the different countries where we are present.

Keeping up these achievements in 2011 will not be easy. Exceeding them will be a herculean task. For this reason we have proposed in depth process re-engineering which ranges from a new strategic viewpoint to a new work model. Only somebody who reinvents themselves each day can sustain a leadership position. Allow me to brieﬂy describe to you the steps we have started to take in this direction.

First of all, we have incorporated into our *bravo! programme* - a global programme to transform the company for the period 2010-2012 - Corporate Responsibility and Sustainability as key levers of the culture programme. Therefore, together with our brand, our employees, corporate responsibility is a necessary lever to boost our relationship with society. Progress on this topic is followed both in the Board of Directors, Telefónica’s main governing body, and the executive committee, the main managerial body.

Secondly, also in the ﬁeld of internal management, we have linked our strategy on this topic to the deﬁnition made by the DJSI: “Corporate Sustainability - it states in the index - is a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments”. This deﬁnition is also enabling us to make not only a more signiﬁcant conceptual approximation to the phenomenon of corporate responsibility but, especially, more of a link to the business strategy, especially in three ﬁelds:

• The management of risks in our business.

We are creating global policies in the most relevant topics in our sector, with the aim of fostering responsible and transparent management in our entire *footprint*.

Topics such as protection of children; responsible supply chain; protection of human rights; privacy and protection of data; environmental management; electromagnetic ﬁelds, etc. are matters in which the company seeks to consolidate the same response globally.

• The management of opportunities linked to the impact of our services in society. The accessibility of ICT to enable the integration of the disabled or the elderly, and new solutions to boost savings and energy efﬁciency, are clear market opportunities for Telefónica, opportunities which also generate a clear positive impact in society.

• The *Stakeholder engagement*, which is enabling us not only to “jointly create” new solutions together with our customers (especially public administrations) but will also help us to incorporate Telefónica into debates on sustainability which are being carried out in the digital world, social networks and the blogosphere.

Thirdly, we are simplifying our reporting model and, especially, seeking a certain global standard which helps the accountability of our responsible behaviour. Every day, the number of stakeholders asking for consistent and comparable data around sustainability grows; for this reason, any attempt to ﬁnd a common reporting framework will be welcomed by Telefónica. In our case, we have opted to link the reporting model to the main global and multilateral initiatives: Global Compact and Global Reporting Initiative (GRI). What is more, we have adopted this both from a global and a local perspective; it is worth recalling that Telefónica produces 17 Corporate Responsibility reports locally which are also veriﬁed externally. For this reason, in 2010 we opted to join the platform Global Compact Lead, an initiative comprised of approximately 50 multinational companies which seek to boost the notion of sustainability driven by the United Nations.

Finally, we are adapting our internal management model in order to fulﬁl these objectives. Working on sustainability issues means working horizontally, across the organisation, at a corporate, regional and country level. By ensuring we work in this way, we will be capable of achieving our challenges.. corporation, region or country. By ensuring this “horizontality” we will be capable of achieving our challenges.

Our challenge is great. And our hopes of achieving it are high. We continue to count on your trust.



Yours faithfully,

**César Alierta Izuel**

Executive Chairman of Telefónica, S.A.

------------------------------------------------------------------------------------------------ Telefónica 2011

Dear Friends,

At Telefónica, our calling to become a strategic ally for the technological, economic and social development of the communities in which we operate is built into our DNA. We are convinced that our sector can provide solutions to the most important problems faced by the planet: wherever information and communication technologies (ICT) are implemented, productivity rises, education improves, health and energy costs fall and inclusion is promoted. To put it another way: wherever ICT are found, there is development.

At Telefónica, as a leading telecom, we want to contribute to that development with two approaches to our work. With the first, we hope to drive corporate sustainability, understood as a strategy based on the creation of long-term value, by seizing opportunities and by efficaciously managing the risks inherent to economic, social and environmental development (in line with the Dow Jones Sustainability Index’s definition of this concept)1. With the second, and through the Fundación Telefónica, we strive to promote community work and cultural endeavours, and, especially, through educational programmes that eradicate child labour and facilitate access to knowledge and the use of ICT2.

In this document, the reader will find an executive summary of our activity in 2011. In preparing this summary we have focused on the three basic dimensions of sustainability: the economic dimension (supply chain, codes of conduct, child protection and privacy); the social dimension (climate and commitment, safety and health, diversity, digital inclusion and social projects); and the environmental dimension (energy efficiency and green services), as well as the references to each of the 10 Principles composing the UN Global Compact.

We are firmly convinced that we can be an engine of development and progress in the societies and countries where we work. Our challenge is to be a little better every day.



**César Alierta**

Chairman and CEO of Telefónica