



2011

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**Telefônica Brasil  
Annual Sustainability  
Report**

*Telefônica*

**vivo**

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# Summary

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# Letter from the global president



Dear friends,

**T**elefônica's vocation to be a strategic ally in the technological, economic and social development of the societies in which we operate is part of our DNA. We are convinced that our sector is at the heart of the solution for the planet's main issues: Wherever there are information and communication technologies productivity increases, education improves, health and energy costs are reduced and inclusion is boosted.

And as a telecommunication sector leader, we at Telefônica contribute to this development working on two fronts. Firstly, we foment Corporate Sustainability understood as a strategy based on long-term value creation through the exploitation of opportunities and effective management of the risks inherent to economic, environmental and social development (as defined by the Dow Jones Sustainability Index). Secondly, by means of the Fundação Telefônica, we promote social and cultural action, particularly through educational programs designed to eradicate child labor and to facilitate access to knowledge through the application of Information and Communication Technologies (ICT).

In this document, you will find an executive summary of our activity in 2011. It was developed based on the three fundamental dimensions of sustainability: Economic (supply chain, codes of conduct, privacy); Social (climate and commitment, health and safety, diversity, digital inclusion and social projects); and the Environment (energy efficiency and green services).

We are convinced that our company should be a driver of development and progress in the societies and countries in which we operate. Our challenge is to do this a little better every day.

**Cesar Alierta Izuel**  
Global President, Telefônica Group



# Letter from the presidents of Latin America and Brazil



Dear friends,

**W**e are pleased to present Telefônica Brazil's eighth Annual Sustainability Report. This work has become a unique tool for appraising the company's performance, openly portraying our efforts to make Telefônica Brazil an integral and sustainable leader, respected by all its stakeholders.

In 2011, there were numerous examples of our exemplary, groundbreaking leadership. One was the serene, ethical way in which we speedily conducted fundamental stages of the integration between Telefônica and Vivo. The success of the process was evident in the increase of our share prices by around 20% in a year in which Ibovespa dropped 18%. Potential complications in the organizational environment generated by the fusion of two high-performance teams were dissipated to such an extent that the employee satisfaction rate reached 85.7 on a scale from 0 to 100, considered exceptional in this type of survey.

Our 3G network covers more than 2,500 municipal districts (more than all the other mobile carriers together), connecting the people, companies and organizations in these places with new levels of development. We have extended the experience acquired in fixed services in São Paulo to other states. We are the leaders in service quality, having the lowest number of complaints in the sector. We continually add new products and services to our portfolio, with due attention to eco-efficiency. And through sponsorship and programs, we continue to drive public access to culture and to promote social inclusion through sport and the social use of Information and Communication Technologies.

We are, therefore, optimistic about building a more sustainable future full of opportunities for everyone. The Brazilian conjuncture, characterized by economic growth, a more even distribution of wealth and the ascension of lower income groups, complemented by a major modification in our area of activity – the opening of the cable TV market –, further strengthens our enthusiasm for this venture.

**Santiago Fernández Valbuena**  
President, Telefônica Latin America

**Antonio Carlos Valente**  
President, Telefônica Brasil



# Telefônica in Brazil and worldwide

3<sup>rd</sup> largest

telecommunications company worldwide



The company has

289,000 employees  
on four continents – Europe, the  
Americas, Africa and Asia

Active in Brazil since 1998,  
where it is the largest  
telecommunications  
company and the  
Group's biggest operation  
worldwide, Telefônica Brazil had  
86.9 million clients  
at the end of 2011. The year  
was marked by the integration  
of Vivo, whose mobile  
operation alone has  
71.6 million clients  
and the largest market share  
(29.5%) nationwide.

The Telefônica institutional brand offers

products and services

through its commercial brands

Movistar, O2 and Vivo

+ than 309  
million

accesses in the

25 countries

in which it operates



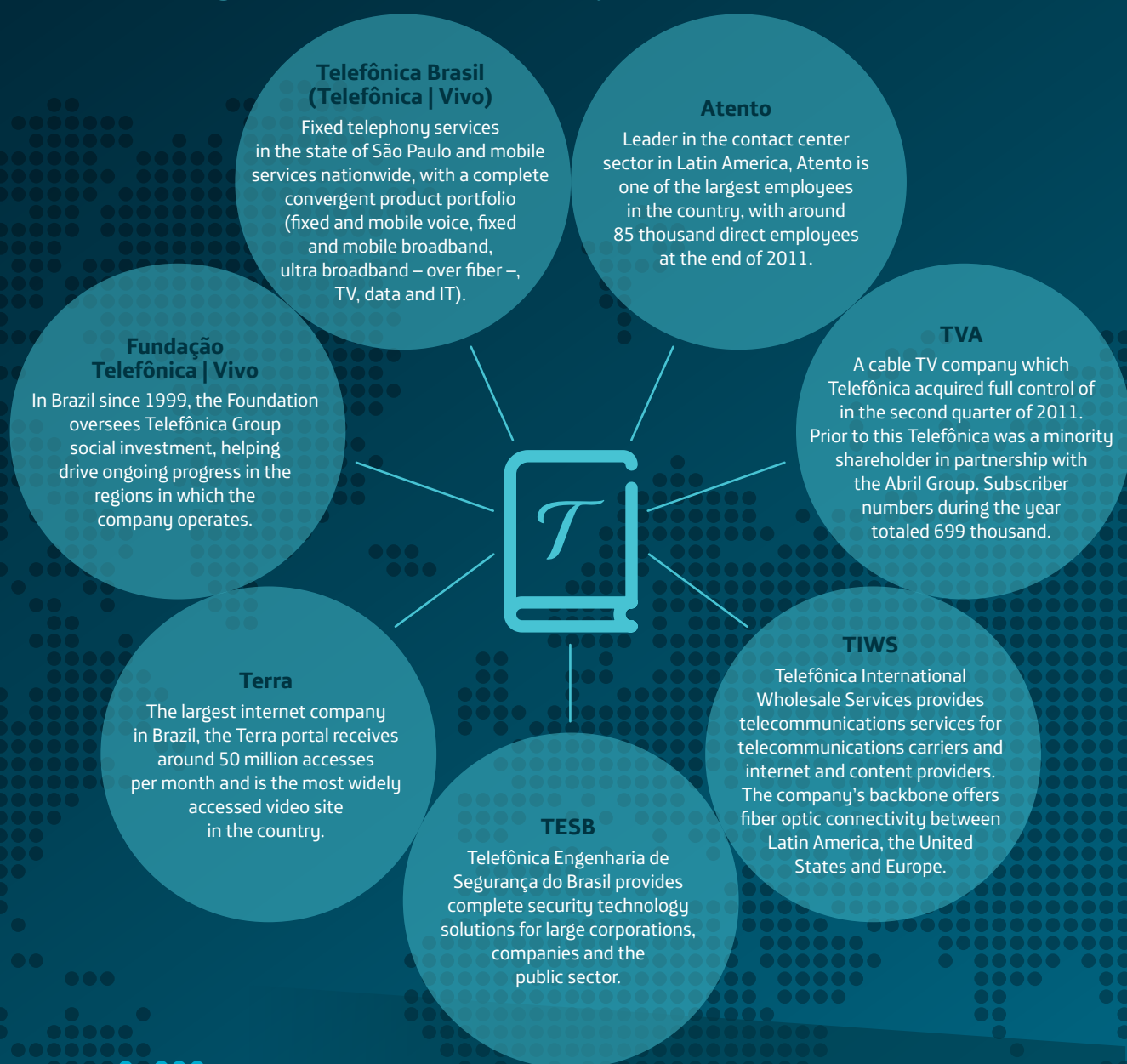
Created in 1924,  
in Spain

Investments scheduled for Brazil  
from 2011 to 2014 total

R\$ 24.3 billion



Our importance for the country becomes even more evident if one considers the group of companies which we control or in which we have a significant stake. The major ones are:



In this document, each chapter addresses the Group companies having the greatest impact on the stakeholder group mentioned, in accordance with Global Reporting Initiative (GRI) recommendations for establishing report boundaries. Accordingly, the economic impacts of the Telefônica Group's economic activities in the country are presented based on consolidated data from all the operations.

The most visible company in this report is Telefônica | Vivo, the Group's main operation in Brazil.

# Materiality Analysis



This report reflects Telefônica | Vivo's deep engagement in sustainability, strengthened by transparent conduct which drives market confidence and competitiveness gained from projects that reconcile economic, social and environmental interests

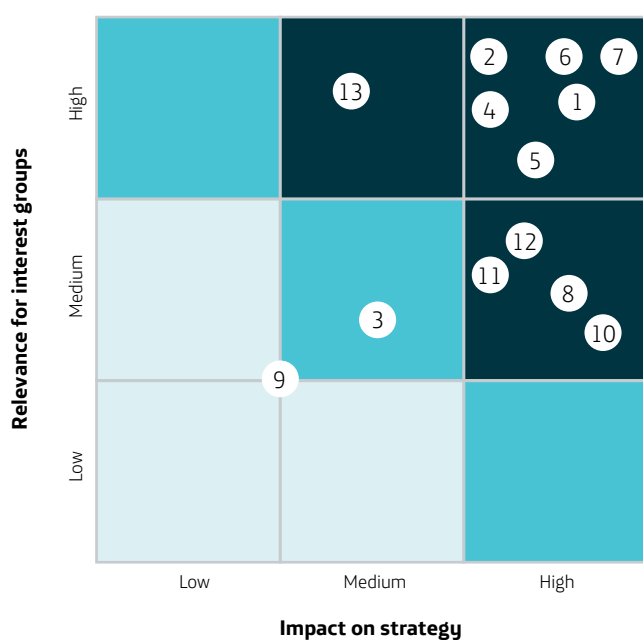
It is our understanding that sustainability is an intangible asset that is fundamental for value creation, made concrete through transparency and competitiveness. Transparency enables us to generate confidence in the markets in which we operate and among our stakeholder groups. Our competitiveness is boosted by the adoption of a sustainable mindset which optimizes resources and the incremental revenues produced by relevant sustainability-related projects, managing the company's impacts and exploiting the opportunities generated by technology.

We therefore prepared a reporting model based on a perspective of economic, social and environmental results as an integrated response to international responsible investment indices (such as the Dow Jones Sustainability Index and the FTS 500) and the principles of completeness and responsiveness in the AA 1000 Assurance Standard.

## Measurement Criteria

Influence in Telefônica	External influence
Client satisfaction	Employees
Employee satisfaction	Clients
Growth	Suppliers
Efficiency	Shareholders / Investors
Return for shareholders	Regulators/ Government
	Society
	Communication media

## Materiality matrix



- 1 Privacy and data protection
- 2 Protecting children and adolescents
- 3 Electromagnetic fields
- 4 Green ICT
- 5 Codes of Conduct
- 6 Transparency
- 7 Service quality
- 8 Supply chain
- 9 Diversity
- 10 Responsible marketing
- 11 Digital inclusion
- 12 Accessibility
- 13 Environmental management



# Sustainability at Telefônica



Telefônica's route to sustainable growth is based on mapping questions related to our brand's reputation and continuously improving them, investing in businesses that drive a greener, more inclusive society and engaging in effective, transparent dialogue with our stakeholders

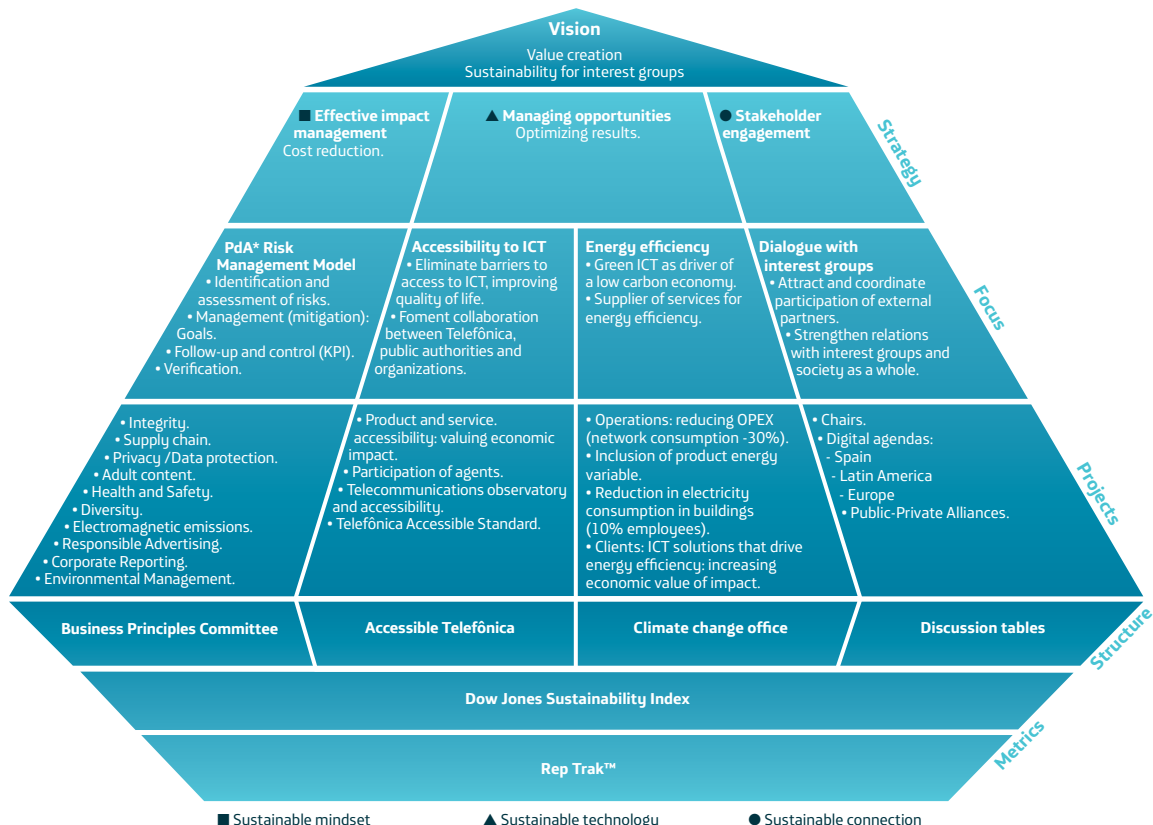
**A**t Telefônica | Vivo we see sustainability as the responsible management of the technological, economic, social and environmental dimensions of our business, enabling us to achieve more consistent results and put into practice our vision of transforming possibilities into reality.

We believe that with a sustainable mindset we will be able to identify the impacts of questions that influence our brand reputation and focus directly on the solutions to these questions with a view to transforming our internal processes and improving continuously as a company.

We seek to contribute to the development of society by driving sustainable technologies, because we believe that they have the power to bring about a positive transformation in the world we live in. To this end, we identify business opportunities that promote the construction of a greener, more inclusive society, through projects aimed at promoting digital inclusion and social commitment and combating climate change.

Finally, we will develop a Sustainable Connection with our stakeholders by means of effective dialogue and transparent communication, which will enable us to identify their expectations and incorporate them into our action plans.

## Strategic scheme of Corporate Responsibility and Sustainability



\*PdA is the Telefônica Code of Ethics





## Economic impact





# Economic impact

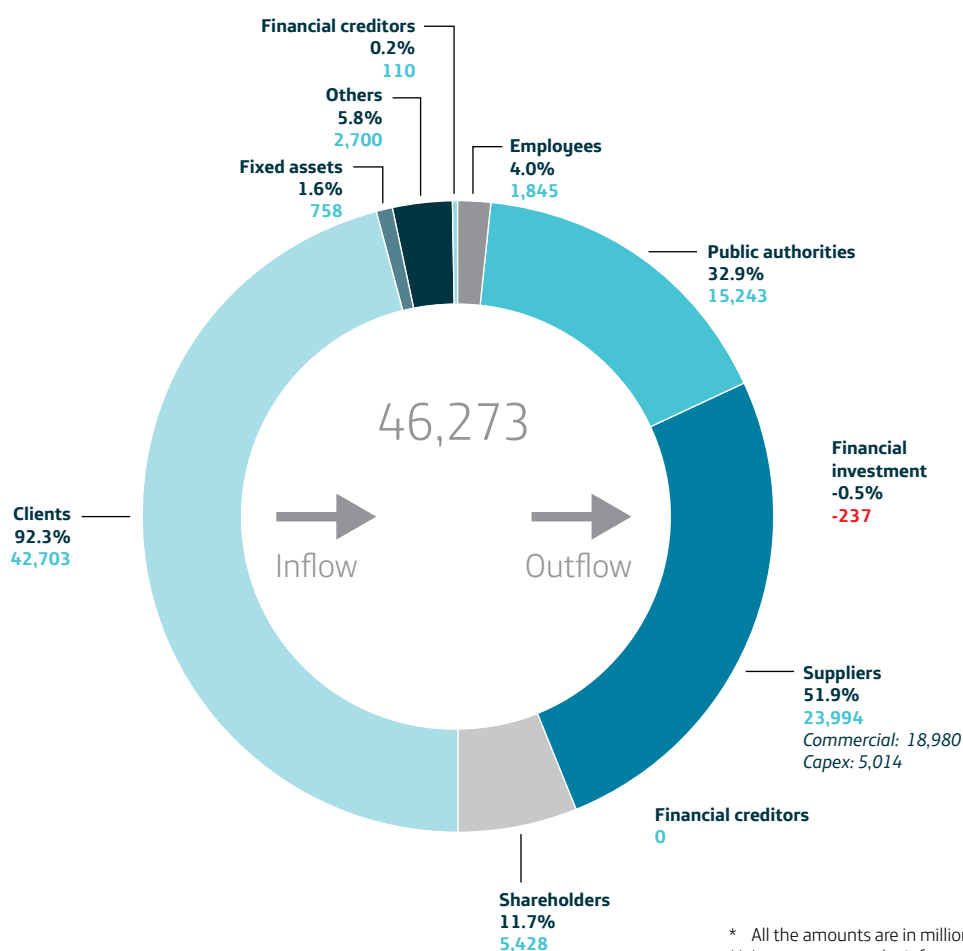
Despite the slowdown in economic activity in Brazil in 2011, Telefônica | Vivo continued to drive progress in society, accelerated substantially by the integration of the fixed and mobile operations

## Driving progress

The breakdown of Telefônica | Vivo's financial flows in 2011 provides a more detailed view of how the company's revenues are redistributed throughout Brazilian society,

covering suppliers, government, employees, credit institutions and shareholders, as well as its role as a driver of the country's social and economic progress.

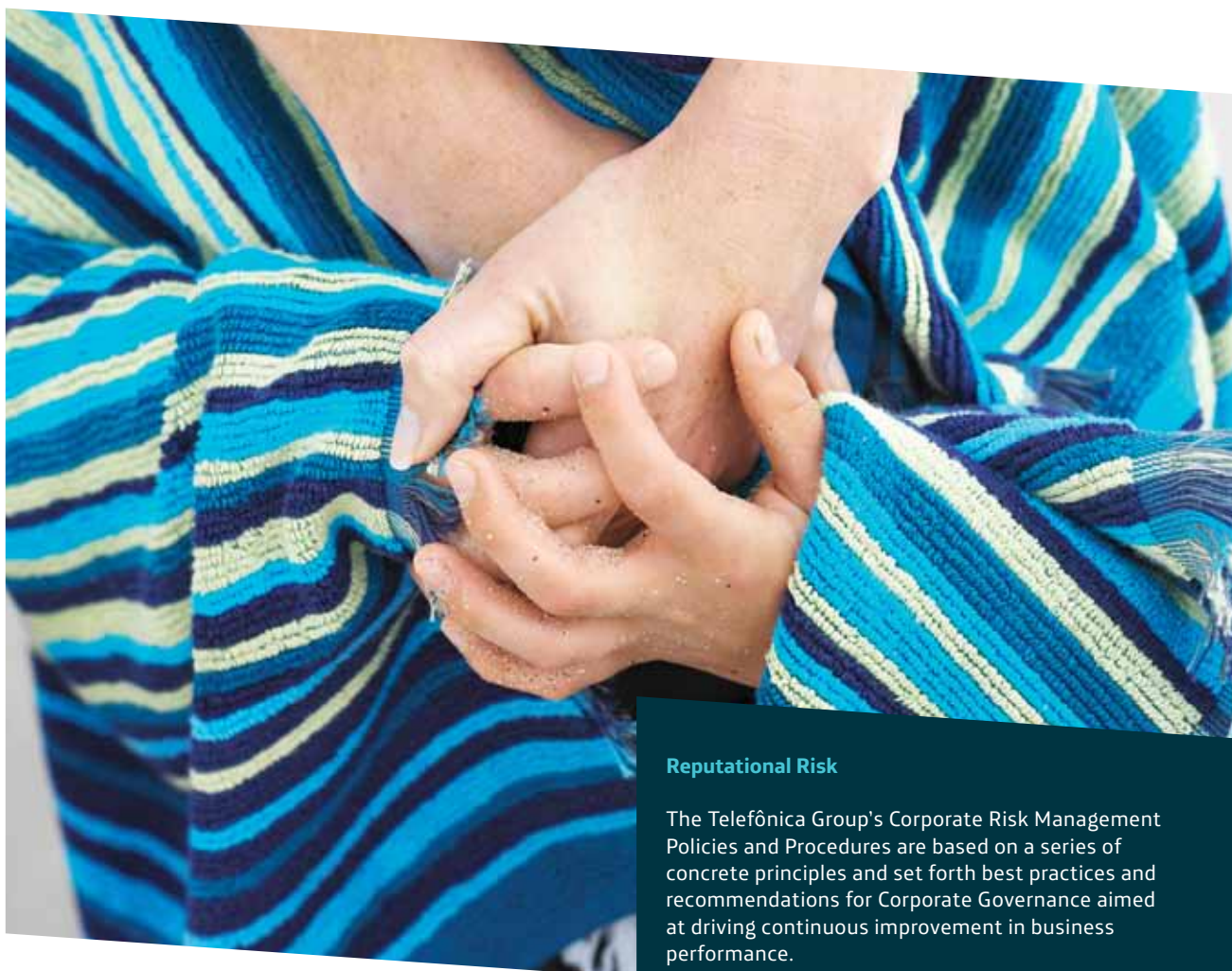
## Social cash flow



\* All the amounts are in millions of reais.

\*\* Important note: the information published on this page is from internal Telefônica Brazil sources and was verified against the report checker. The data provided may be affected by later events and effects which could modify the content.





## Managing impacts

Fully aware of the impact it may have on its stakeholders, Telefônica established ethical principles of conduct as a means of ensuring honesty, integrity and trust, as well as respect for the law and human rights in all its activities. These Business Principles were approved in 2006 and serve as an official code of conduct for all the Group's operations worldwide.

The principles govern our activities and relationships, generating greater trust among our audiences and optimizing long-term value for shareholders and society as a whole. We encourage all employees to familiarize themselves with these rules and obey them, and we invest in like-minded partners and suppliers.

After the integration of Telefônica and Vivo, the conduct codes of the two companies were submitted to an assessment, with a view to establishing common minimum standards applicable to the new company. The result of this work will be submitted to the Business Principles Committee, comprising the Corporate Institutional Relations and Business Development, Human Resources, Legal and Audit areas, resulting in the production of a new document by September 2012. The Committee's role is to make decisions related to compliance with the Business Principles and to mitigate previously mapped risks that have a direct impact on the company's strategy and reputation.

### Reputational Risk

The Telefônica Group's Corporate Risk Management Policies and Procedures are based on a series of concrete principles and set forth best practices and recommendations for Corporate Governance aimed at driving continuous improvement in business performance.

These policies and procedures ensure alignment with the model in all the Group companies worldwide. They also establish all risk-related information and approval flows.

There are four categories of risk: Business, Financial, Operational and Global.

Reputational risks and those associated with non-compliance with the Business Principles fall under the latter category and the corporate risk management model, constituting situations capable of affecting the brand's reputation and are transversal to the operation.

All company employees have access to the standards governing decision making, purchase and contracting processes. Additionally, they have access to confidential channels through which they may make anonymous reports, ask questions and seek advice on questions related to the business principles.

In 2011, our global channels received a total of 91 anonymous or personal reports.



## Privacy and data protection

For Telefônica | Vivo, responsible management of client information, including privacy and data protection, is fundamental for the sustainability of its business. Consequently, we work continuously to ensure such information is maintained in a secure, controlled environment. Security is guaranteed by means of specific software, such as Resource Access Control Facility (RACF), and formal processes that ensure data may only be accessed by authorized employees.

We have a series of protective barriers to ensure the inviolability of our client data. These include Intrusion Prevention System (IPS), Intrusion Detection System (IDS), Firewall, Antivirus and Anti-Spam software, controlled internet access via Proxy technology with user authentication, standardized work stations and employee authentication through the use of access accounts (users and passwords). Periodic vulnerability tests are performed on this security infrastructure.

Telefônica | Vivo executives are required to sign of a Term of Responsibility and Confidentiality on an annual basis. This ensures that all our employees are aware and compliant with

the "Protection of Telephone and Telematics Communications and Subscriber Personal Data" procedure. In 2011, audits were conducted in the areas involved to ensure compliance with this document.

In addition to these procedures, the company's Risk and Information Security area carries out periodic information security awareness campaigns addressing password protection, mobile devices, phishing and exposure of information in digital media.

This is reinforced by the company's Internet Access Security Policy, which establishes best practices and safety standards for use of the internet in the corporate environment. Non-compliance with standards related to the circulation of inappropriate content, including pedophilia, pornography, and prejudice based on race, sexual orientation or religion is dealt with administratively.

All company Information Security standards and policies are available to any employee on the Intranet.

Together with other telecommunications service providers, Telefônica | Vivo signed a commitment to release information on people under investigation for crimes against children and adolescents upon judicial request. This is the result of an agreement made in September, 2009 between the Brazilian Federal Senate Investigative Commission into Pedophilia, the National Public Prosecutors' Council, the Rio de Janeiro state Public Prosecution department, the Federal Police, the Internet Management Committee and Safernet Brasil.

## Online security

We offer our clients an online security package, Vivo Segurança Online, to enable more secure internet navigation and greater confidentiality for personal information, such as passwords, files and photos. This also enables users to control access to determined content and the time children and adolescents spend online. There are five packages for computers and two for smartphones and tablets.

## Managing client relations

After the various stages of the Telefônica / Vivo integration process, company results for the year were robust, illustrated by the increase in the client base. Telefônica had a total of 86.9 million users at the end of 2011, 71.6 million in its mobile service, and 15.3 million in the fixed telephony, broadband and cable TV services.

Particularly worthy of note was the mobile client base, which grew by 18.7% in the year with a net increase of 11.3 million users, of which 4.5 million in the fourth quarter. The number of fixed broadband users passed the 3.6 million mark, a 9.5% increase compared with December 2010.

### Other information security-related procedures worthy of note are:



The Corporate Information and Technology Security Policy and Standard affecting employees;



The Information and Technology Security Awareness Program for company employees and third-parties;

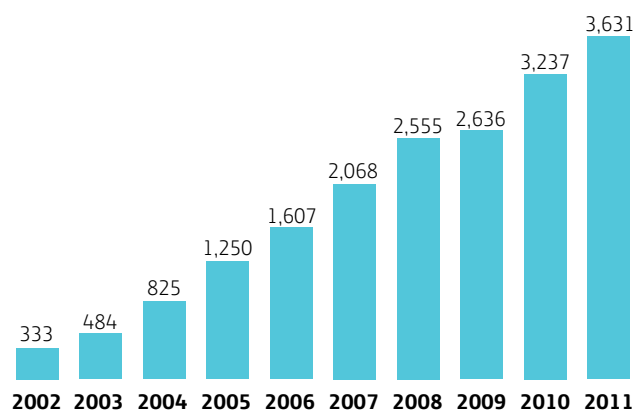


The Data Loss Prevention Project;



Identity Management and Intrusion Prevention Improvements.

## Fixed broadband client base – Speedy (in thousands)



## Client service

In the mobile segment we generated more sales opportunities via contacts through the company's customer service channels: call center, SMS, chat, email and internet. During the year, sales via these channels totaled 6.5 million, compared with 2.6 million in 2010, further reinforcing their importance in the revenue mix.

In addition to the electronic channels consolidated in previous years, such as MeuVivo ([www.vivo.com.br/meuvivo](http://www.vivo.com.br/meuvivo)) and Fale Conosco (email), in 2011 the company extended its SMS service throughout the country, increasing from 500 thousand contacts in 2010 to approximately 4 million in 2011. Satisfaction surveys indicate excellent acceptance of this relationship channel.

Telefônica | Vivo maintains profiles on the social networks. One of these is Vivo em Rede on Twitter. It disseminates mobility related contents to clients. The service is run by a call center team prepared by social network professionals to clarify consumer doubts at entry level (officially, this is not classified as service provision because a call is not opened and the client's history is not accessed). Another profile geared to client interaction and dealing with complaints and problems concerning company products and services is Telefônica Ajuda (*read more in the chapter Stakeholder Engagement*).

## Quality and innovation

Telefônica | Vivo has an ongoing commitment to assure the quality of the services it provides for its clients and to forge closer relations with them. In this sense, we started to deploy fixed services in other states, backed by the robust experience acquired in serving the demanding São Paulo market. These include Vivo Fixo (fixed services based on mobile network infrastructure) and Vivo Box (with fixed telephone, internet and Wi-Fi in a single device). Currently available in the Porto Alegre, Rio de Janeiro, Belo Horizonte and Vitória metropolitan regions, these solutions will be extended to other locations in 2012.

One way of innovating is to incorporate new products and services into our portfolio, such as Vivo Direto. Launched in August 2011, it enables clients to call anywhere in the country at the touch of a button using Push to Talk (PTT) technology, a practical, cost-effective way of staying in touch with customers, family and friends nationwide. We also innovated with the launch of HSPA+ (or 3GPlus, as it is known commercially) in the São Paulo metropolitan region (DDD 11). This product ensures even higher data transmission rates for clients with compatible terminals, reaching up to three times the conventional 3G rate.

Another novelty accompanied the operational start up of the 1.800 Mhz frequency: the launch of the open Vivo chip, which can be used in any unlocked cell phone. This is the only product of its kind in the country.

The consolidation of a more robust network enabled us to deliver what clients expect with quality. We increased migration from TDM to NGN by 26% and worked on adapting datacenter infrastructure.

The launch of fixed services via FWT mobile technology (Vivo Fixo and Vivo Box) enabled us to exploit the fixed telephony segment in regions outside of São Paulo as a result of the fixed mobile integration.

We pulled even further ahead of the competition with aggressive growth in 3G coverage, an area in which the company is outright leader (*more information in the chapter on Digital Inclusion*).

Broadband access via the fixed network also expanded. The company's portfolio of ADSL broadband products has an initial speed of 250 kbps and a maximum speed of up to 8 Mbps.

### Complaints to Procon-São Paulo and to Anatel per month 2010-2011\*

Indicators	Jan/10	Feb/10	Mar/10	Apr/10	May/10	Jun/10	Jul/10	Aug/10	Sep/10	Oct/10	Nov/10	Dec/10
Complaints to Anatel (in thousands)	22.9	23.7	23.7	19.9	19.3	19	18.3	18.0	19.2	20.1	18.2	22.3
Complaints to Procon (in thousands)	6.3	5.7	6.8	5.6	5.7	5.0	5.2	5.6	4.8	4.6	4.8	4.5

Indicators	Jan/11	Feb/11	Mar/11	Apr/11	May/11	Jun/11	Jul/11	Aug/11	Sep/11	Oct/11	Nov/11	Dec/11
Complaints to Anatel (in thousands)	27.6	29.8	24.3	20.5	22.3	18.6	1.4	16.6	14.6	16.4	17.5	18.3
Complaints to Procon (in thousands)	5.1	5.4	5.9	5.0	5.6	4.9	4.7	5.3	4.0	4.1	4.4	4.5

\*Data refer to Telefônica | Vivo fixed operation.

The quality of the company's services is reflected in external indicators such as the National Telecommunications Agency Anatel's Service Performance Index (IDA), which classified our mobile operation as the best in 32 out of 33 months. Our fixed operations also surpassed those of the other large service providers. Telefônica / Vivo had the lowest number of complaints registered with the Procon consumer defense organizations and other institutions. In conjunction with differentiated products, services and plans, quality is fundamental for attracting clients, generating loyalty and reinforcing trust.

The volume of complaints to Anatel decreased on average 22% compared with 2010. Client satisfaction with service in Telefônica's 131 stores in São Paulo reached the highest level in the historical series, and the volume of complaints to the São Paulo Procon is showing a marked decrease.

### Ombudsman

To deal with complaints from clients who are dissatisfied after attendance via the conventional channels, Telefônica | Vivo has an Ombudsman service. In 2011, the sector handled 192,607 processes involving products and services, 91% of which were resolved within at most five working days, a five percentage point improvement over 2010.

To achieve this number, the Ombudsman area worked closely with other company areas to prevent problems, point out deviations, make recommendations and drive improvements in procedures with a view to safeguarding client satisfaction.

The Ombudsman area uses a PPM ("parts per million") measurement methodology which takes into account the service area concerned and the number of working days. In 2011, there were 53 complaints ppm (a daily average of 53 complaints for each million clients).

### Challenges in the mobile network

In August 2011, an energy failure in internal Telefônica | Vivo equipment left 2.1 million clients without telephone and mobile internet services for a period of three hours in the state of Amazonas, where the company is the market leader with a share of around 60%. This incident caused wide media repercussion. As a consequence, the company had a negative net gain in its postpaid client base in the region, that is, migration to other operators was higher than the entry of new clients by the end of the year.

In a public hearing held in October of that year, the company agreed to increase its investments in the region and guarantee better telecommunications services through a number of measures, which are currently underway:

- ⇒ Duplication of voice capacity with the new 1.800 MHz frequency;
- ⇒ 250% expansion in the Manaus-Belém radio route;
- ⇒ Activation of a new fiber optic route, enabling redundancy in the previous route;
- ⇒ Expansion of satellite transmission capacity;
- ⇒ New antennas with a lower visual and environmental impact;
- ⇒ Implantation of a new switching center;
- ⇒ Coverage of all municipal districts in the state of Amazonas by December 2012.

In 2011, Telefônica | Vivo compensated all its clients in the state with a 35-minute bonus (private postpaid subscribers), 100-minute bonus (corporate postpaid subscribers), credit with a discount proportional to 24 hours of service (postpaid control plan) and extension of validity of existing credit for one day (prepaid).



## Innovation

As a telecommunications company, we are at the center of the digital revolution, a phenomenon which introduces new communication, information and relationship models and drives advances in diverse spheres of society, such as education, health, government and commerce. This position enables us to take advantage of opportunities that have arisen in this new environment. In 2011, we continued with the technological transformation process at Telefônica | Vivo putting countless new initiatives into practice.

We included Telefônica Digital in our global business structure. Aimed at capturing growth opportunities in the digital world, this accelerates innovation, expands and reinforces our product and service portfolio and optimizes advantages for our corporate customers.

The company's innovation area was leveraged with the creation of the Innovation Center. Based on solutions provided by the Product Development and Innovation (PDI) group and aligned with Telefônica | Vivo goals, the area started to develop technology to guarantee competitive, differentiated solutions tailored to the Brazilian market. The Center uses the most advanced methodologies available: Customer Driven Innovation, User Experience, Agile/Scrum and Quality Assurance.

We also strengthened our commitment to technological entrepreneurship through Wayra, an initiative implemented in Brazil in 2011 to help talented entrepreneurs accelerate their ICT related ideas. The program is in place in seven countries in Latin America\*. Every six months, ten companies are selected for the acceleration process, receiving mentoring and funding.

\* Mexico, Colombia, Peru, Argentina, Chile, Venezuela and Uruguay.

There were 510 enrollments for the first edition of the event in Brazil. The ten winning projects were announced in November, and the teams started operating out of the same location at the beginning of 2012.

This not only a way for the center to integrate with the developer community, but also to drive its growth and evolution.

## Campus Party Brasil

In January 2011, we organized the fourth Brazilian edition of the biggest innovation, creativity, digital entertainment and technology event in the world, the Campus Party. Around 6,800 people got together at São Paulo's Imigrantes exhibition centre to participate in some 400 activities with over 500 hours of content. These included talks by renowned figures in the field of technology, as well as opportunities for the participants to exchange experiences and demonstrate their inventions. In line with one of the Campus Party Brazil missions – fomenting innovation and technological progress –, a number of novelties were exhibited during the course of the week, providing visitors with a look at what we may expect from technology in the future.

To fuel this vibrant exchange of information, Telefônica | Vivo provided the event with broadband via optic fiber at a speed of 10 gigabytes.

Another important innovation announced at Campus Party Brazil was the adoption of IPv6 (new generation of internet protocol). One of its main features is built-in security; internet access is quicker using this platform because the user does not have to spend valuable time on encryption.



2011 Wayra Week Award



## Responsibility in the supply chain

At Telefônica | Vivo we are aware of the impact caused by our supply chain. The volume of purchases in 2011 reached 17.8 billion reais, 11.9% higher than the previous year. This purchase volume was contracted from 3,990 suppliers, many of whom also played a key role in services and support, working directly with our clients. These figures were boosted by the fixed-mobile integration, which led to a significant increase in the number of suppliers and contractors.

In this context, we continue to promote sustainability criteria based on our Business Principles, multiplying the positive impacts of our activity. This goes beyond mere compliance with the principles, reflecting the company's desire to drive improved living and working conditions for everyone involved in the value chain.

### Objective

Manage the basic pillars of sustainability in the supply chain based on the Group's procurement management model, legal compliance and transparency. These pillars enable us to minimize our negative impact while fomenting efficiency and innovation:



**Our reference framework is the public commitment assumed in 2010 which functions on two levels:**

- ⇒ **External** – Through the Responsibility in the Supply Chain policy, which sets forth the mindset and criteria we expect from our suppliers. This policy also serves as a tool for sensitizing our suppliers so that they will foment sustainable behavior in their own supply chains.
- ⇒ **Internal** – Through internal standards such as the Standard for Extending the Business Principles to the Supply Chain, Procurement Instructions, Corporate Control Standards and Environmental Management Requirements for Suppliers, which establish processes, indicators and tools for monitoring our partners' degree of compliance.

### Model of governance and transparency

Telefônica | Vivo is concerned about offering all suppliers equality of opportunity and complies with the laws and regulations in force in the country. For this reason, we developed a procurement model based on: competition and equality of opportunity; transparency in decision making; objectivity and consensus in judgments; services oriented to internal and external clients; mutual fulfillment of commitments with suppliers.

This procurement model entails the following mechanisms:

**Purchase desks** – These are used to present purchases with the participation of all the areas involved. All decisions are unanimous. There are currently two purchase desks, one in São Paulo and the other in Rio de Janeiro.

**E-commerce tools** – All transactions are inserted in the system and the supplier is responsible for including its proposal. In 2011, 82.7% of all the company's negotiations were undertaken electronically.

**Standards and procedures** – These may be general or specific.

**Supplier listing** – Common to all Group companies.

At Telefônica | Vivo we are committed to the economic and social development of Brazil, which is evident in the high volume of purchases from suppliers installed in the country. In 2011, 92.8% of the company's purchase volume came from local suppliers who generate jobs and pay taxes in the country.

## Risk Management in the Value Chain

We periodically carry out risk assessments with our suppliers and define strategies in accordance with the risks identified.



All registered suppliers identified as high risk in terms of socio-environmental criteria because of the nature of their business, such as suppliers of telecommunication equipment, network installation and maintenance services, as well as merchandising and telemarketing services, are submitted to a socio-environmental assessment.

This is based on an online self-assessment questionnaire in the Supplier Portal consisting of around 50 questions drawn from the UNO's Declaration of Human Rights, the International Labor Organization (ILO) Conventions and environmental legislation. Fundamental requirements include:

- ↳ No child or forced labor;
- ↳ No risks or inhumane treatment in the workplace;
- ↳ Compliance with environmental legislation.

In 2011, we progressed in auditing partner companies classified as high risk. Four network contractors and call centers were submitted to verification, which was carried out by PricewaterhouseCoopers.



## Allies Program

At Telefônica | Vivo, we understand that our suppliers are strategic partners for the development of our business. This is why we run the Allies Program, designed to further strengthen relations with these partners through measures such as training programs, recruitment guidelines for contractors and the regular verification of working conditions and social security and labor documentation (by sampling). In 2011, a total of 1,233 checks were carried out.

Under the Estela project, which the company implanted in several Latin American countries in 2005, our installation and repair technicians participate in online training which incorporates a system designed to hone their customer service skills and monitor their performance. To date, 2,543 technicians have been certified in Brazil. An additional 1,310 technicians received a total of 2,512 hours of classroom training.

These initiatives drive recognition of the strength of our strategic alliance model with partners, enabling us to provide our clients with excellent service.



# Environmental impact





# Environmental impact

Telefônica | Vivo's environmental strategy is based on managing the risks and opportunities generated by ICT in terms of energy efficiency, reduction of greenhouse gas emissions and optimization of the resources and materials used in its operations

## Environmental management

**A**t Telefônica | Vivo, we strive to contribute to people's well-being through Information and Communication Technologies (ICT). For this reason, we recognize the importance of the efficient management of scarce resources such as energy or water to ensure the sustainable development of production activities in the country. We manage environmental risks based on the principles of eco-efficiency in our operations and, above all, compliance with environmental legislation.

We have a clear environmental policy whereby environmental care is not just a commitment, but rather an integral part of our business targets. As such it constitutes a challenge in internal management because legal compliance, environmental

management and control over the use of resources need to be reconciled with increased operational efficiency.

Last year we focused on minimizing the environmental impact of our activities, promoting best management practices and the adoption of environmental criteria in the implantation of our network. We also encouraged employees to adopt environmentally sound practices in the workplace and in their private lives.

## Eco-efficiency at Telefônica | Vivo

We understand eco-efficiency to be the proper management of environmental factors such as water, energy, waste and greenhouse gases (GHG) in our operations.

## Environmental policy

Our environmental policy is underpinned by 10 points which are observed by all the Group's operations and employees:

- 1) Guarantee compliance with all environmental legislation and voluntary commitments assumed by Telefônica in the countries in which it operates; and, in accordance with the precautionary principle, adopt more restrictive internal standards and guidelines where environmental legislation is lacking.
- 2) Implant environmental management systems that prevent or reduce any negative environmental impacts caused by the company's activities and infrastructure, identifying and disseminating best practices throughout the Group.
- 3) Pursue continuous improvement in the entire organization based on the systematic and periodic assessment of environmental behavior, the application of a specific index and the establishment of targets.
- 4) Use natural resources in a sustainable manner, promoting the purchase of environmentally friendly products; minimizing the consumption of raw materials and the generation of waste; and fomenting recycling, the recovery of materials and the proper disposal of waste.
- 5) Inform the supply chain and service providers of the environmental procedures and requirements applicable to their activities with the Telefônica Group and ensure they are followed.
- 6) Establish the processes necessary to ensure Group employees are aware and informed of environmental questions.
- 7) Make the organization's environmental behavior public on an annual basis, including the most relevant indicators and the targets achieved.
- 8) Help combat climate change by the internal reduction of greenhouse gas emissions and the development of products and services that help other sectors to reduce their emissions.
- 9) Promote the creation of telecommunication services that contribute to the sustainable development of society.
- 10) Work with other organizations to seek more sustainable forms of development.



The main environmental effects associated with our activities are concentrated in the implantation of our network. We need to administer the generation of waste in our operation, energy consumption (electricity and fuel) and the visual impact of our installations on their surroundings. The high geographical dispersion of the operation means that our environmental management must be based on homogenous processes.

For this reason, all Telefônica Group companies worldwide follow the guidelines set forth in ISO14001. We use this system to improve our environmental performance aligned with best practices in all the countries in which we operate, adopting eco-efficiency criteria in the implantation of our entire network.

We also generate waste, consume energy and water and emit greenhouse gases in our client service network, encompassing offices, stores and call centers. In this case we develop waste management programs and take back programs for equipment, such as telephones, accessories and batteries.

### Waste management

Telefônica | Vivo is concerned about the responsible management of the waste generated in its operations, in particular materials containing hazardous compounds, such as batteries and fluorescent lamps. In these cases we have specific contracts to ensure proper disposal by our service providers. With respect to telephone cables, waste is reused when sold as scrap.

#### Residues produced – Telefônica | Vivo 2011

	2010	2011
Cables (kg)	4,456,211	5,109,152
Batteries (kg)	802,552	389,920

### Recycle Your Cellular Phone Program

In 2006, we launched our pioneering Recycle your Cellular Phone program, designed to promote recycling and reverse logistics for cellular telephones, accessories and batteries, with urns installed in Vivo's own stores, authorized dealers and resellers. After a pilot in Brasília, Rio de Janeiro and São Paulo, the program now covers the entire country, with more than 3,500 pick-up points.

By the end of the year, the program had recycled 2,471,842 items and 925,612 mobile phones.

### Selective collection in Telefônica | Vivo buildings

A major step towards more sustainable management was taken in 2011 with the implantation of a Selective Garbage Collection program at Telefônica | Vivo administrative buildings. A dedicated hotspot was set up on the company intranet to drive employee and third-party engagement and awareness of the importance of sorting and recycling waste in the work place and at home.

The initiative is aimed at reducing our environmental impact by ensuring the proper disposal of the waste generated in our administrative buildings and monitoring opportunities to reduce consumption. The measure has a corollary social effect by strengthening diverse recycling cooperatives throughout the country.



#### Recycle Your Cell Phone Program History

	2007	2008	2009	2010	2011	Total
Items (units)	242,255	1,232,818	535,269	135,699	325,801	2,471,842
Handsets (units)	131,126	588,842	112,429	39,970	53,245	925,612





### Consumption of resources and materials

Our environmental commitment is put into practice through operational efficiency improvement measures designed to reduce our environmental impact by controlling the resources and materials used throughout our production chain.

By way of example, in August 2010 Telefônica | Vivo implanted a digital certification project. This initiative involves the substitution of the manual issue, processing and signature of documents related to network construction and installation and repair processes with digitally signed electronic files.

In addition to the environmental gain, the project streamlines processes, ensuring greater security and reduced fraud.

#### Paper and water consumption in 2011 – Telefônica | Vivo

	2010	2011
Paper (kg)	1,675,472*	2,889,879
Water (liters)	1,062,162,000	1,235,051,436

\*The 2010 figure for paper consumption did not include the mobile operation.

### Responsible network development

⇒ **Fuel tanks** – Telefônica | Vivo has 489 buildings with fuel tanks for generators. Since 2004 a project has been underway to replace and modernize these tanks. Ninety-eight installations were modernized in 2011, 10 with underground tanks and 88 with conventional tanks. The total expenditure was R\$ 10,088,000.00.

⇒ **Acoustic control** – In line with the objective of improving acoustic treatment in telephone exchanges, Telefônica | Vivo modified three units in 2011. The amount invested totaled R\$ 73,114.28.

⇒ **Visual impact of towers** – Investing in innovative projects is another way we have found of minimizing the environmental impacts of our operation. With the objective of diminishing the visual impact caused by our antennas on the landscape and optimizing the use of natural resources, we developed posts that integrate lighting and telephony, the Sencillos. They are smaller than conventional towers and blend more easily into urban landscapes. The company installed 152 of these posts in 2011 and is planning to install a further 400 throughout 2012. The low cost of this type of infrastructure is another plus for the business.



## Sustainable buildings

A major environmental advance for Telefônica | Vivo was the construction of its new Data Processing Center in the district of Tamboré, in Santana de Parnaíba, Greater São Paulo.

This modern building, with a 4,600 m<sup>2</sup> Data Hall projected to meet business growth up until 2019, was designed to high quality and efficiency standards, based on principles of sustainability. It has been awarded internationally recognized Uptime Institute TIER III certification on two levels: Design and Constructed Facility. These certifications respectively attest that the conceptual and execution projects are in compliance with the strictest availability and security standards and that the original designs were adhered to during construction.

The undertaking will be one of the largest of its kind in South America, and the first designed in full compliance with LEED (Leadership in Energy and Environmental Design) guidelines, the leading environmental construction certification system worldwide attesting to application of Civil Construction Waste Environmental Management principles. We intend to request this certification upon completion of the works.

The new data center differentials include:

- ⇒ 100% reuse of rain water, which is harvested to irrigate the landscape and green areas;
- ⇒ On-site treatment of wastewater in three sewage treatment plants, reusing this effluent for irrigation and toilet flushes;
- ⇒ A 40% reduction in water consumption in toilets through water-saving devices such as dual-flow flushing mechanisms and taps with flow controllers;
- ⇒ 28% reduction in electricity consumption compared with conventional buildings.

Other sustainable attributes are:

- ⇒ 75% of the waste from the construction used or recycled by certified operators;
- ⇒ Use of FSC certified wood;
- ⇒ Use of paints, adhesives and sealants with low volatile organic compound (VOC) content, increasing safety for the construction workers and the future occupants of the building;
- ⇒ Use of materials with recycled content;
- ⇒ Prohibition of use of chlorofluorocarbons (CFCs) in the building's refrigeration systems;
- ⇒ Guaranteed access to public transportation;
- ⇒ Onsite bicycle shed for 25 bicycles and shower facilities for men and women.

⇒ **Pollutant emissions** – In 2011, we continued with the installation of catalytic converters for new generators to reduce pollution from burning fuel. A total of 12 catalytic converters were installed in 7 stations during the year. According to the manufacturer, the catalytic converters should reduce carbon monoxide emissions by up to 97%, hydrocarbons by 68%, nitrogen oxide by 72% and aldehydes by 62%. An additional advantage is a reduction in noise levels by up to 22 decibels.

⇒ **Electromagnetic emissions** – Concerned about the effect of electromagnetic emissions on persons living close to its antennas, Telefônica | Vivo measures the levels of the electric, magnetic and radiofrequency electromagnetic fields around all its radio communication transmission stations, in accordance with law nº 11.934, dated May 5th, 2009, producing radiometric reports at a maximum interval of five years. This work was carried out on a total of 1,009 antennas nationwide in 2011.

### Sustainability in new Vivo stores

Initiated in 2010, the remodeling of the Vivo stores continued in 2011 with the objective of offering clients an improved purchase experience in terms of innovation, quality, comfort, accessibility and sustainability. The latter aspect received special attention with the use of materials that are less aggressive to the environment: synthetic floors made from 67% recycled materials, furniture made from certified wood, display units made of recycled plastic, lighting using LED lamps, which consume less and last longer, and digital communication to reduce the need for printing, thus saving paper and ink, among other items.

In 2011, we implanted three different types of store in line with these requirements: one Concept Store, four 4G Stores – With Technology and one 4G Store – Without Technology. Currently the company has 13 stores built in accordance with sustainability criteria.

### Green ICT

At Telefônica | Vivo, we understand green technologies or Green ICT to be an additional set of processes and activities that enable us to generate value for the company through reduced costs and the generation of new revenue streams. Green ICT is based on principles of eco-efficiency, internal carbon management and reduced energy consumption, as well as the provision of green services for clients, driving environmental sustainability and a low carbon economy.

We are aware of the potential Information and Communications Technology (ICT) has to promote an eco-efficient economy. For this reason, we believe it is necessary to optimize the advantages offered by energy management and climate change. The Climate Change and Energy Efficiency Office continues to lead the Group's corporate energy and carbon strategy based on five action fronts: operations, suppliers, employees, clients and society.

In 2011, we reinforced our three convergent targets. The first is focused on promoting internal energy efficiency and reducing our carbon dioxide equivalent (CO<sub>2</sub>eq) emissions, optimizing the use of available resources. The second seeks to develop competitive green solutions to improve our clients' eco-efficiency, based on the strategy of providing global services in the digital world. The third is structured to position Telefônica | Vivo as a market leader in green technologies.

### Positioning

We believe that the best way to achieve market leadership is by transparent management that inspires trust. This transparency may be reached through effective management of the risks and opportunities climate change represents for Telefônica | Vivo, within the company's overall risk management policy. These include regulatory, business, operational and reputational risks that could affect our results if not managed properly.

### Electromagnetic fields

Telefônica | Vivo is aware of society's interest in electromagnetic emissions and seeks to be transparent in its communications related to this subject.

Whenever requested, the company provides information to communities, government, clients or anyone else interested in knowing how radio base stations and mobile telephony antennas work. It also helps to disseminate existing knowledge in this area.

All infrastructure is installed in strict compliance with national legal requirements related to electromagnetic emissions. To guarantee compliance, share best practices among Group companies and ensure coordinated action around this question, in 2011 we worked globally to define a policy which establishes minimum requirements for all Telefônica operations worldwide. These are:

- Strict compliance with recognized international and local standards, legislation and guidelines for all products and services;
- Promotion of legislation based on international guidelines (especially where there is no local regulation) that drives homogenization and eliminates barriers to the growth of infrastructure;
- Support for and dissemination of high quality independent scientific research into mobile communication recognized by the World Health Organization;
- Open, transparent communication with our clients and the general public.

As such, the first step towards managing the risks identified is the comprehensive measurement of our energy consumption and the quantification of our internal carbon footprint and that of our services. These measurements have enabled us to take the right decisions and plan for our 2015 target of reducing overall energy consumption by 30% in our telecommunications networks (measured in kilowatt-hour per equivalent terminal) and by 10% in our offices (in kWh per employee), against a base date of 2007.

### Innovation for sustainability

We benefit our clients to the extent that our energy efficiency and green technology services enable them to reduce costs and increase their competitiveness, in addition to driving greater quality of life for society as a whole. For this reason, we have increasingly sought to embed sustainability in our services for





buildings and for the transportation and electricity sectors, among others.

The company's overall innovation strategy is aimed at realizing the potential offered by the digital world. To this end, we have been identifying new green products and services and investing in innovation processes that drive energy efficiency, particularly in M2M (machine to machine) based services.

One successful solution was the pioneering implantation of High Speed Packet Access (HSPA) technology in public transportation in Curitiba, in the south of the country. The initiative, undertaken in partnership with Ericsson, provided the city's buses with 3G broadband connection, delivering a series of benefits for people and for the environment.

The system is completely electronic and is integrated with information centers, enabling users to recharge their tickets at any bus station, ensuring greater security and privacy. The public now has access to information on education, health and other public services inside the buses, in addition to real time information on how long they will take to reach their destination. All the buses in the system are monitored by georeferencing, enabling the drivers to take shorter routes, thus reducing carbon emissions and increasing convenience for users.

The solution has received broad global recognition. In November 2011, it was presented at the United Nations Framework Convention on Climate Change (UNFCCC) in Durban, South Africa. The convention intends to include projects such as this in the climate agenda.

The same month we organized the Appies Hackathon in São Paulo. This was an event in which software developers had the opportunity to share information, meet people and develop applications in a short timeframe. The objective of the event, which was supported by other technology companies, was to strengthen Telefônica | Vivo's relations with this audience and present Green Apps as an opportunity for developers to improve quality of life for big city dwellers.

The initiative resulted in the creation of diverse environmental applications, one of which, "Plant it here", is especially deserving of mention. The solution, developed by two computing science professionals, acts as a collaborative network in which users use the GPS on their smartphones to check in and tell people where they may plant a tree. This information is then retransmitted to a map, which will show anyone who is interested where they may plant trees.

### Energy efficiency

We continue to work jointly with the operations, procurement and human resources areas to drive energy efficiency and reduce GHG emissions in our processes. This structure enables more agile implementation of initiatives and a natural grouping of institutional, operational and business strategies.

As in recent years, we quantified our energy consumption and our GHG emissions based on the global Greenhouse Gas Protocol and the ISO 14064 environmental standard. This methodology enables us to identify the GHG emissions controlled directly by the company, known as Scope 1; those derived from company



activities but generated by other organizations (electrical energy), or Scope 2; and indirect emissions associated with business travel and outsourced logistics activities, Scope 3.

Using this methodology, in 2011 Telefônica | Vivo had total emissions of 61,909.80 tons of CO<sub>2</sub>eq (carbon gas equivalent), an improvement of almost 40% compared with the previous year. This was made possible by a significant reduction in employee air travel for business, which offset increased emissions from energy consumption in operations.

#### Operations: energy efficiency and economy

We are aware that to achieve excellence in energy and carbon management and in the targets we set, it is fundamental to have our data assured externally. Consequently, every year we commission an independent verification of energy and emissions data based on global energy and carbon dioxide (CO<sub>2</sub>) inventory procedures. It is impossible to measure or improve something if it is not measured. Therefore it is important to have a quality GHG emissions inventory to measure our progress towards achieving our energy consumption reduction targets. At the end of 2011, we had reached more than 25% of this long-term target.

Energy consumption in our operations (used mostly to power equipment and communication networks) accounts for approximately 80% of the company's CO<sub>2</sub> emissions. For this reason, we have worked constantly to reduce this consumption. In 2011, gross consumption reached 1,658,408,518 kWh (fixed and mobile). It should be noted also that there was a gross reduction in consumption in the fixed and mobile operations of 33,303,685.54 kWh (from 1,069,316,900.54 kWh in 2010 to 1,036,013,215.00 kWh in 2011) in technical buildings, offices and call centers, a 3% reduction compared with 2010. 10% of the electrical energy used by the company comes from renewable sources (biomass and small hydroelectric plants).

Throughout 2011, we maintained a series of energy efficiency initiatives. One example is a program that rewards partners who save energy. Third-party technicians are encouraged to identify

savings opportunities, such as equipment that can be turned off without jeopardizing service quality.

The solutions proposed are analyzed by a group of Telefônica | Vivo engineers and, if approved, are put into practice. When real energy economy is demonstrated, the company shares part of this gain with the contractor. In turn, the contractor pays the employee responsible half of this amount. Payment is made every six months.

Since this shared gain program was begun in 2010, 416 energy saving measures proposed and executed by partners have been put into practice. They have resulted in savings of 11,788,191 kWh per year, with a reduction in costs of R\$ 2,616,978.49 for Telefônica | Vivo.

We have implemented other measures, such as the use of temperature sensors and external air to reduce power consumption in air conditioning equipment (which accounts for 50% of the energy consumed in the operations). Other experiments on our sites include the implementation of the hybrid site, which uses energy from mixed sources. A pioneering initiative in the state of São Paulo uses 36 solar panels, two wind turbines, a bank of batteries and a generator (a truck engine with an electricity generator coupled to it).

The solar panels and the turbines directly supply the power needs of the Radio Base Station. When there is a lack of sun and/or wind, the energy is supplied by the bank of batteries, which can power the station for two days. When the charge in the batteries reaches 50%, the control system automatically activates the generator.

This solution has been used in the North, Northeast and Southeast of the country on sites in Pará, Piauí and Teresópolis (RJ), in areas where access to the power grid is difficult.

In 2011, the second Global Energy and Climate Change Workshop was organized in Peru to share best energy efficiency and economy practices among Group companies throughout the world.

#### Telefônica | Vivo 2011 CO<sub>2</sub> emissions (in metric tons)\*

<b>Scope 1 (Direct)</b>	7,557.76
<b>Scope 2 (Indirect/electricity)</b>	48,425.53
<b>Scope 3 (Indirect/business travel)</b>	5,926.51
<b>Total</b>	<b>61,909.80</b>

#### Telefônica | Vivo 2011 Energy consumption (in kWh)

Type of consumption	Fixed	Mobile	Total
Electricity consumption	729,180,023	929,228,495	1,658,408,518
Renewable energy*	163,709,342	0	163,709,342
Self-generated renewable energy	0	6,950.00	6,950.00

\* Biomass and small hydroelectric plants



Our actions in this area led to recognition for four years running in the Época Green Company Award, organized by Época magazine (Editora Globo) with technical support from the consultancy PricewaterhouseCoopers. The award highlights initiatives from 20 companies that apply GHG reduction policies in different sectors.

#### Procurement: energy efficiency in the supply chain

Energy efficiency has been included among the decision-making criteria for Telefônica | Vivo product and service purchases. Since 2010, energy consumption has been taken into account in the global supplier selection process, using the variable of energy consumption in TCO (Total Cost Ownership) analysis. This has enabled us to strengthen our activities on three fronts:

- ↳ Incorporation of energy efficiency requirements in the TCO of network products.

- ↳ Homogenization of criteria and prices in electricity purchase decisions.
- ↳ Energy efficiency criteria in the standardization of network equipment. One of the objectives is to extend these criteria to our clients' equipment.

Our suppliers are natural partners in improving our energy efficiency. As we purchase more efficient equipment, infrastructure and services, our spending and CO<sub>2</sub> emissions are reduced. Consequently, we believe that by extending this climate change culture to our suppliers we are helping to create a more sustainable economy.

The energy efficiency in purchases project is based on the company's global responsible purchases program (see the chapter on Responsibility in the Supply Chain) aimed at optimizing relations with particular suppliers on a global level.

#### Employees: an energy efficiency culture

In 2007 we established the target of reducing energy consumption per direct employee by 10% by the year 2015 (measured in kilowatt-hour per employee). In order to reach this target, the operational teams, under the leadership of the global energy heads, implement energy efficiency measures and disseminate information on climate change to all our employees.

We work with the company's global and local areas to promote energy efficiency policies in our offices and to reduce business travel. We foment the use of Green ICT remote collaboration tools, such as videoconferencing and telepresence, which offer a realistic simulation of meetings in which participants actually have the impression that they are sitting down together around the same table.

In March 2011, we once again supported the NGO World Wide Fund for Nature's (WWF) "Earth Hour" movement, a symbolic act in which governments, companies and the general public demonstrate their concern about global warming by turning their lights off for 60 minutes. We not only turned off the lights in our main administrative buildings, but also encouraged our clients, employees and partners to participate. To promote the movement internally, we sent a special video to all our employees by email. We also sent out 1.5 million SMS messages to clients in 20 states nationwide and encouraged our employees to disseminate the action on their social networks.

#### Clients: ICT as the heart of the solution

We follow a global Green ICT service strategy centered on the development of integrated solutions that enable our clients and other sectors of the economy to be more efficient and to reduce their GHG emissions, in addition to facilitating mitigation and adaptation to climate change.

By the very nature of its work as an integrated telecommunications operator (mobile and fixed), Telefônica | Vivo has conquered an enormous space in the Green market. Through our Innovation area, we have sought to include green solutions in our product and service catalogs, enabling energy and environmental resource management for strategic sectors of the economy, such as transportation, buildings, industry and services.





Social impact



# Social impact



We believe that connectivity gives people access to a world of possibilities in which they may lead more humane, intelligent and secure lives, develop more, have higher living standards and enjoy themselves more. This belief also guides our investments in our 3G network

## Employees

2011 was a year of immense transformation, principally in function of the unification of the fixed and mobile operations. The teams started working together driven by the objective of building the largest integrated carrier in the Southern Hemisphere. In this context of change, the focus for human resources was on building a single culture, creating an internal climate favorable for the coming changes and maintaining a high level of engagement. The need for robust people management integrating the best practices of each company was evident from the beginning of the merger. In parallel, the company has sought to cultivate an organizational environment in which employees feel cared for and encouraged to develop their potential as professionals, people and citizens as fully as possible.

Particularly worthy of note was the work involved in implanting the Telefônica | Vivo brand internally. The challenges of unifying policies, processes, systems and practices did not stop the company from reaching new heights. We surpassed our prior record in the company climate survey which, even with the uncertainties and changes inherent to all integration processes, reached the extraordinary satisfaction rate of 85.7%.

This positive feedback from our employees signals that the new organization is being built based on values and practices that will enable us to achieve an ambition we have nurtured since the very beginning: to be the best communications company in the digital world.

### Telefônica | Vivo Work Climate 2008 – 2011 (%)

2008	2009	2010	2011
74   80	78   82	81   85	86*

\*From 2011 the data correspond to the integrated fixed/mobile operation.

### Talent management

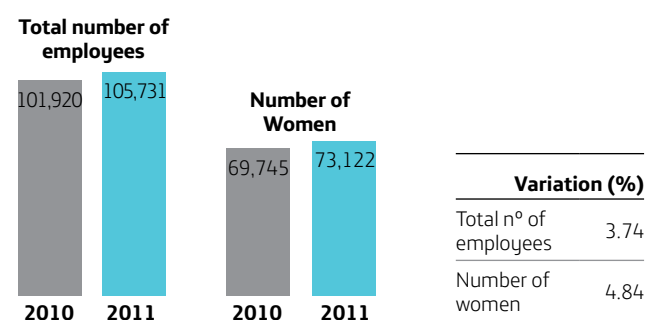
Aware that our success in the outside world depends primarily on our professionals, we are committed to providing them with the best possible work place and creating opportunities for personal development in order to attract and retain talent.

Employee education and development is driven by the establishment of targets, ongoing performance appraisal and individual development plans based on the opportunities the company makes available for each individual. These opportunities are structured by means of different educational tools and training that contribute to the implantation of the organizational culture and the competencies essential for the business, involving all permanent employees and partners.

The options range from classroom study (courses, seminars, workshops, conferences, etc.) to e-learning programs, mentoring and coaching and international work experiences.

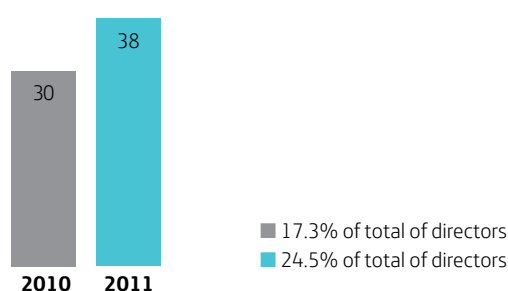
In 2011, around R\$ 15 million was invested in education, with more than 150,000 employee and partner participations in approximately 400 thousand hours of classroom training.

### Employees \*



\*The data include Atento.

### Women at director level:







The major educational focuses were leadership development, engagement in client culture, corporate and business specific subjects, technical training and certification in technologies and methodologies.

In programs aligned with business strategy, corporate competencies and organizational values, the company provided subsidies for: 260 employees on specialized and language programs; 148 employees on undergraduate degree courses; 120 employees on international programs and 77 certifications in methodologies and technologies. Consolidating the strategy of education aligned with business needs, employees and partners underwent some 7 million hours of distance learning.

Our commitment to our employees is to provide a collaborative environment characterized by integration and trust in which people are trained and encouraged to develop autonomy and maximize their potential, building a culture which will result in an ever more adaptable and innovative organization.

### Fair reward and recognition

Telefônica | Vivo has a salary structure and remuneration policy aligned with best market practices. We aim to attract and retain the best professionals in a very competitive segment. We recognize individual performance based on the achievement of targets and the delivery of results.

Employees' base salary is complemented by variable remuneration programs and a broad range of benefits.

The concept of total remuneration aims to pay a nominal salary at the average of the market segment comprising companies paying the most aggressive remuneration.

Our employees' fixed salary is higher than the minimum salary. Specifically in Brazil, the ratio of our lowest salary to the minimum salary is 1.22.

In addition to their fixed salary, employees also receive variable annual remuneration, linked with the achievement of measurable business objectives that drive value creation. This remuneration also depends on individual performance appraisal. The objectives are adjusted annually in line with strategic business targets. In 2011, 4,228 professionals were promoted and 3,960 received salary increases.

### Share plans

The company offers a program of share-based remuneration for non-administrative employees. This is designed to be a long-term incentive for the occupants of important management positions in the company. The participants meeting the necessary requirements are awarded a determined number of shares.

The program is split into three cycles, each lasting three years. Eligible executives, who must remain in the group for at least three years from their inclusion in the program, are entitled to receive shares based on their performance against pre-established targets.

### Social dialog

Telefônica | Vivo is a signatory to a Union Network International (UNI) code of conduct whereby it is committed to upholding the union and labor rights of all its employees. As such, the company incentivizes permanent dialog with unions aimed at establishing a relationship of trust between the parties involved.


We conduct negotiations with the telecommunications industry union Sintetel (Sindicato dos Trabalhadores em Telecomunicações) and the São Paulo engineering union (Sindicato dos Engenheiros do Estado de São Paulo). In addition to employee salary adjustments, the unions are involved in discussions of all factors affecting employees' routines, such as working conditions in the company, hour bank policy and profit share programs. In 2011, we conducted collective bargaining with the unions representing the category on a national level, including all the states. The result was the unification of all collective work agreements and the alignment of benefits in the fixed and mobile operations with the definition of a single base date from 2012. This unification was important for the integration of the two companies and ensured a satisfactory climate during the merger.

### Benefits

The benefits package offered by Telefônica | Vivo is an important management tool used to attract, retain and support professionals.

We recognize the importance of a balance between our employees' professional and personal lives. This is why we offer competitive benefits designed to meet their needs, including their physical and social well-being. The benefits are projected to reinforce ties between the professional and the company and to complement other benefits provided for in their remuneration package and in legislation. The ultimate objective is to ensure a human resources management system that creates a favorable organization climate in which people are valued and recognized.

In 2011, the company invested more than R\$ 275 million in benefits for its employees. In addition to those provided for by law, benefits included health and well-being programs such as nursery or child minding allowance; walking and running groups supported by a medical team, nutritionists and physical education instructors; an occupational health program; an individualized dietary re-education program; and a support program for mothers-to-be.

 **R\$ 275 million**  
in benefits for employees

### Digital inclusion

We believe in the power our technologies have to transform people's lives, and we strive to contribute towards building a fairer, more inclusive country by means of our products and services.

We are working to make broadband accessible to all social classes in every region of the country, as a tool that enables access to education and the full exercise of citizenship. To reach this goal, we seek to improve and innovate constantly, expanding the boundaries of the digital world.

### Social innovation

Coherent with our vision of improving people's lives through Information and Communication Technologies (ICT), the value generated by Telefônica | Vivo's social impact goes beyond mere institutional positioning. Our products, services and solutions provide a response to determined social needs and may in turn generate new business opportunities, driving social and technological growth. The common denominator in these initiatives, irrespective of the audience they are aimed at (the young, the elderly, the disabled, low-income populations, etc.) or the type of project (education, health, finance, etc.), is the concept of Social Innovation: seeking solutions for society's problems and challenges.

### Access to remote regions

In 2011, we reached the unprecedented mark of 2,500 municipal districts served by 3G technology, more than all the other mobile carriers together. Of this total, 30% are towns with up to 10 thousand inhabitants. Counting municipalities with up to 50 thousand inhabitants, the percentage is 78%, evidence of the fact that we are connecting the people, businesses and public and private organizations in these places with new horizons of progress and development.

This situation is the result of the Vivo Internet Brasil Plan, which by the first half of 2012 will have reached 2,832 municipal districts, covering 85% of the country's population. Anyone may monitor the growth in Vivo coverage in the country and see the municipal districts which have Vivo 3G coverage via the hotsite [www.vivo.com.br/cobertura3g](http://www.vivo.com.br/cobertura3g).

At the end 2011, the mobile network using WCDMA, GSM/EDGE and CDMA digital technologies covered 3,702 municipal districts. This represents 66.5% of all the municipalities and 90.7% of the population in the country.

### Transformational connection

Information and communication technologies provide countless benefits. This is especially clear in the case of remote locations, where even access by land is difficult.

An excellent example of how connection radically transformed the life of a town is Belterra, a small municipal district with just over 16 thousand inhabitants located in western Pará on the Tapajós River in the Amazon rainforest. In 2009, we installed the first third generation antenna in partnership with Ericsson. Its capacity has since been multiplied by three.

The arrival of the network improved life for the riverside communities, driving surprising development in the region in terms of education, work and personal relationships. Research conducted by the Federal University of Pará showed that 90% of the inhabitants believe that the arrival of cellular telephony has improved their daily lives, 53% think that it has contributed to the creation of companies and the generation of employment and 74% state that they use the internet to improve their education.

And we did not stop there. In 2011, other communities also gained access to our 3G network and voice services. We brought connectivity to the inhabitants of Lagoa do Carro, a municipality in the hinterland of Pernambuco with around 15 thousand inhabitants who received the 1.500ª Radio Base Station (RBS), named Governador Miguel Arraes. Hundreds of other cities, such as Catas Altas da Noruega (Minas Gerais), Travesseiro (Rio Grande do Sul) and Nova Rosalândia (Tocantins) also received the new technology. Many of the inauguration ceremonies were attended by political leaders, community representatives and the president of Telefônica in Brazil, Antonio Carlos Valente.

These regions also receive support in the form of Fundação Telefônica | Vivo projects in partnership with local governments, schools and the local children's and adolescents' rights councils.

### Economic inclusion

Bringing quality connections to the largest number of people possible is a priority mission for Telefônica | Vivo. For this reason, in alignment with the federal government's digital inclusion policy, on June 30th we signed a term of commitment in line with the provisions of the National Broadband Plan (PNBL in the Portuguese acronym) to offer mass broadband at low prices in 622 municipalities in the state of São Paulo by 2013, with implantation in the first 229 districts by September 28th, 2011.

However, we voluntarily brought the program forward and before the scheduled date were offering mobile broadband in more than 2 thousand municipalities in which our mobile 3G network is in place at the price of R\$ 29.90. The option of access via fixed network for R\$ 29.80 is also available in 229 São Paulo municipal districts and may be combined with a fixed line at a monthly cost of up to R\$65 reais under a partnership with the federal government.

In December, our mass broadband service had reached one million clients, with an increase of around 300 thousand users (+43%) in less than three months. In the first half of 2012, Telefônica | Vivo will have expanded its mass broadband offering to another 71 municipalities in the state of São Paulo, totaling 300 cities served in this state alone.

### Inclusion in the Campus Party

The Campus Party promoted digital inclusion through Digital Baptism, an event that enabled 5 thousand people to come into contact with technology for the first time. Telefônica also incentivized entrepreneurship with a series of contests in which participants were invited to invent and engage in new business ideas for the technology area, generating solutions to meet social demands.



### Convergent services

In order to boost bundling of the company's fixed and mobile broadband services and facilitate people's lives with connection anywhere, Telefônica | Vivo started offering existing and new clients high speed internet products – Speedy, Ajato and optic fiber– and Vivo Internet mobile packages with a 50% discount for a 12 month period, as well as providing them with the modem.

Our mission of serving the consumer more and better has led to the expansion of fixed services to other states, based on the solid experience acquired in the demanding São Paulo market. This resulted in the launch of Vivo Fixo (fixed services based on mobile network infrastructure) and Vivo Box (with fixed telephone, internet and Wi-Fi in a single device). Already available in the Porto Alegre, Rio de Janeiro, Belo Horizonte and Vitória metropolitan regions, these solutions will be extended to other locations throughout 2012.



These initiatives are steps towards capturing synergies and developing solutions based on an integrated fixed-mobile vision.

An important milestone in 2011 was the opening of the cable TV market, when we incorporated the TVA subscriber base. In 2011, we reached 699 thousand clients, a 43.7% increase over 2010.

#### **Multiplying connections through fixed and mobile**

Another demonstration of how we are broadening our horizons and bringing connectivity to more and more people is the heavy investment Telefônica | Vivo has been making in its ultra broadband FTTH (Fiber To The Home) network. Fifty thousand clients are already connected to the FTTH network, 4.5 times more than the 11,500 clients at the end of 2010, and more than a million households are prepared for access in the city of São Paulo and in another 15 cities across the state. These clients have a contracted average speed in excess of 20 MB and a significantly lower disconnection rate.

#### **Accessibility**

We recognize the importance of the role we play in the socio-economic insertion of the disabled and have established guidelines for the development of our Insertion Program based on the principle of equality of opportunity. This involves:

- ↳ Making a clear distinction between corporate social responsibility and philanthropy;
- ↳ Not simply hiring people to comply with legislation but respecting their capacity and potential and offering them a career that presents the same opportunities and challenges available to those who have no disability.

Among the initiatives already in place, we stress the quality of inclusion by sensitizing managers and employees so that they may contribute to the inclusion of these professionals and prevent discrimination.

We have policies to track these initiatives and retain disabled employees by providing them with basic education and vocational courses. They have access to programs to conclude secondary education and vocational courses focused on telecommunications, human resources administration and information technology.

At the end of 2011, Telefônica | Vivo had 489 employees with some form of disability. This was below the percentage established by law but 9.6% higher than the previous year.

In the cultural and sports areas, we also support social inclusion and inclusion of the disabled. One project is Vivo Remando, a rowing program for disabled youth. The intention is to form a Telefônica | Vivo team to represent the company in tournaments in this sport. There were 20 members in the rowing team in 2011.

We make culture accessible to those with visual impairment through audio description for the events held in the Teatro Vivo in São Paulo. The theater also provides translation in Brazilian sign language for visitors with hearing impairments, as well as permitting wheelchair access.



#### **Accessibility to services**

São Paulo state has one of the highest densities of urban public telephones in the world. There are 215,656 units installed, slightly lower than the 2010 number as a result of an agreement between the operators and the telecommunications agency Anatel (Agência Nacional de Telecomunicações) due to decreased demand. Of these, 9,226 are adapted for wheelchair users; 4,003 are adapted for people with hearing and speech impairments, with attendance provided by the specialized Siso service. Since 2010, all the public telephones have been equipped with sound alerts for the visually impaired. Among other functions, this device informs the user of the number of credits on their telephone card.

There is at least one public telephone in all locations with more than 100 inhabitants, and in urban areas throughout the state users need walk no further than 300 meters to find a public telephone.

Telefônica | Vivo provides mobile products and services to make life easier for the hearing impaired and keep them connected. These include Torpedo Recado, a service which converts voice mail messages into SMS text messages; Vivo Mais Mensagens, a text message package for those with hearing difficulties; as well as a free SMS Customer Care Service, 24 hours a day, 7 days a week, providing a practical, accessible and inclusive service.



## Emergency response

Telecommunications services play a fundamental role in emergencies in the health area, in natural catastrophes and other disasters, since they enable widespread alerts, the effective coordination of first responders and support for relief efforts and related initiatives.

At Telefônica | Vivo we are fully aware of the importance of good network management in preventing, reducing and mitigating the consequences of this type of emergency. Consequently, the company has global Business Continuity Plans in place to enable the normal offer of telecommunications services in emergency situations wherever it operates. All these plans are in accordance with international standards and are tailored to the characteristics and risks inherent to each region. Their application generally involves the use of contingency communication platforms to provide operational support and ensure speedy recovery in the event of systems failure. The fact that we are present in every region of the country permits us to collaborate with other operators should the need arise.

These plans were put into practice at the beginning of 2011, when a number of cities in Rio de Janeiro's mountainous region were hit by heavy rainfall, causing flooding and severe damage to homes, monuments and historical buildings. Work on restoring mobile telephony services was initiated rapidly, and Telefônica | Vivo provided Civil Defense authorities with 30 mobile handsets with voice and data plans to facilitate communication in the affected areas. Another significant contribution was the "Social SMS" sent to all our mobile clients requesting donations to the Red Cross, with whom 100 company employees worked as volunteers to sort and handle the materials received.

## Social projects

Changes in the company were not limited to the business area. In mid-2011, the Fundação Telefônica, the social arm of Telefônica Brazil, initiated the incorporation of the Instituto Vivo, adopting the new name Fundação Telefônica | Vivo. As a result, activities were extended to the entire country (hitherto these were concentrated in the state of São Paulo, Telefônica SP's area of activity).

During 2011, the Fundação Telefônica | Vivo invested some R\$ 36 million in social projects, benefiting more than 680 thousand people.

Active in Spain and 13 countries in Latin America, the Fundação Telefônica was established in Brazil in March 1999. Since then it has developed hundreds of projects that have benefited thousands of people in the country. Its mission is to contribute towards building the future in the regions in which Telefônica operates, driving social development based on education and the defense of children's and adolescents' rights.

The work done by the Instituto Vivo, created in 2004, was concentrated on investment in educational projects and in generating employment and income opportunities for young people throughout the country, with a focus on inclusion of the disabled and the formation of networks.

After the fusion, the Fundação Telefônica | Vivo undertook an in-depth assessment of the projects organized by both institutions to develop its strategic planning for the coming years.

The decision was taken to prioritize four action fronts: Childhood and Adolescence (with a focus on combating child labor), Education and Learning, Local Development and Volunteer Work. A fifth area, Debate and Knowledge, was also selected to encourage, disseminate and share reflections on relevant issues for society.

After establishing this focus, projects in other areas were either subjected to an exit plan or transferred to Telefônica Brazil, the case with the Cultural Initiatives program, absorbed by the Cultural Development area, and measures for the inclusion of the disabled, transferred to the Sustainability area.

The Fundação also defined a new form of operation based on three pillars from 2012 on. The first, entitled "transform", is focused on developing projects to bring about in-depth transformation of a social reality in a limited number of locations, which will serve as social innovation laboratories to be replicated in other projects. The second pillar, or "leverage", aims to expand these experiences in partnership with other actors – companies, governments, multilateral organizations and NGOs, among others. Finally, the third pillar "mobilize" is designed to engage society, taking advantage of the fact that the foundation is part of a telecommunications operation that embraces social causes. There follows a description of the projects carried out in 2011. From the beginning of 2012, these will be incorporated into the new format and will be executed in accordance with the pillars described above.

## Childhood and Adolescence

In 2011, the Fundação Telefônica | Vivo maintained its activities in defense of children's and adolescents' rights. In accordance with strategic planning, the decision was taken to focus on combating child labor, a cause embraced by the foundation in every country in Latin America.

Through partnerships, the institution assists more than 245 thousand children and adolescents in Latin America, approximately 15 thousand of which in Brazil. In 2011, 64% of the children attended by the program were extricated from child labor. One significant action was the third edition of a public school teacher training program on Brazil's Children's and Adolescents' Statute (ECA in the Portuguese acronym). In all, 2,500 educators involved in child labor eradication programs and in assisting teenagers in trouble with the law, such as the Fundação Casa, participated in a course entitled ECA at School. This was organized by the Third Sector Social Entrepreneurship and Administration Center (Ceats in the Portuguese acronym), part of the Fundação Instituto de Administração (FIA).

The Portal Pró-Menino ([www.promenino.org.br](http://www.promenino.org.br)), which receives 200,000 accesses per month, seeks to enforce children's and adolescents' right through the provision of information and support for organizations active in this area and through raising public awareness of the issue. The organization organized its 7th Contest related to children's and adolescents' rights cases in conjunction with ANDI (Agência de Notícias dos Direitos da Infância). A total of 1,167 real cases of social transformation resulting from the application of the Children's and Adolescents' Statute were submitted. Prizes worth R\$ 125 thousand were awarded to the winners in each category: "The Children's and Adolescents' Statute as an instrument for Transformation", "The Children's and Adolescents' Statute at School" and "The Children's and Adolescents' Statute behind the Camera".

With a view to promoting children's and adolescents' rights and providing an ample protective network for this group, the Fundação organized two seminars in 2011. In May, the seminar Networks and Sustainability in the System for Guaranteeing Children's and Adolescents' Rights (SGDCA in the Portuguese acronym) was

organized in São Paulo. It discussed the main challenges and new opportunities for strengthening networks dedicated to protecting children and adolescents, as well as the possibilities enabled by technological innovation.

In September, the seminar The Networked Society and the Child and Adolescent was held in Olinda, Pernambuco. Aimed at child and adolescent counselors, the event explored methodologies, tools and concepts designed to reinforce the work done by children's and adolescents' tutelage councils.

The Fundação Telefônica|Vivo will focus on promoting the eradication of child labor in the regions in which it is most prevalent through support for public policy and will work towards implanting networking tools and technologies.



## Protection Action (Ação Proteção)

Within the Childhood/Adolescence sphere of action, the Fundação Telefônica | Vivo is developing the Protection Action Project in partnership with the São Paulo State Public Prosecution Department and Childhood Brasil. This initiative is the result of an agreement between Telefônica and the Department, with the participation of Procon/SP, stemming from a failure in the company's internet service on July 3rd, 2008.

The project is aimed at reinforcing networks dedicated to combating violence and the sexual exploitation of children and adolescents in 30 municipal districts in the state of São Paulo. An important part of the project was the execution of a marketing campaign to publicize the issue. In addition to raising public awareness, the project seeks to articulate and prepare the agents involved. Throughout the year, a series of activities was conducted to train, prepare and mobilize the public authorities providing services for children, adolescents and families suffering from or vulnerable to these types of problems.





## Education and Learning

The current line of work in Education and Learning is aimed at promoting innovation in learning by incorporating information and communication technologies, applying them as educational tools and fundamental drivers of digital inclusion.

Since 2002, one of the foundation's main goals has been to improve the quality of public education through its free portal [www.educarede.org.br](http://www.educarede.org.br), which provides exclusive contents on contemporary subjects of interest aimed primarily at primary and secondary level students and teachers.

Among the actions undertaken in 2011, worthy of note is the support for the Rio de Janeiro Municipal Education Department and Unesco in training interns to provide orientation on the use of technology in the computer rooms of the 150 schools participating in the city's Escolas do Amanhã (Tomorrow's Schools) program. Created by the department in 2009, the program is aimed at reducing school dropout rates and transforming the reality of students living in violent areas of the city. The training for the 300 university students involved, most of whom live in the communities benefiting from the program, was aimed at preparing them to work together with students and teachers to expand the use of technology, help systematize routines and procedures in computing rooms and provide guidance on the ethical and responsible use of the internet.

The first joint action by the Fundação Telefônica and the Instituto Vivo took place at the 2011 Campus Party (read more in the chapter on Digital inclusion), when they promoted three debates on technology and how it relates to education, culture and youth behavior. The first addressed the generation of young people who were born into the digital culture and are now causing a silent revolution.

The second debate, "Education and Digital Culture – A Necessary Combination", discussed the ways in which technology may favor knowledge production in an educational context. The third, "Technology and Culture: Production, Diffusion and Access", addressed the role technology has played in cultural development, expanding the means of artistic and cultural production and facilitating social inclusion.

Another important project in the Education and Learning area is the Fundação Telefônica Class, which entails the donation of notebooks and technology infrastructure, as well as technical training, aimed at encouraging educators to incorporate Information and Communication Technology (ICT) into their classes. This project is being expanded and is in place in seven municipal districts in the state of São Paulo: Diadema, Campinas, Hortolândia, Santos, Bauru, Bebedouro and Ourinhos. It involves a total of 36 schools and 1,800 educators, benefiting some 21,600 students.

## Local Development

This new line of action stems from the Instituto Vivo's experiences in generating a positive social impact in the areas around the company, reinforcing and leveraging community activities aimed at resolving local issues.

In 2011, the Fundação decided to develop this line of action, establishing a specific team focused on local development projects. This is based on the belief that this type of social action within a delimited area has the potential to demonstrate the business' positive impact in practice, functioning as a laboratory for social innovation.

In 2012, the Fundação will systematize these experiences, carrying out surveys to assess the impact of connectivity on these communities.

One of the most emblematic experiences in local development is underway in the state of Pará. After the installation of three 3G technology antennas in Belterra, Mojuí dos Campos and Surucá, education, health and community reinforcement projects were also implanted in the towns in partnership with the NGO Saúde e Alegria (Health and Happiness), benefiting 140 communities with a total population of 30 thousand people.

In the education area, Local Educational Arrangements involving different community education actors were implanted, together with video and social media workshops via the use of cellular telephones. In the domain of health, the vessel Barco Abaré – which provides health care for the Tapajós River riverside communities – was provided with telemedicine and emergency care equipment. In the area of Community Development, training programs on the Children's and Adolescents' Statute were organized, and cellular telephones (with voice and data credits) were donated to local residents' associations.

The positive results obtained by this project, which also provided a financial return on the investment, provided inspiration for the company's nationwide 3G technology expansion program.

Another significant experience was the Pescando com Redes 3G or Fishing with 3G Nets project, organized in Santa Cruz Cabralia on the coast of Bahia, in partnership with Qualcomm. In the region, fishing is one of the main economic activities, with many families dependent on it for their livelihood. Lack of investment and outdated infrastructure were leading to diminished opportunities, causing locals to migrate in search of work. The Fishing with 3G Nets project provided the fishermen with training and technical support to improve their livelihoods using ICT. The Fundação Telefônica | Vivo equipped them with cellular telephones with 3G access and an application that provides the fishermen with information on navigation, weather conditions, data, marketing and direct sales, among other features.

Another two Local Development experiences are underway in the city of São Paulo. In Parque Santo Antônio in the south of the city, the library Biblioteca para Todos was installed and equipped with computers, internet connection, cellular telephones. A survey was conducted to assess the development and impact of the process of co-creation with the community on the resolution of

local problems. In the west São Paulo district of Barra Funda, the Fundação has a partnership with TGestiona, supported by the NGO Cidade Escola Aprendiz, aimed at developing local leaders. The Fundação is also working on vocational projects for young people in these two urban communities.

Another 2011 initiative was the Wikimapa project, undertaken by the non-governmental organization Solidaritas' Rede Jovem. The objective is to create a virtual map of 16 communities in Rio de Janeiro's Complexo do Alemão district. Young community members use cellular telephones to map streets as of yet unrecorded on surveys and internet maps and to identify local assets and places of public interest, such as hospitals, schools, businesses, NGOs, public squares and sports facilities.

### Volunteer work

In partnership with Telefônica | Vivo, the Fundação coordinates the Telefônica Volunteers program, which seeks to involve company employees in various types of social work, including training programs, and blood and toy donation campaigns. It also provides support for projects in which employees already work as volunteers. Around 4,500 employees are engaged in the program.

A key event is Volunteer Day, which has been held in the country since 2006. In this initiative, employees donate a day to community work comprehending a variety of activities, including building and remodeling work, recreation, gardening and landscaping, and working in libraries and toy libraries. With the Telefônica/Vivo integration, the event gained a special meaning, underscoring the creation of a single company.

Held on October 7, 2011, the event was expanded from five to twelve cities: São Paulo, Rio de Janeiro, Campinas, Ribeirão Preto, Porto Alegre, Recife, Salvador, Curitiba, Brasília, Belo Horizonte, Goiânia and Belém, involving more than 3 thousand employees. In the city of São Paulo, instead of concentrating on just one institution as in previous years, the volunteers engaged in a series of activities in the Barra Funda district. Around two thousand employees helped to clean up and redecorate public squares, schools, a shelter and a health center under the supervision of artists, architects and scenographers. Prior to the event, the Fundação consulted community leaders and residents to identify their needs and wishes.

Another important program component is Vacation Solidarity, a global project which aims to promote solidarity among employees, encouraging them to do volunteer work in other Latin American



countries during their vacation. In 2011, three Brazilian employees worked with NGOs supported by the Pró-Menino program in Panama, Venezuela and El Salvador.

Throughout the year campaigns to donate blood and items such as warm clothing and toys are organized as part of the program. This was also the case in the public calamity caused by heavy rainfall in Rio de Janeiro at the beginning of the year.

In December, more than 2,700 Group employees took part in the Christmas Campaign. This benefited more than 8 thousand people in 31 cities nationwide with donations of food, toys, clothing and hygiene products. Employees also paid visits to child care institutions, organizing games and other activities. Working with the post office, employees replied to 960 letters sent by children to Father Christmas, a 12.7% increase over 2010. Food donations totaled 1,840

kilos. One of the company's São Paulo units alone donated 10 thousand toys.

At the beginning of 2012, the Fundação led the renewal of the volunteer program, with the active participation of Group employees throughout the country. Changes for 2012 include increased use of technology in program actions to boost identification with the Group's business.

Another alteration was the establishment of a more decentralized governance model to enable the program to grow. There is a Strategy Committee (comprising directors from several group companies and the Fundação Telefônica | Vivo) and an Executive Coordination, responsible for program strategies and guidelines. Additionally, Ambassadors were created for each region in the country to coordinate the Volunteer Committees, which are made up of employees from different group companies.

### Debate and Knowledge

This line of activity was introduced in 2011 with a view to stimulating, publicizing and sharing reflections on questions of relevance to society as a whole. The main actions in 2011 were the organization of debates and the publication of materials dealing with the impact of technologies on society.

To enhance the debate on new technology area careers that are revitalizing the labor market and may drive profound social, economical and environmental changes in the future and to contribute to a more digital and inclusive society, in the second half of 2011 the Fundação Telefônica | Vivo organized the New Professions Cycle. This is a project with a strong social repercussion aimed at identifying professions of the future, in particular those related to ICT.

Held in seven state capitals (São Paulo, Belém, Florianópolis, Goiânia, Recife, Belo Horizonte and Rio de Janeiro) over a period of three months, the event engaged young people, technology professionals and social entrepreneurs in a discussion about emerging professions, trends and their potential to transform the labor market. The discussions were coordinated by digital leaders based on the concept of the co-creation of ideas.

In November, the Fundação Telefônica | Vivo launched two publications. *"InnovaLatino: Promoting Innovation in Latin America"* is the result of an exclusive study conducted in the continent to show how innovation could help Latin America to grow economically, increase productivity, boost trade and improve public well-being. The two-year study was undertaken by the business school Insead and the Organization for Economic Co-operation and Development's (OECD) Development Center, with support from the Fundação Telefônica | Vivo. 1,500 companies in Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Peru and Uruguay were surveyed. The publication also presents more than 50 case studies on companies and organizations considered to be innovation leaders in their respective sectors.

The book *"The Linked World – How ICT is Transforming Societies, Cultures and Economies"*, published in conjunction with the American organization The Conference Board, presents the results of a two-year global survey which analyzes how technologies have evolved and their impacts on different countries. The study examines how new relations generated by ICT may foment and support innovation and enable the integration of ideas, values and cultures to drive social progress.





### Incentives for culture and sport

Telefônica | Vivo sponsors activities aimed at providing public access to culture and promoting social inclusion through sports and the social use of Information and Communication Technologies (ICT). The main actions in 2011 were:

- ⇒ **Telefônica Sonidos** – The company maintained its “Sonidos” platform, a series of musical events combining different musical genres on a single stage. More than 20 thousand people attended the seven free shows presented in São Paulo’s Ibirapuera Park, the unifying theme being “Mix” or “Misture-se”. Similarly, a second edition of the Telefônica Sonidos Festival Mundo Latino was organized, producing an intense interchange between Brazilian artists and other Latin American musicians on two stages set up in São Paulo’s Jockey Club on August 26 and 27.
- ⇒ **Sports** – Under a sport incentive law, Telefônica | Vivo supported the educational sport project Vivo Esporte Craíbas, organized by the Fundação Teotônio Vilela in the municipal district of Craíbas, Alagoas, applying Minas Tênis Clube sporting technology to the three sports sponsored by Vivo (football, volleyball and basketball) and promoting digital inclusion for children aged from 9 to 16 years.

During the year, the company inaugurated eight units of the Telefônica Basketball Center, which identifies and provides training for talented players aged from 10 and 17 years in public schools in 12 municipal districts in São Paulo. The project is overseen by the ex-professional player Hortência Marcarí.

The company maintained its sponsorship of the men’s teams from the Franca Basquetebol Clube (Vivo Franca) and Vôlei Minas, with the objective of forging closer ties with these regions.



Until January 2015, Vivo has a sponsorship agreement covering all the CBF (Brazilian Football Confederation) men’s and women’s soccer teams. This gives the brand nationwide visibility in Brazil’s most popular sport, with exclusive rights to the use of national team contents on cellular telephones.

- ⇒ **Culture** – In line with its strategy of promoting closer relations between the individual and society through collective cultural programs, Telefônica | Vivo develops projects jointly with artists, cultural producers, public authorities and the private sector. Specific platforms created for these actions are Conexão Vivo, for Brazilian music; Vivo EnCena, for the scenic arts; Vivo Arte.Mov., for mobile and location-based media; and Vivo Lab, a laboratory of concepts, ideas, experiences and actions. In 2011, the company sponsored some 210 projects, resulting in the organization of more than 500 events in seven states for a direct audience of 2.2 million people.

## Stakeholder engagement

The integration of Telefônica and Vivo made the need for open dialog with our stakeholders clearer than ever, with a view to forging closer ties and boosting our capacity to respond to their demands. As a result, 2011 was a year of intense company activity on the social networks via its official profiles, which include Telefônica na Web (@telefonicanaweb) and Vivo em Rede (@vivoemrede), as well as other profiles used to communicate with the public, such as Vivo On (@vivoon).

We have sought to increasingly strengthen our relations with the public through social media. This interaction permits an exchange of information, as well as the provision of contents on connectivity, new products, special offers and campaigns. We believe that this dynamic not only modifies the way in which we relate to our clients and society, but also helps us to improve our products and services as a result of the complaints, suggestions and other feedback we receive.

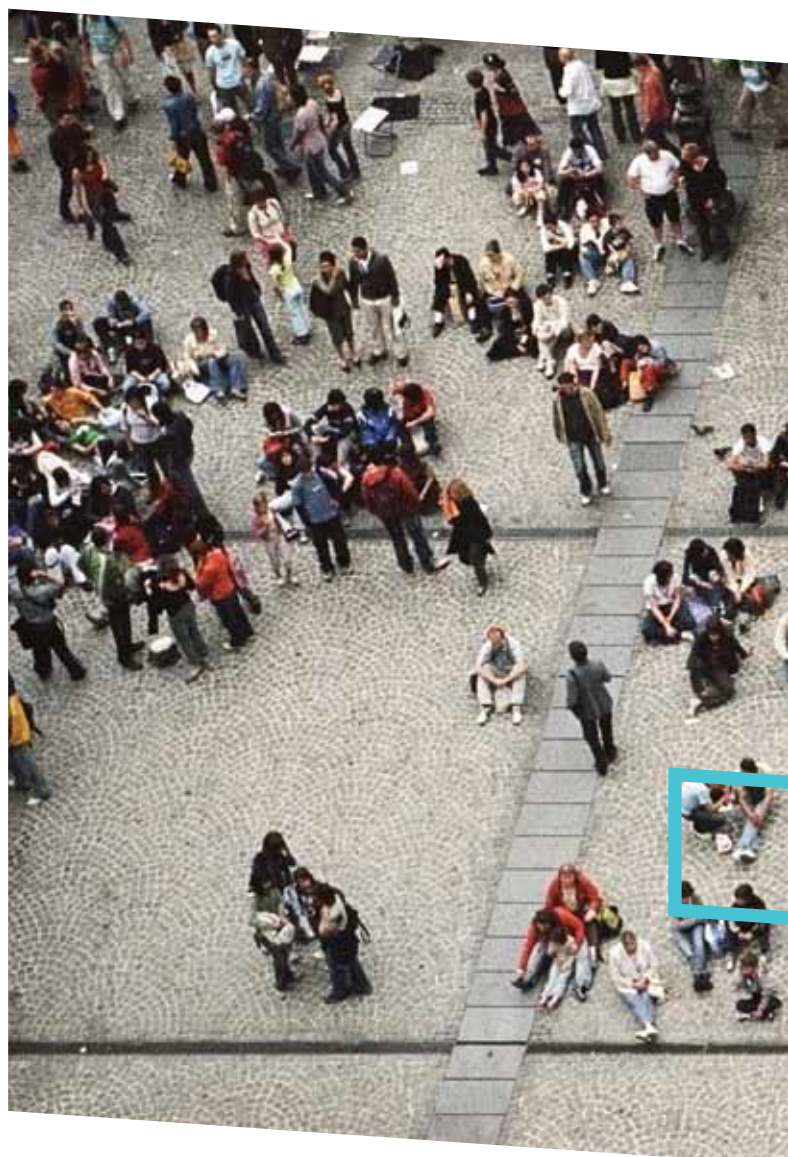
Just as important as keeping our clients satisfied is the need to ensure that our employees and partners are prepared and inspired by our mission of simplifying our clients' lives and increasing their connectivity.

To this end, we have progressed in preparing our internal stakeholders to act as company spokespersons in their own profiles on social networks, an important tool for consolidating the company's public image. Interaction between the Corporate Intranet and social networks (Facebook, Twitter and Google+) was boosted, with employees publicizing Telefônica | Vivo actions and events by posting contents drawn from the Corporate Intranet on their own networks.

Internal communication also played an important role in the integration process, providing clear, opportune information about key steps in the transformation. An integration hotspot with news, new policies, data on the two companies and other relevant information was created to unify the content for all involved.

Additionally, new internal channels were launched. The company's more than 20 thousand employees now receive a daily newsletter, "Conectados – Informativo", as well as "Conectados – Executivo", an electronic newsletter for executives. And all company news and information is also available on the company intranet, "Conectados – Intranet".

With so many changes taking place in the company, a study was carried out to explore how the residential consumer understands the concept of convergence, with a view to developing a line of action offering a larger number of products and services, as well as unifying accounts, services and communications with clients. Conducted in Curitiba, Porto Alegre and São Paulo, this consisted of discussion groups comprising class A, B and C clients and non-clients, aged between 30 and 45 years, deciders on subscriptions for personal cellular and fixed telephony, fixed and mobile broadband, and pay TV services.



According to the findings, most of the participants see the concept of "service convergence" – the offer of mobile + fixed telephony + broadband internet + mobile internet + subscription TV – as an improvement in service quality that is more practical and economical for the user. They believe that such convergence should result in a single service channel and a single bill, regardless of the number of products involved. There is a general consensus that the service provided by telephone and pay TV companies is inefficient. The conclusion was that the idea of convergence is attractive, suggesting benefits in terms of ease, convenience, economy and service quality for users; however there is room for doubt and concern in view of previous negative experiences.

The findings from the studies are channeled to the corresponding product, service, quality and communication areas so that new service packages may more effectively meet consumer demands.



## Balance sheet





# Major recognitions for Telefônica | Vivo in 2011



There follows a list of the most important awards and recognitions granted to Telefônica / Vivo by the press and other organizations during the year.

- ⇒ Leader in the *Fortune* magazine ranking of the most admired telecommunications companies
- ⇒ Distinction in the *Exame* magazine Telecommunications sector "Biggest and Best" ranking
- ⇒ 1<sup>st</sup> place in the FIA/Você S/A– The Best Companies to Begin Your Career survey
- ⇒ Great Place to Work, *GPTW/Época*
- ⇒ The Best Companies to Work For, FIA/*Exame*
- ⇒ The Best in IT and Telecom, *GPTW/Época*
- ⇒ The Best in the Telecommunications Sector, *Exame*
- ⇒ Leader in *Istoé Dinheiro* "Best Companies" ranking
- ⇒ Winner in Fixed Telephony category in Best Customer Experience Award
- ⇒ Distinction in internet access in annual Telecom ranking
- ⇒ In Top 20 in the *Época* Green Company Award
- ⇒ First place in the Communication category in 2011 *Folha* Top of Mind
- ⇒ Winner of Brazil Intangibles Award in the "Telecom, Internet and Media" category
- ⇒ Winner of Best Customer Experience Award in the Mobile Telephony category
- ⇒ Distinction in the fixed and mobile telephony sectors in the *Carta Capital* "The 2011 Most Admired Companies in Brazil" ranking
- ⇒ São Paulo Commercial Association's "Best of Biggest" Award, which selected 16 companies with proven results and efficiency
- ⇒ Distinction in *Época* magazine's *Época* Green Company Award

# Key Indicators



Stakeholder perception	2011	2010	2009
<b>Employee satisfaction (%)</b>			
Fixed	86****	81	78
Mobile		85	82
<b>Client satisfaction</b>			
Telefônica   Vivo	7.37****	6.67	6.35
<b>Reputation in society *</b>			
RepTrak Pulse	48	45	39
RepTrak Index	52	50	44
RepTrak Supply	51	48	37
RepTrak Work	51	49	44
RepTrak Integrity	52	48	42
RepTrak Leadership	52	52	45
RepTrak Innovation	52	53	47
RepTrak Finance	61	59	57
RepTrak Citizenship	51	51	46
Supports social causes	51	50	45
Protects environment	50	48	43

## Telefônica Operational Indicators

<b>Economic impact (in millions of R\$)**</b>			
Net revenues	34,234	30,966	24,609
Investment in infrastructure (Capex)	5,741	4,930	3,625
Investment in research and development	45.9	19.3	15.1
Taxes	14,235	13,037	10,228
Purchase volume	17,844	15,733	12,821
<b>Clients</b>			
Total number of clients accesses (in 000s)***	86,864	75,920	67,679
Total number of complaints (in 000s)*	6,399	11,324	10,339
<b>Employees</b>			
Total number of employees **	105,731	101,920	83,897
Hours training per employee ****	19	26	23
<b>Suppliers***</b>			
Number of suppliers contracted	3,990	3,733	3,675
<b>Society</b>			
Social investment - Fundação Telefônica   Vivo (R\$ millions)	35,704	24,877	21,909
Direct Fundação Telefônica beneficiaries	688,603	609,459	393,851

\* Information refers exclusively to the Telefônica | Vivo fixed operation

\*\* For previous years, the data include 50% of Vivo. From 2010, 100% of the company data is included.

\*\*\* Numbers include 100% of Vivo data.

\*\*\*\* For previous years, the data refer exclusively to the fixed operation. From 2011, 100% of the company data is included.

# 2011 Directives and achievements



## Supported by the pillars of the BSC and organizational strategy

Pillar	Directive	Result
Clients	<p><b>To achieve our targets, we must be client focused, ensuring that:</b></p> <ul style="list-style-type: none"> <li>clients are able to identify our brand and that they prefer it to our competitors;</li> <li>we provide superior service at all points of contact (service channels, network, installation, billing etc.), striving to meet clients' demands and to reduce complaints to organizations such as Anatel and Procon;</li> <li>we are innovative, providing digital service and sales channels that drive operational efficiency.</li> </ul>	<ul style="list-style-type: none"> <li>According to the Brand Tracking survey, the company was preferred over its competitors.</li> <li>We ended the year with a reduction of over 17% in client complaints to Anatel compared with January 2011.</li> <li>The number of users of online customer service channels (via web, SMS and others) practically doubled in 2011.</li> </ul>
Offering	<p><b>To provide superior service, we need to offer products and services that meet each client's needs, as well as:</b></p> <ul style="list-style-type: none"> <li>guarantee the performance of the company's main businesses, that is pre and postpaid mobile lines, fixed residential and enterprise lines;</li> <li>foment businesses presenting growth potential, such as data and internet, striving to increase market leadership;</li> <li>develop new businesses that will differentiate the company and provide new revenue streams for the future.</li> </ul>	<ul style="list-style-type: none"> <li>The company's financial performance was robust in all business areas in 2011; particularly worthy of note was the increase of more than 2 million in postpaid clients.</li> <li>High revenue growth in data and internet services, and high penetration of our client base. More than 13 million existing clients contracted mobile internet access.</li> <li>New businesses and synergies boosted revenues by almost R\$ 1 billion.</li> </ul>
Platform	<p><b>To support growth and routine operations, we must:</b></p> <ul style="list-style-type: none"> <li>guarantee network quality and coverage so that services are always available for clients;</li> <li>ensure the reliability of our systems for internal and external clients;</li> <li>ensure the company's strategic projects are executed, supporting our growth and profitability.</li> </ul>	<ul style="list-style-type: none"> <li>Important infrastructure projects were implemented in 2011.</li> <li>Company systems were maintained online with above average performance.</li> <li>The availability of our mobile and fixed networks supported business growth even in areas where operations are new, such as the Northeast of the country.</li> </ul>
Sustainability	<p><b>To obtain the best results we need to think about people because they are the ones who will ensure the company's future success and sustainability in all dimensions. To this end, we must:</b></p> <ul style="list-style-type: none"> <li>strive for efficiency in our processes;</li> <li>ensure our people are motivated and committed because they are our differential.</li> </ul>	<ul style="list-style-type: none"> <li>We relentlessly redesigned processes, striving for efficiency.</li> <li>We maintained an excellent internal climate, with more than 85% of positive responses in the climate and commitment survey conducted among all employees.</li> </ul>



# 2012 Directives



2012 Pillar	Directive
Client focus	<b>Communicate to the company that it must maintain its client focus, ensuring that:</b> <ul style="list-style-type: none"><li>• the Vivo brand is preferred by consumers;</li><li>• the company establishes a personalized relationship with clients, driving greater loyalty;</li></ul>
Capturing growth	<b>Growth in our captured market is strategic and profitable:</b> <ul style="list-style-type: none"><li>• through increased convergence in offerings for clients;</li><li>• capturing the value created in all the markets;</li><li>• making the internet and innovation levers for growth.</li></ul>
Best platform	<b>To guarantee the growth of the operation, we need:</b> <ul style="list-style-type: none"><li>• quality and coverage in our fixed and mobile networks, guaranteeing service quality for clients;</li><li>• to maintain the reliability and performance of our systems.</li></ul>
More efficient	<b>Thus ensuring efficient growth and retention of talent:</b> <ul style="list-style-type: none"><li>• Promoting a balance between growth and profitability, with a permanent focus on the sustainability of the business;</li><li>• Encouraging our clients to interact with Vivo through the service channels and e-commerce;</li><li>• Ensuring our employees are highly satisfied and proud to work for Telefônica   Vivo.</li></ul>

## Verificação Independente

*Uma mensagem da Ernst & Young Terco*

Em nome do Comitê de Auditoria e Controle, revisamos o Informe Anual de Responsabilidade Corporativa 2011 do Grupo Telefônica no Brasil. O relatório é composto de duas partes: essa impressão do documento e a versão online completa do mesmo, disponível em:

[http://telefonica.mediacgroup.com.br/pt/Responsabilidade\\_Ambiental/Sustentabilidade.aspx](http://telefonica.mediacgroup.com.br/pt/Responsabilidade_Ambiental/Sustentabilidade.aspx)

A preparação do Informe Anual de Responsabilidade Corporativa e Sustentabilidade 2011 do Grupo Telefônica no Brasil, assim como o conteúdo do mesmo, é de responsabilidade da Administração do Grupo Telefônica, que preparou tal informe com base em:

- Princípios e indicadores estabelecidos no guia de referência G3 da Global Reporting Initiative (GRI).
- Princípios da norma AA1000 APS 2008 emitida pela AccountAbility (Institute of Social and Ethical Accountability) para as atividades desenvolvidas pelo Grupo Telefônica no Brasil.

### Alcance do trabalho

As verificações consistiram em:

- **Verificação do cumprimento dos padrões da GRI**

1. A adequação da estrutura e do conteúdo do Informe aos princípios e diretrizes estabelecidos nas diretrizes G3.
2. O adequado rastreamento da informação e dos dados correspondentes aos indicadores centrais e adicionais e do Suplemento Setorial de Telecomunicações, assim como a razoabilidade do critério seguido para consideração, em alguns casos, como não aplicáveis.

- **Verificação sob a consideração da norma AA1000AS**

Os procedimentos de verificação foram desenvolvidos para avaliar, para o limite mencionado anteriormente, que o Informe de Responsabilidade Corporativa está adequado aos seguintes princípios:

1. Completude: Implicações e exigências das partes interessadas na determinação do conteúdo a ser incluído.

2. Materialidade ou relevância: Inclusão de materiais e aspectos significativos em sustentabilidade em sustentabilidade para a empresa e seus stakeholders.
3. Capacidade de resposta: Determinação de objetivos e resposta às expectativas das partes interessadas e à comunicação adequada e oportuna dos planos a eles destinados.

Dessa forma, foram consideradas as diretrizes estabelecidas nas normas NBC TO 3000 (Trabalho de Asseguração Diferente de Auditoria e Revisão) emitida pelo CFC (Conselho Federal de Contabilidade e ISAE 3000 (Assurance Engagements Other Than Audits or Review of Historical Financial Information), emitida pelo IFAC (International Federation of Accountants) aplicável para a realização de verificações de relatórios não financeiros.

Os procedimentos de verificação incluíram fundamentalmente a realização de entrevistas com executivos das áreas corporativas, revisão de informações relevantes do Grupo e de notícias publicadas na imprensa, revisão dos processos de recopilación de informação e comprovação do rastreamento dos dados nas informações reportadas para cada um dos indicadores.

### Nossa Independência

As políticas de independência da Ernst & Young Terco são de aplicação à firma, aos sócios e a seus profissionais. Essas políticas proíbem qualquer interesse financeiro em nossos clientes que possam comprometer nossa independência. A cada ano, os sócios e os profissionais são chamados a confirmar o cumprimento dessas políticas da empresa. As normas de independência da Ernst & Young Terco excedem, em alguns pontos, os requerimentos da IFAC (Internacional Federation of Accountants).

Nosso relatório de Verificação Independente contém informações sobre o alcance do trabalho, o nível de verificação, as conclusões e nossa independência. Esse relatório está disponível em:

[http://telefonica.mediacgroup.com.br/pt/Responsabilidade\\_Ambiental/Sustentabilidade.aspx](http://telefonica.mediacgroup.com.br/pt/Responsabilidade_Ambiental/Sustentabilidade.aspx)

São Paulo, 20 de julho de 2012

**Ernst & Young Terco**  
**Auditores Independentes S.S.**  
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