-------------------------------------------------------------------------------------------------------Telefonica 2012

It is a pleasure for me to write to you and introduce the eleventh Annual Sustainability Report of Telefónica, corresponding to the 2012 fiscal year, which we publish to promote our unavoidable commitment to transparency with all our interest groups, and our objective to value the integrity and sustainability of our management and society in general.

We consider sustainable management the best way to reach our vision to transform possibilities in reality, with the aim to create value for employees, clients, shareholders, global partners, and for all of society in general.

In short, corporate sustainability is a clear source of competitiveness and progress of our Company. It increases brand and difference value in Telefónica´s client relationships. It helps to attract and retain our employees and offer them a stable project in our Company. Corporate responsibility faces society, because it strengthens our genuineness at the time of offering our digital services and allows the sustainable development of the communities in which we operate.

At Telefónica, we actively participate in the debate to promote sustainability as part of international and regional public agendas. It is for this reason we have been publishing our report according to World Agreement principles and in virtue of the international standards such as *Global Reporting Initiative* (GRI-G3.1), and as in previous years our Report is verified externally according to AA1000 criteria. In addition, we have adhered to the new initiatives such as the *International Integrated Report* or the *Global Compact Lead* platform, a project formed by close to 50 multinational companies that seek to promote the idea of Sustainability under the impulse of the United Nations.

The important advances on sustainability of our company in 2012 are discussed on this report based on a triple perspective: financial, environmental and social. This report outlines the financial dimension of sustainability among other subjects, highlighting the advancement achieved in the identification and quantification of reputational risks.

As regards the scope of the Principles of Conduct of the Group, it is important to indicate how Telefónica continues to work on the implementation and dissemination of the ethical code, which is the ground for the creation of a new corporate culture supported on transparency and integrity.

As regards the protection of data and privacy, the activity of the Company in this scope has revolved mainly around four pillars, the creation of a security environment, the inclusion of security of new products, the development of initiatives related with the responsible use of Information and Telecommunication Technology and the collaboration with international organizations.

In the environmental field, Telefónica has based its strategy on the management of environmental risks, promotion of internal ecoefficiency and search of business opportunities through Information and Telecommunication Technology Services that promote an economy with lower carbon dioxide emissions.

In short, in 2012, Telefónica positioned itself among the world top five leading companies César Alierta Izuel Chairman & CEO in Telecommunications in the Carbon Disclosure Project (CDP), the highest investment index on global energy and climate change issues. Furthermore, the company highlights the advancements on energy efficiency, which entail direct energy savings of 5 million Euros. Additionally, Telefónica established a new CO2 (carbon dioxide) emissions reduction level of 30% per client for 2020.

The social field section inside the report outline among other subjects, those issues related with work environment, commitment, security and health, diversity, digital inclusion and social projects.

In this occasion, I want to highlight some of our digital inclusion projects, such as the initiative carried out in Peru to identify the best inclusion initiatives in rural zones based on Information and Telecommunication Technology Services. Wanda, the company created together with MasterCard for the development of mobile payments in Latin America is noteworthy for persons with lower technology resources who cannot access a bank account even though they own a mobile device. On the other hand, the M-Inclusion project, co-financed by the European Commission has been implemented in order to carry out the first Platform of Social Inclusion through mobile solutions for Europe and Latin America.

During 2012, we have analyzed the evaluation of the Group impact on issues of human rights. In relation to this last subject, Telefónica signed the Governing Principles of Freedom of Speech and Privacy of the Information and Telecommunication Technology Services and developed the Methodology Guide for the identification and evaluation of child labor risks.

-------------------------------------------------------------------------------------------------------Telefonica 2013

Dear friends,

Once again I have the pleasure of writing to you to present the Annual Corporate Sustainability Report, which recounts our activities in the areas of risk management and leverage of opportunities, and our effective management of the risks inherent to economic, environmental and social development.

This Report, which Telefónica has been publishing since 2004, aims to respond to the concerns about information and transparency that the distinct groups with a stake in our activities may have. Similarly, it entails compliance ahead of time with European Union Directive 2013/34 with respect to “disclosure of non-financial and diversity information by certain large companies and groups”. In addition, we would like it to answer demands for information that are being made in some of the countries in which we operate, under the format “inform or explain”.

We at Telefónica are convinced that corporate sustainability and transparency are long-term sources of competitiveness and progress. Not only do these help to underscore our legitimacy to operate in the different countries in which we are present, but they also have positive repercussions on the management of our business, and therefore on our results. Moreover, ICT, based on connectivity, are leading the processes of transformation of our society and they are an essential factor in the creation of employment, economic growth, saving energy and transparency, as is shown by the digital agendas of the most important public and private bodies in the world.

In this Report you will be able to see the progress that Telefónica has made during the financial year along the three basic dimensions of sustainability: economic, social and environmental. With regard to the economic impact, which in terms of sustainability has to do above all with the way in which we obtain our income and carry out our activities, we should mention the achievements of our Business Principles Office during 2013, the advances in compliance with the principles of sustainability in our chain of suppliers, and the progress we have made on privacy and data protection.

Relating to the social impact, in this Sustainability Report 2013, we have emphasised diversity management in the workforce, the projects of digital inclusion and social innovation, and also the important schemes to boost entrepreneurship in which we are engaged.

On the environmental side, you will find complete information about our environment policy in this Report. We continue to reduce our energy consumption and are moving forward noticeably with electronic billing as an alternative to paper consumption, and in addition our “green” services have made important advances which are already being translated into income for the Company.

As you will be able to see, sustainability is being incorporated gradually into the value chain of Telefónica. Indeed, we are collaborating actively with all the interest groups which have a relationship with our Company, and we are offering exhaustive information on the developments in the most relevant subjects, our indicators and our sustainability policies in terms of standard publication criteria like the GRI and the UN Global Compact.

All this means that in 2013, our Company has been included in the worldwide Dow Jones Sustainability Index; it was fifth in the Carbon Disclosure Project and Sustainalytics rankings; it was recognised in the Excellence Investment Register by the Ethibel Sustainability index; and, for the twelfth year in a row, it forms part of the FTSE4Good ranking. And as a consequence of all this, Telefónica was acknowledged in 2013 as the most admired European telecommunications company, and second in the world, by Fortune magazine.

I would like to conclude by reminding you that our Company is currently positioned as a fundamental actor in the sector. Being able to count on the recognised team of professionals that we have assures me that I can say to you that Telefónica is going to play an ever more decisive role in the digital world, because we are convinced that technology ought to be within reach of all individuals, companies and public authorities, so that they can BE MORE.

I would like to express my thanks for the support of our stakeholders who, with their opinions and suggestions, have helped us to move forward in achieving our vision.