# 2009

Annual Corporate
Responsibility
Report Telefónica, S.A.

*transparency
and integrity*
to transform the future

Telefónica

# Contents

# Contents

# Contents

# 1

## About the Report: Presentation of the report, a new reporting system

# 1 About the Report: Presentation of the report, a new reporting system

This year Telefónica sets out to take its 2009 CR and sustainability Report a step further, by incorporating the requirements most demanded by the investment community and responding to existing global trends, which seek to make the report the cornerstone of transparency and reliability.

As is the case every year, Telefónica has sought to innovate in its reporting in order to offer advances which provide global companies with a new line of reporting, attending to the following criteria: overall sector and inter-sector comparability; sectoral relevance or materiality, and adaptation to local requirements.

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

- Block 1, that corresponds with the printed Annual Corporate Responsibility Report 2009, the objective of which is to build a common basis for CR reports with an inter-sectoral approach, responding both to the Principles of the Global Compact and the requirements of the Global Reporting Initiative (GRI).

- Block 2, available at the beginning of this report, and which includes discussion of the most relevant matters identified in the materiality analysis carried out by the Company based on the impact on the strategy of the Group and the priority for the stakeholder groups. In order to carry out this analysis, Telefónica made use of the analysis of the materiality of the Information and Communications Technology sector, performed by the Global e-Sustainability Initiative (GeSI), which highlighted a number of issues directly affecting the sector.

- Block 3, available in the local Corporate Responsibility reports which respond to matters relevant to the reality of each country. This new form of report has been compared with:

  - United Nations Global Compact in New York.
  - Global Reporting Initiative (GRI).
  - Corporate, academic and public organisations, as well as foundations linked with Corporate Responsibility.

**Click here for more information on the new approach to the report.**

# 2

## Letter from the Chairman

# 2 Letter from the Chairman

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

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

A comprehensive analysis of the DJSI indicates that Telefónica has excellent performance in economic sustainability (corporate governance, risk and crisis management, codes of conduct, customer relations, brand management and privacy framework); that the Company's social management has also been outstanding (workplace and employment practices, human capital development, the attraction and retention of talent, supplier policies, stakeholder dialogue, philanthropy, social reporting, digital inclusion and the impact of telecommunications services); and that Telefónica environmental sustainability still has a wide margin for improvement (environmental policy, eco-efficiency, environmental reporting and climate impact strategy). For this reason, by 2015 and through our Climate Change Office, we are now committed to reducing the impact of our activities, by ensuring reductions in electricity consumption in networks of 30% per access point and in offices by 10% per employee.

The second reason which allows us to consider the past year to be a positive one was the decision taken to remodel our method of Corporate Responsibility reporting. This year, coinciding with the tenth anniversary of the United Nations Global Compact that Telefónica joined in 2002, we wanted to go a step further by trying to offer the business community a comparable and relevant report model that is capable of combining local demands with the demands of global initiatives (the Global Compact and Global Reporting Initiative), and responsible investment indexes (DJSI and FTSE4Good).

*"Telefónica promotes its commitment to the UN Global Compact with its Responsible Reporting model."*

Therefore, the outline of the report that I present you with today is structured in three blocks. The first of these (as set out in this printed document) seeks to make our responsible behaviour fully accountable as a global company and permit the comparison of Telefónica with any other multinational, whatever its sector. The 10 Principles of the UN's Global Compact have therefore been taken as a point of reference along with the criteria and measurement indicators offered by the Global Reporting Initiative (GRI). This document will be identical in all the countries in which the Company operates. The second report level is primarily based on issues relevant to the telecommunications sector (available at www.telefonica.com/rc09); issues such as responsibility in the supply chain, safety and protection of minors, digital inclusion and energy efficiency. These areas have been identified as being relevant through global work groups with all
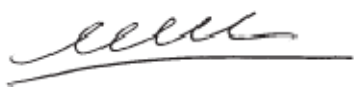
the corresponding key players and through the Global e-Sustainability Initiative, (GeSI) an association which brings the whole sector together. The third and final level recognises local concerns with decision making corresponding to each of the countries in which we operate.

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

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

César Alierta Izuel
Chairman of Telefónica, S.A.

# 3

## CR Strategy

Sector dialogue and focus as a company
Dialogue with stakeholders

# 3 CR Strategy

## Organisation

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

The functions of this Committee, which is composed of 6 Directors (4 independents and 2 nominees), is to look at the following areas related with Corporate Reputation and Responsibility:

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

**Human Resources, Reputation and Corporate Responsibility Committee**

| Name | Position | Type |
| --- | --- | --- |
| Mr Francisco Javier de Paz Mancho | Chairman | Independent |
| Mr Alfonso Ferrari Herrero | Member | Independent |
| Mr Antonio Massanell Lavilla | Member | Nominee |
| Mr Gonzalo Hinojosa Fernández de Angulo | Member | Independent |
| Mr Pablo Isla Álvarez de Tejera | Member | Independent |
| Mr Vitalino Manuel Nafría Aznar | Member | Nominee |

## Corporate Reputation and Responsibility within bravo!

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

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

Corporate Reputation and Responsibility comes under the area of Culture, where the idea is building confidence and constructing sustainable relations with stakeholders. Telefónica's commitment to society is one of the key factors in obtaining this objective.

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

## Working Framework

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

To this end we are working in three strategic lines:

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

  The management body in charge of disseminating these Principles is the Business Principles Office (incorporating the areas of Human Resources, Audit, General Secretary to the Chairman and representatives of the three regions), which reports to the HR and Corporate Responsibility Committee (the only such case within IBEX-35 companies). Among its functions is that of ensuring awareness of the Business Principles among stakeholder groups, ensuring that suitable processes for implementing and promoting the development of policies and standards are in existence.

  This Office is also responsible for identifying, evaluating, managing and monitoring risk derived from the breach of these Principles. In order to reduce the risks identified, amongst its responsibilities is the definition of minimum business standards (statements, policies and general standards) throughout the entire Group and for local implementation.

- **Management of Opportunities**, in order to maximise the positive effects on our operations, and with the clear goal of improving and contributing to society. Telefónica is currently working in two areas:

  - Accesibility to Information and Communication Technologies (ICTs): here the objective is to incorporate, manage and implement the global Telefónica Accesible programme in all processes, products and services to ensure that the needs of those with special requirements are met, such as the elderly, the disabled or children and young people.

  - Green ICTs, for greater energy efficiency. Telefónica's Climate Change Office which reports to the Transformation Department and the General Secretary to the Chairman, is responsible for achieving reductions in the Company's energy consumption; promoting the development of more efficient services for customers; and promoting the sector as a driver of energy efficiency.

- **Stakeholders Engagement**, through transparent communication and effective dialogue with stakeholder groups, building relations of trust which enable us to position Telefónica as a driver of economic, technological and social progress. Dialogue processes with stakeholders are essential in ensuring that the Company's initiatives remain in line with expectations and allow us to better respond to their most pressing needs and interests. All of this helps Telefónica to adjust its CR strategy and take its business closer to its *stakeholders'* priorities, serving as their mouthpiece.

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

- The Dow Jones Sustainability Index is the world's most important sustainability index in considering Corporate Responsibility from a business viewpoint. Telefónica was leader in the Telecommunications sector in 2009, with a score of 86.

- RepTrak™, is a Reputation index measured by Telefónica since 2005 which allows us to know stakeholders perceptions of the Company. This indicator is used in Spain, UK, Germany, Czech Republic, Ireland, Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru and Venezuela. El Salvador, Guatemala, Panama and Nicaragua use the Pulse index.

# 3 CSR Strategy

Strategic diagram
of Corporate
Responsibility
in Telefónica

**bravo!**

**Vision**
Value creation
Sustainability for stakeholder groups

Effectively
manage risks:
cost reduction

Managing opportunities
Maximising revenues

Stakeholders
Engagement

*Strategy*

**PDA risk
management model**
• Identification and
evaluation of risks.
• Management (mitigation):
Objectives
• Monitoring and control (KPI)
• Verification

**Accessibility
of ITCs**
• Eliminate barriers to
access to ICTS, improving
quality of life.
• Promote collaboration
between Telefónica,
administrations and
organisations.

**GREEN ICT towards
energy efficiency**
• Green ICT as a driver of a
low-carbon economy.
• Service provider for energy
efficiency.

**Dialogue with
stakeholder groups**
• Attracting and
coordinating the
participation of third-party
partners.
• Strengthen relations with
public organisations and
stakeholder groups.

*Approach*

• Integrity
• Supply chain
• Privacy/data protection
• Adult content
• Health and Safety
• Diversity
• Radio-electric emissions
• Responsible Advertising
• Corporate Report
• Environment

• Ability Awards
• Accessibility of products
and services: economic impact
assessment
• Identification & participation
of actors
• Accessibility
Telecommunications Observatory
• Telefónica Accesible Standard

• Operations: reduction in
operating expenses (network
consumption -30%)
• Energy variable included in
Product's TCO
• Reduction of electricity
consumption in buildings (-10% used)
• Customer: solutions ICT energy
efficiency: economic impact
assessment

• University chairs.
• Digital diaries:
   - Spain
   - Latin America
   - Europe
• Public-private partnerships

*Projects*

| Business Principles Office | Telefónica Accesible | Climate Change Office | Round-Table Dialogues |

*Structure*

Dow Jones Sustainability Index

RepTrak™

*Metrics*

# 3
# 1

# Sector dialogue and focus as a company

This year Telefónica presents once again, in response to its commitment to transparency, its eighth Annual Corporate Responsibility (CR) report with a new report model, organised into 3 blocks that offer comparable and relevant information within the telecommunications sector.

## A new approach to the report

This year of 2009 Telefónica sets out to take its CR Report a step further, by incorporating the requirements most demanded by the investment community and responding to existing global trends, which seek to make the Annual Corporate Responsibility or Sustainability Report the cornerstone of transparency and reliability.

As in previous years, Telefónica aims to innovate in its report in order to offer an advance that provides global companies with a new line of reporting that meets the following criteria: overall sector and inter-sector comparability; sectoral relevance or materiality; and adaptation to local requirements. To this end, and coinciding with the tenth anniversary of the UN Global Compact, Telefónica offers a new CR Report line based on three main blocks:

- **Block 1**: available in the printed Annual Corporate Responsibility Report 2009, the objective of which is to build a common basis for CR reports with an inter-sectoral approach, responding both to the Principles of the Global Compact and the requirements of the Global Reporting Initiative.

- **Block 2**: corresponding to the Annual Corporate Responsibility Report 2009, which includes discussion of the most relevant matters identified in the materiality analysis carried out by the Company based on the impact on the strategy of the Group and the priority for the stakeholder groups. In order to carry out this analysis, Telefónica made use of the analysis of the materiality of the Information and Communications Technology sector, performed by the Global e-Sustainability Initiative (GeSI), which highlighted a number of issues directly affecting the sector.

- **Block 3**: available in the local Corporate Responsibility reports, which respond to matters relevant to the reality of each country.

This new form of report has been compared with:

- the United Nations Global Compact in New York. At an initial meeting we informed them of the report's focus, and subsequently held working sessions in which we analysed each of the principles, their content and indicators.

- Global Reporting Initiative (GRI). As well as giving information on the new report model the indicators for each principle were also checked against the GRI G3 standard.

- Corporate, academic and public organisations, as well as foundations linked with Corporate Responsibility.

In addition, as is now becoming common practice, the Company publishes Annual Corporate Responsibility Reports in 18 countries, and in order to check them it follows the GRI G3 and AA1000AS (AccountAbility) standards according on the principles of materiality, relevance and comprehensiveness. Currently the reports of El Salvador, Guatemala, Nicaragua, Panama and Uruguay are only checked according to the GRI G3 standard.

# 3.1 Sector dialogue and focus as a company

This check is being carried out for the fifth consecutive year by Ernst & Young, the company that checks each of the affirmations contained in this Report.

## Block 1. Set of common and comparable requirements

**Human Rights**
Principles 1 - 2

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

**Labour Standards**
Principles 3 - 6

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

**Environment**
Principles 7 - 9

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

**Anti-corruption**
Principle 10

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

## 3.1 Sector dialogue and focus as a company

### Block 2. Matters relevant to the telecommunications sector

**2009 Corporate Responsibility Report materiality table**
**Identification of matters deemed relevant to Telefónica and its Stakeholder Groups**

## 3.1 Sector dialogue and focus as a company

### Block 3. Local materiality for the company

Through its Local Corporate Responsibility Reports, Telefónica presents and quantifies the social, economic and environmental impact of its activities in the countries in which it operates, outlining the initiatives and challenges that contribute to the progress of these communities.

**Mexico**
2006 to date
GRI (G3)
AA1000AS

**Venezuela**
2006 to date
GRI (G3)
AA1000AS

**Colombia**
2006 to date
GRI (G3)
AA1000AS

**Ecuador**
2006 to date
GRI (G3)
AA1000AS

**Brazil**
2003 to date
GRI (G3)
AA1000AS

**Peru**
2003 to date
GRI (G3)
AA1000AS

**Guatemala**
2006 to date*
GRI (G3)

**El Salvador**
2006 to date*
GRI (G3)

**Nicaragua**
2006 to date*
GRI (G3)

**Panama**
2006 to date*
GRI (G3)

**Uruguay**
2006 to date*
GRI (G3)

**Chile**
2003 to date
GRI (G3)
AA1000AS

**Argentina**
2003 to date
GRI (G3)
AA1000AS

**Spain**
1999 to date
GRI (G3)
AA1000AS

**United Kingdom**
2006 to date
GRI (G3)
AA1000AS
LBG

**Ireland**
2006 to date
GRI (G3)
AA1000AS
LBG

**Germany**
2006 to date
GRI (G3)
AA1000AS
LBG

**Czech Republic**
2006 to date
GRI (G3)
LBG

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

# 3 / 2  Dialogue with stakeholders

# 3.2.1 Dialogue strategy

Telefónica regards dialogue with its *stakeholders* as being a key aspect of its management and a key way of influencing the Company's results in a competitive environment. The dialogue between the Company and its stakeholders - customers, employees, suppliers and society- promotes learning and innovation, and is a way to improve economic, social and environmental results.

As an innovative organisation, Telefónica values the contributions of its stakeholders as a way of learning about is products and services. This dialogue makes it possible to formulate effective strategies which are more focused on the requirements of the current environment. Despite the complexities and challenges, the results of this dialogue more than justify the effort involved.

The key to a successful dialogue relies to a large extent on the participation of the company. A range of factors are taken into account to involve the whole of the Company effectively in the dialogue strategy:

- **Strategic objectives**. Aligning the dialogue with the business strategy and the Company's objectives in general, or the objectives for a particular business area or country.

- **The purpose of the initiative**. Definition of the expected benefits of the initiatives.

- **Internal partners**. Identification of areas and departments with which to carry out the dialogue.

Telefónica's relationship with its stakeholders is not static. Its requirements change over time and vary depending on its different stakeholders. As a result, in 2009 Telefónica once again implemented a range of initiatives adapted to the demands of all its stakeholders in its various markets and countries in order to further an on-going dialogue which will enormously enrich the Company's capacities. Some of the main initiatives in this area over the last year are described below.

# 3.2.2 Dialogue with customers

## Customer Watchdog Service

The Customer Watchdog Service"takes note" of possible improvements based on customer complaints. In this way areas that require change are passed on to departments.

The Customer Watchdog Service in Spain handled 5,161 cases in 2009, 63% more than in 2008, continuing the positive development of this service since it was launched.

Telefónica is the only telecommunications operator in Spain to voluntarily create such a body; it is independent of the business areas and has powers to make binding decisions. The CW Service reports regularly to Telefónica S.A.'s Board of Directors' Service Quality and Customer Service Committee.

In 2009, most of the cases it dealt with related to billing, with service maintenance being another recurring theme.

Of all the complaints received, the Customer Watchdog Service accepted 63%, and of the cases completed so far, 80% have had a favourable outcome for the customer (this figure being 75% in 2008).

Besides processing the claims, the CW Service examines the causes to identify aspects for improvement in the processes, which are then sent to the business areas and, on a regular basis, to the Quality Committee. In 2009, the Service's analysis focused on issues such as managing complaints, telesales and specific products, such as the Holiday Line.

Furthermore, the CW Service worked on these fronts:

- It increased the number of meetings with public bodies both nationally (e.g. the General Department of the National Consumer Affairs Institute) and regionally.

- It shared its experience in Spain with other countries in which the Group is present, such as Argentina, Mexico and Chile, to extend its best practices.

- It increased its participation in user forums and consumer bodies.

## The Telefónica SP Ombudsman

Telefónica SP created its *Ombudsman* in Brazil in 1994 to help customers to report incidents when they feel that the response from the Company's normal channels is not satisfactory.

In 2009, the service received 146,749 complaints, compared to 165,103 in 2008. An enormous amount of work was required by the Customer Ombudsman in order to resolve these issues, and to identify the most important ones and report them to the Company's management in order to improve procedures, etc.

## Dissatisfaction monitoring centre (CSI)

In 2009, Telefónica España continued to expand its CSI (Centro de Seguimiento de la Insatisfacción - Dissatisfaction Monitoring Centre), which was created in July 2008 to contact customers who, having been dealt with by a telephone operator, are still in some way dissatisfied, or who make repeated calls to the call centre.

At the end of the year, the CSI team had 200 employees, compared to 73 in July 2008. In addition to traditional telephone assistance tools, the Centre also has a number of specific applications. This resulted in a total of 368,731 (relating to 321,262 customers) fixed line telephony issues being resolved in 2009, compared to 142,000 in 2008. The most common issues related to billing, faults and service provision.

The CSI was set up as part of the 1004 telephone service operated by the Company for domestic customers and it works in collaboration with other areas such as Operations, Collections, Complaints and Information Systems amongst others. This collaboration takes place through the Quality Committee, which also enables the CSI to report areas for improvement and deficiencies which it identifies in the course of its work, and which it considers need to be addressed in order to contribute to transforming the Company. In 2009, it made over 200 proposals for changes and/or improvements to processes.

# 3.2 Dialogue with stakeholders

For 2010, Telefónica España's objective is to continue to reinforce its CSI to reach 100% of its dissatisfied customers who call 1004; which will be a single point of access for the residential segment in Spain and, consequently, will deal with all dissatisfied customers as a combined service for both fixed-line and mobile subscribers.

The CSI Model has been exported to other Customer segments and to Telefónica Peru and Telefónica Móviles España for the Domestic segment.

Accordingly, in Peru Infrared 2009, the Integral Solutions Area (in Spanish, ASI) implemented a *back-office* service that processed dissatisfied customer issues (residential and business) through the 104 call centre or through visits to the multi-centres.

In July, the ASI team (made up of 28 specialist advisers) started to answer the repeated calls related to orders pending for multi-products that were more than 10 days old. A few months later, it took on customers showing high levels of dissatisfaction with the service they received from the call centre. In 2009, the repeated calls and dissatisfactions of more than 80,000 customers were dealt with.

The target for 2010 is to change the management model to extend the scope of the ASI and reach more customers. Indeed, it will include a review of bills with the aim of preventing potential complaints. The aim is also to implement a Learning Model to identify opportunities for improvement in the internal processes that have a direct effect on customers and present them to the Quality Committee to guarantee their implementation.

For its part, Telefónica O2 United Kingdom has a Complaints Team, which assumes responsibility for the incidents that cannot be resolved by the call centres. It investigates the complaints and contacts customers to resolve them.

The team has 55 employees: 13 of them focus on relations with the legal department, regulatory bodies and the United Kingdom Ombudsman, etc. They are joined by the so-called "specialist teams", made up of 30 professionals who resolve incidents related to broadband, terminals and smartphones, etc. Finally, a group of 12 employees performs quality analysis and identifies the root causes of complaints. This team manages the process called "My contribution", which makes it possible to automatically inform the business of the elements that affect customers.

Also, in 2009, Telefónica continued working towards becoming a fully online company to meet the objectives set for 2012, which include: 25% of all customer transactions being electronic (in 2008, this percentage stood at 3%); over 95% of purchases made on the Internet, with 40% of these being through auctions (further information on this is contained in the chapter on the Supply Chain); a more responsive relationship with developers through "Open Telefónica"; and the mass use of online applications in knowledge management and sharing.

To this end, in 2009 the Company launched a number of initiatives which initiated dialogue with our customers; this online dialogue is fluid and highly innovative, and represents a new way for the Company to get closer to its customers.

In Latin America, Telefónica is working on its "Online Channel" project, which aims to define and implement a single communication channel with its customers for all segments of the business, all the Company's services and all access channels.

The project is being implemented using an *outsourcing* model with various suppliers. The objective of this is to ensure the sustained growth of this channel (in terms of usability, sales and self-service) and to define technical and service architecture which can be used with all operators, in addition to sharing services, functionality and best practices easily and quickly.

# 3.2 Dialogue with stakeholders

## New self-service tools for customers

Telefónica has made so much progress with self-service that by the end of 2009 in Colombia 50% of mobile phone customer service was being carried out in this way, involving over one million transactions per month.

The self-service options being developed include electronic billing in many countries, which was being used by 28 million of the Group's customers at the end of the year.

In order to facilitate this self-service, the Company provides support for its customers in a number of ways, including information on its website, FAQs, call centres, etc.

- To this end, two years ago Telefónica O2 United Kingdom launched "Lucy", a virtual assistant who provides online help with queries and the best routing of calls when personal communication is required. In 2009, "Lucy" on average had 1,000 conversations per day with users. The most frequent question received is "how can I view my mobile bill online?"

- To provide customers with continuous assessment 24 hours a day 365 days a year, Telefónica Mobiles Nicaragua also presented its new self-management service in 2009 called "Chat Centre". This chat centre is available at www.movistar.com.nl to answer questions, perform routine procedures and respond to user complaints.

## New channels for speaking and listening

In 2009, the Company added new forums in other countries to "*Talk2O2*", which was created in 2008 by Telefónica O2 Ireland:

- The "Official Imagenio Forum" (foroimagenio.com) was created in Spain in April to provide current and potential customers of the Imagenio TV service with a channel for communicating with the Company and having their voices heard. This forum was launched as a pilot project but has since become well established: in February 2010 it had 4,240 users and had received 26,576 messages since its launch. Customers have demonstrated that they are highly satisfied with this initiative, which the Company is also taking advantage of to identify areas for improvement. In 2010, Telefónica intends to continue consolidating foroimagenio.com and to open new forums for other products.



- The "Movistar Community Forum" (www.movistar.com.ar/foro) was launched in Argentina in June to provide an informal online space where customers can share their ideas, information and opinions about the Company's products and services, thus helping to improve the user experience.

- In August, Telefónica SP created the "RP 2.0 Channel " in Brazil (www.telefonicaemacao.com.br)  The initial objective of this was to receive messages from internet users and to provide access to the company, answering questions about the "Telefónica in Action" programme in order to pass improvements in the network and customer service onto the public and so be able to once again offer the Speedy broadband service. This service was suspended in June 2009 as a result of Brazil's National Telecommunications Agency (ANATEL) decreeing the temporary suspension of sales of Telefónica's Speedy broadband service in the country until measures had been taken to ensure that the service could be provided correctly. As a result of the plan implemented by the Company, ANATEL agreed to it making Speedy accessible again from 27 August 2009. Shortly after this, this service was being

used regularly by our customers for a range of purposes, and it became so popular that the Company established a team to answer the messages. Between August and December 2009, it received some 2,000 messages, half of which were related to customer service. Internet users used the channel to ask questions about new promotional plans and packages and to request line repairs. Around 300 complaints were related to the coverage of Speedy broadband. RP 2.0 also received 21 complimentary messages and 80 suggestions related to services.



- "*Talk2O2*" (forums.o2online.ie): the first forum of this type in the Irish telecommunications sector continued to establish itself in 2009, with 926,808 unique visits from September 2008 to February 2009. This forum provides customers with a way of sharing their concerns with other users and to discuss issues directly with the Company; it was awarded the CCMA (Contact Centre Management Association) prize for the Best New Product or Service in 2009. Besides offering customer service, Talk2O2 helps create a spirit of community in the forum itself.

- In the UK, the "O2 Blog" (blog.o2.co.uk) continued to provide information on new products and services, environmental developments, information on participation in events, etc, in order to establish communications and other internet users.

The Telefónica Group's objective is to promote such initiatives and to achieve this in 2009 it launched a new innovative project known as "*On Line Channels 2.0*", which will enable it to create new forms of interaction with its customers, providing spaces on its website and creating communities to bring its users together. These forms of contact will enable customers to resolve doubts and small incidents themselves, as many issues can often be easily resolved at home with the help of information provided by other Internet users.

The social networks and microblogs like Twitter can also be useful tools. Accordingly, in 2009, Telefónica fostered their use in different countries. For example, in February 2010 the Brazilian company Vivo had over 17,000 followers on Twitter.

The Company is also exploring other new online concepts which may be useful for its customers. These include the "*O2 Ideas Room*" (www.o2.ie/ideasroom) blog, which was created by Telefónica O2 Ireland in 2009 to help to keep corporate customers and anyone interested in business up-to-date through the contributions of specialists in marketing, sales, human resources, finance, etc.

**Click here for more information on Telefónica's dialogue with its customers.**

# 3.2.3 Dialogue with employees

Telefónica continues to support the satisfaction and commitment of its own workforce. The objective of running an annual survey aimed at all professionals in the workforce is to analyse their satisfaction levels and commitment to the company. This survey collects information on length of service in the company, evaluation of efforts and willingness to share their experiences in Telefónica with their workmates.

The Employee Satisfaction Index (ICC) is the average of favourable responses ("I agree" and "I totally agree") to the 33 questions asked in the annual survey, in which all Teléfonica employees participate.

In 2009, and for the third year in a row, the same questionnaire was applied to all companies in the Telefónica Group to measure the satisfaction and commitment of its employees. This has made it possible to assess any changes and compare consolidated data for all regions. It is an online tool which enables the comprehensive management of commitment: it measures its development, facilitates communication of results to the employee himself and enables managers to monitor improvement plans: global and individual.

A total of 90,407 employees from 76 companies participated in the survey, an increase of 2.7 per cent over the previous year, bringing participation to 73%. Much of this increase is due to the participation of Telefónica España, with an increase of 4.7 per cent over 2008.

## Dialogue on Telefónica's Business Principles in Ecuador

The first dialogue with employees on this issue took place as part of the "Breakfast of Trust" held by the Organisational Development Department. The attendees were chosen at random and invited by the Internal Communications Department. The event was attended by 13 people belonging to the Vice Chairman's Office for Customer Service, the Regulation and Organisational Development Departments and the Executive Chairman's Office of Telefónica.

This dialogue aimed to identify clear mechanisms for raising awareness and communication of Telefónica's Business Principles and their application in everyday activities. The event was led by the Executive Director of the Ecuadorian Social Responsibility Consortium (CERES), and was attended by members of Ecuador's Business Principles Office.

The panellists were asked: Which Business Principles are at risk of not being complied with? What elements or tools do you need to feel sure that you are taking the right or appropriate decision in order to perform your work in accordance with the Principles? And, which principles do you think are vulnerable in the Company as a whole and which should be taken into account by management? The main recommendations which resulted from this dialogue were: to promote the use of the Business Principles' mailbox for complaints and suggestions and positive experiences, and to promote the Principle of Solidarity; interaction among areas in order to protect and ensure successful compliance with objectives; and to include consideration of actions associated with the Business Principles on the agenda for Vice-Chairmen's meetings in order to raise awareness of them. Furthermore, direct access to the Business Principles should be established on the Company's intranet to raise their profile.

**Click here** **for more information on Telefónica's dialogue with its employees**

# 3.2.4 Dialogue with suppliers

Over 28,000 companies work with Telefónica in a supply chain with global scope and presence. The Company believes that establishing a channel for dialogue with its suppliers in order to train them and raise their awareness is a key aspect for ensuring the future and spread of Responsible Management at all levels of the purchasing chain. To this end, during 2009:

- Telefónica, as a member of the Global e-Sustainability Initiative (GESI), took part in the launch of elearning modules related to environmental and social issues to be taken into account in responsible purchasing.

- In addition, Telefónica also led a training workshop in Shenzhen, China, which was attended by over 200 people from Chinese ICT supplier companies.

- Working with Forum Empresa, since 2007 Telefónica has been holding Corporate Social Responsibility seminars for SMEs in order to promote these concepts in this sector. Last year these workshops were held for the first time in Ecuador, Mexico and El Salvador.

- At the end of 2009, the first discussions with SMEs who are suppliers to Telefónica Ecuador took place as part of the "A new business perspective" CSR training workshop run by Fórum Empresas. This event received technical support from the Ecuador Social Responsibility Consortium (CERES); it began with analysis of the 2008 Corporate Social Responsibility Report by the 17 managers and owners of the SMEs which attended. The workshops helped to raise awareness among the managers of these companies of the need to implement CSR models in their businesses, just as Telefónica has in all of its business activities. The points covered by this dialogue were of great use for the initiatives promoted by the Third Party Management Committee and the Corporate Social Responsibility Department, and for the preparation of the 2009 CSR report.



- Another important dialogue with suppliers was that between Telefónica O2 Germany and its main suppliers (which account for up to 20% of its purchases by volume). This dialogue was based on the Company's Business Principles, but also incorporated environmental issues and the general guidelines to be followed in purchasing. The objective for 2010 is to increase the percentage of suppliers covered by this dialogue to 50%.

**Click here for more information on Telefónica's dialogue with its suppliers.**

# 3.2.5 Dialogue with society

Telefónica has made great efforts to understand the concerns of the societies in which it operates, which helps it to evaluate how it can contribute to solving these concerns.

It therefore uses the Reptrak[TM] model of the Corporate Reputation Forum to measure public perception. The company has been following this model since 2005, with the aim of finding out the opinions of both consumers and non consumers. The Reptrak model is based on the Pulse index which explains the emotional perception that society has of the company, and explains this through 26 rational variables that can be summarised in 7 dimensions. This tool is used by operators to measure public perception in the United Kingdom, Germany, Ireland, the Czech Republic, Spain, Argentina, Brazil, Colombia, Chile, Mexico, Peru, Venezuela, Ecuador and Central America.
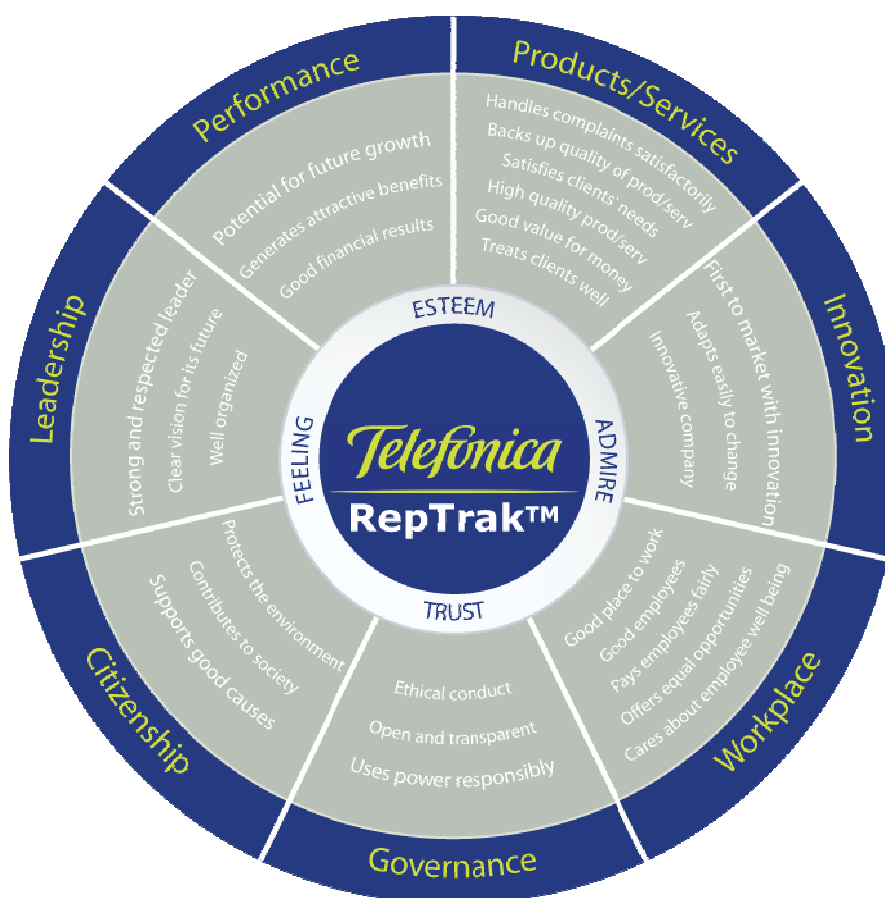


Also, In 2009, Telefónica O2 Germany organised a debating forum on: "are our young people sufficiently prepared for the digital future?" This consisted initially of an online debate lasting several weeks on the federal website www.diskutiere.de, and culminated in an event organised at the Company's offices in Munich featuring experts in the subject, which took as its starting point the analysis of the results of the online debate. These discussions focused on the use of digital technology in schools, and the impact that such resources have on the social and educational behaviour of children. The debate was open to anybody -young people, teachers and experts- who wanted to participate using the website.

**Click here for more information on Telefónica's dialogue with society.**

# 3.2.6 Dialogue with the Public Administrations and institutions

One of Telefónica's most intense relationships is with public sector and government bodies. The Company's activities in this sector are initially organised geographically, bringing together different representatives depending on the scope of the activity: local, national, international and global.

**Spain**

In Spain, the main bodies that Telefónica deals with are Local Councils, Autonomous Communities, the National Government, etc. Telefónica maintains close contact with the people in these bodies who are responsible for telecommunications, R&D, innovation and consumption, and with any bodies which wish to develop e-administration. Telefónica also has close relations with the national regulators for the sector, which are obviously very important to the Company.

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**Dialogue on the Aragon 4.0 initiative in Spain**

Aragon 4.0 is a meeting point and forum for debate on the role of Information and Communication Technology (ICT) in the immediate future as essential tools for the innovation and modernisation of health systems and to guarantee sustainability.

As was revealed at the "*E-Health Week 2010*" conference held in Barcelona in March 2010 during Spain's Presidency of the European Union, the European Commission is working to develop e-Health, which is considered to be the greatest challenge faced by European health systems; it is doing this by promoting their implementation and establishing a range of guidelines through programmes such as the e-Health Action Plan and e-Health Policy and Research.

Spain is also working along these strategic lines, and has established among its objectives the integration of the health card, electronic prescriptions and compatibility for medical data among all health services. Over the last twenty years, all of Spain's Autonomous Communities have incorporated ICT into the management of their public health systems; whilst largely sharing the same objectives, these have been implemented based on different approaches and models, resulting in differing degrees of implementation, results and experiences.

In this context, and based on exhaustive analysis of its needs, in 2005 the Government of Aragon approved its Tele-medicine and Information Systems Plan 2006-11, the strategic objective of which is to apply innovation and technological development to the implementation of change and the modernisation of the organisation of healthcare. In other words, its objective was to contribute to placing the user at the centre of the system and to focus change on the services and quality standards expected by patients and what can be delivered by healthcare professionals.

Being aware of this work, Telefónica proposed developing a public-private partnership to reflect on the current state of health in Aragon and Spain, and to propose a set of measures through which ICT could contribute to improving sustainability. The objective of Aragon 4.0 is therefore to analyse the current state of, and future trends in, the health service based on consultation and expert opinions; this will form the basis for developing a set of measures for the future related to the contribution that technology companies can make to the health system, whether to improve what has been achieved to date or to take on new challenges.

To this end, in 2009 the operational process for Aragon 4.0 was defined. This was achieved by establishing a Working Board consisting of people from various areas, companies and public sector bodies who would provide their visions and multidisciplinary contributions. Each of these 2 Boards performed their work during 2 rounds in April and May 2010.
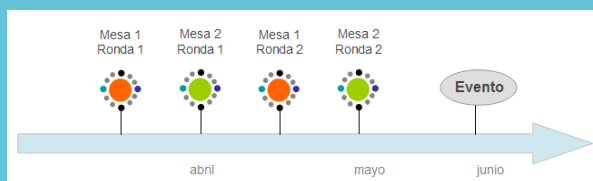


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# 3.2 Dialogue with stakeholders

**Europe**

In Europe, the Company's activity focuses mainly on the European Commission, Parliament and Council. Telefónica's Permanent Representative Office in Brussels is responsible for pursuing this work with these three bodies (and other European sectoral associations).

- Telefónica O2 Germany is in dialogue with politicians in the country's central government in Berlin, the political centre of the country. One example of this is the Blue Hour initiative, in which the Berlin office invites experts on specific issues to debate with politicians interested in the various topics. One of the most important topics in 2009 was the protection of children online.

**Latin America**

The main bodies involved in Latin America are the Organisation of American States (OAS), CITEL and REGULATEL. Telefónica has two offices in the United States (Washington DC and New York), the main responsibility of which is to increase the public presence of the Company in the country by building relationships with key parties in order to understand and be involved in debates on the regulatory, economic and social agenda.

**Global**

Finally, globally, the Telefónica Group has direct relations with a number of different institutions. These include the International Telecommunications Union (ITU), which is part of the United Nations; the United Nations (UN) itself for issues not covered by the ITU, such as the Global Compact initiatives and the Internet Governance Forum (IGF); and the Organisation for Economic Co-operation and Development (OECD), with which it is involved on issues relating to the telecommunications sector.

Telefónica relationships with public bodies vary depending on the issues being discussed and the channels for participation offered by each such body. In many cases the Company has a direct relationship with the public body; however, in other cases the relationship is through a sector association such as Redtel, AETIC or ASIMELEC in Spain; ETNO and GSMA *Europe* in Europe; AHCIET in Latin America; and the International Chamber of Commerce internationally.

All key issues are adapted for each area. Perhaps the most important of these, because they impact on all geographical areas, include the roll out of next generation networks; management of the radio-electric spectrum; the future of the Internet; investment in networks and innovation; and policies related to privacy and intellectual property.

**Click here for more information on Telefónica's dialogue with authorities and public institutions.**

# 3.2.7 Dialogue with consumer associations

As a result of its aim to establish a fluid and constructive dialogue with the society it services, Telefónica maintains permanent contact with the main associations in the telecommunications and business sectors, as well as with consumer and user associations, enabling an improvement of general wellbeing through the use of more innovative products and services suited to social concerns and requirements.

On the one hand, and with the aim of contributing to the development of the company and the technological and economic sectors of the countries it has a presence in, Telefónica plays a proactive role in the most notable associations in the telecom and business sectors, in Spain and abroad, so it can analyse and discuss differing viewpoints on the hot topics of the day, at the same time as reaching joint positions with other companies and institutions to enable the constant improvement of Spanish telecommunications. This is carried out through active participation in the managing bodies of associations as well as the different committees and working groups that are set up, enabling the sharing of best practice and the exchange of training and information in technical issues, management and advanced economics, etc.

On the other hand dialogue with consumer and user associations is carried out through a single, bi-directional channel with the main entities of this nature, national and regional, which are responsible for passing on to the different units and business lines of the Telefónica Group the questions and concerns that are raised, as well as showing these bodies the innovations and offers of the operator, thus helping to improve information on the market in a direct and transparent way.

Through this relationship Telefónica obtains extremely valuable information on the perception that consumers have of its activities, as well as an expert opinion on the usefulness to customers of its products and services, their quality and opportunities for improvement. For their part, these associations have access to first hand information that is of interest to its members, as well as events organised by the company hosting the leading experts in fields related to Telefónica's business, contributing to more effective relationships. There will also be training and informative activities on technologies, products and services, as well as their correct use and social impact, enabling companies in the Group to design solutions adapted to the needs of specific groups.

# 3.2.8 Dialogue with opinion leaders

In order to evaluate the effectiveness of the social dialogue of Movistar Ecuador with opinion leaders, in late 2009 a survey was carried out in person and by telephone with 15 journalists and news editors in the three cities where the main media companies are based (Quito, Guayaquil and Cuenca). This involved carrying out in-depth interviews to discover their opinions on two main themes: issues of interest relating to Movistar's work in Ecuador, in terms of both business and CSR, and an evaluation of the Company's external communications. Specifically it evaluated the efficiency of the channels used for interrelating with society through the media, and the effectiveness of the company's spokespeople with the community.

These surveys yielded a number of recommendations, including the need to create a virtual press room in order to provide more rapid access to documents such as press releases, photos, audio and videos, and to appoint spokespeople in the country's smaller cities.

# 3.2.9 Dialogue with *multistakeholders*

The 5th Annual Corporate Social Responsibility Report for the Telefónica Group covering 2008 was presented in Argentina in September 2009; the Report was presented at a meeting with the Company's stakeholders in the country which attracted representatives from all the Company's stakeholder groups: customers, employees, suppliers, the community, Corporate Responsibility associations, etc.

In November, Telefónica Brazil organised a debate involving users of blogs on the most significant technologies and the Executive Manager of Telefónica residential segment, Fabio Bruggioni, in order to establish a relationship with users of social networking sites. The main objective of this event was to analyse the new services and products which users are demanding. The participants welcomed the initiative and valued the Company's attitude as being open and transparent. As the event was such a success, a similar event was held in January 2010 in Rio de Janeiro, which coincided with the Campus Party event.

Last year, an interesting process was launched in Colombia to identify the Company's stakeholders and the issues of interest to them. The resulting dialogue included the stakeholders with which the Company interacts, following the principle of inclusivity proposed by the AA 1000 standard. This enabled Telefónica to receive feedback on its CSR performance and strategy, identifying relevant economic, social and environmental issues.

This resulted in a list of issues being established which was divided into three categories: Essential (the quality of products and services, the availability of service channels, reducing complaints and the comprehensive provision of telecommunications services); Key (employee development, efficient purchasing processes and communication with stakeholders) and Contingent (ethics and transparency, Human Rights, economic and social impact, accessible products, commitment to the environment and contributing to climate change prevention). Based on the information obtained, Telefónica aims to respond to the main concerns and expectations of its stakeholders relating to its activities.

# 4

## Towards a shared and comparable model

# 4 Towards a shared and comparable model

# 1 United Nations Global Compact

# 4.1.1 Principle 1

**Principle 1 of the Global Compact**
"Businesses should support and respect the protection of internationally proclaimed fundamental Human Rights within their sphere of influence"

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

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

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

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

## The area of influence of Human Rights[1]

Working place
Supply chain
Market
Community
Regulator

1   Chart prepared by the Danish Human Rights Institute.

## Global Reporting Initiative Indicators*

S03 Percentage of employees trained in organisation's anti-corruption policies and procedures
HR3 Total hour of employee training on policies and procedures concerning aspects of Human Rights.
PR5 Practices related to customers satisfaction, including results of surveys measuring customer satisfaction.
PR8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.

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

*   For further information, see GRI tables (www.telefonica.com/cr09)
2   All of these fines correspond to Spain as a result of breaches of privacy or data protection. Although some of them are pending appeal.

### Privacy, adult content and online security, are all aspects with which Telefónica was involved in during 2009

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

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

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

  Telefónica has also began to set up compulsory contractual mechanisms to ensure that the Group's sub-contractors and suppliers are compliant with data protection regulations.

- **Provisions concerning adult content**: Telefónica is committed to developing an environment in which children can use new technologies in a safe way. As a result, Telefónica Europe blocks content classified as being for adults by

default (opt-in). This service is currently installed for prepay mobile phone cards. It has extended this service to telephones on contract in Germany and the UK.
In 2009, it extended the obligation on content suppliers to clearly label content which is suitable for all and that which is specifically aimed at adults in Panama, Ecuador, Spain, Colombia, Peru. Access to adult content requires proof of age and assignment of a code, paid for by credit card.

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

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

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**Telefónica has undertaken numerous initiatives aimed at better listening to our customers**

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

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

- The Customer Watchdog Service in Spain: The Customer Watchdog Service in Spain handled 5,138 cases in 2009, 62% more than in 2008, continuing the growth of this service since it was launched. Of all the complaints received, the Customer Watchdog Service accepted 63%, and of the cases completed so far, 80% have had a favourable outcome for the customer (75% up on 2008).

- The Telefónica SP Ombudsman: This service received 146,749 complaints in 2009. The three main areas of complaints were: Speedy (broadband) (36%); fixed telephony accounts (13%) and fixed telephony lines (11%). The remaining complaints related to over 58 issues.
81% of the complaints were resolved within 5 working days whilst the rest were so complicated that they needed more time, as a result of which the customers were contacted to inform them how long it would take to resolve the issue.

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## Telefónica undertook 84 digital inclusion programmes in 2009

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

### Inclusion initiatives by type of divide

- Economic — 30.1%
- Geographic — 12.9%
- Educational — 30.1%
- Disability — 14.5%
- Health — 13.3%
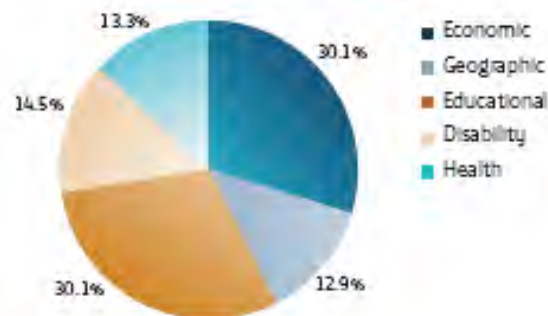
### Inclusion initiatives by type of beneficiary

- Community — 31.0%
- Children and teenagers — 34.5%
- Senior citizens and people with disabilities — 13.1%
- Small and medium businesses — 8.3%
- Health — 13.1%

### Inclusion initiatives by geographical area

- Spain — 11.9%
- Latin America — 70.2%
- Europe — 17.9%
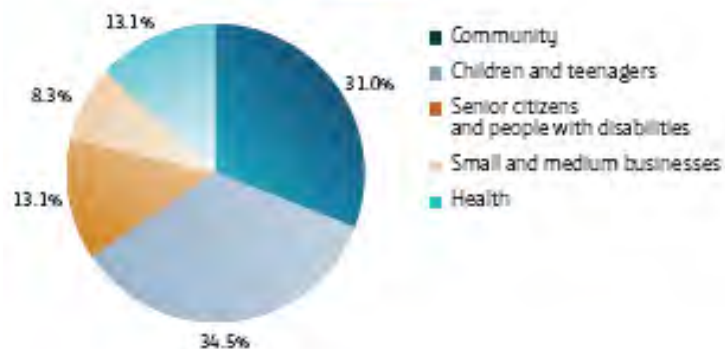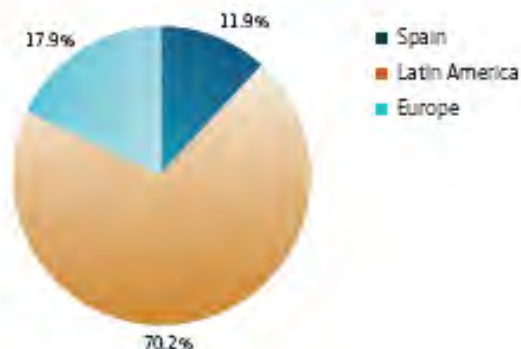
*"We shall respect the principles of the United Nation's Universal Declaration of Human Rights, as well as the declarations of the International Labour Organisation.*
*We shall strive to promote equality of opportunities and treat everybody fairly and impartially, without prejudice as to a person's race, colour, nationality, ethnic origin, religion, gender, sexual orientation, civil status, age, disability or family responsibilities".*

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

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

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

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

# 4.1.2 Principle 2

> **Principle 2 of the Global Compact**
> "Businesses should ensure that they businesses are not accomplices in Human Rights abuses".

**Telefónica is committed to respect for Human Rights in the 25 countries in which it is present, for its more than 260 million customers, 257,000 employees and the 28,000 suppliers involved in its Supply Chain.**

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

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

- **Direct**. Guaranteeing the Human Rights of:

    - **Over 257,000 employees,** through a strategy which aims to convert the Company into the best "Employee Experience" where the employee satisfaction index increased by 4 points in 2009. For more information, refer to Principle 4.

    - **Over 260 million customers** to whom the Group aims to provide the best "Customer Experience". In 2009, the Company implemented 10 operations to consolidate its position as leaders in customer satisfaction. For more information, refer to Principle 1.

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

- **Indirect**. Working with our suppliers in order to ensure respect for human rights throughout our value chain.

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

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

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

## Global Reporting Initiative Indicators*

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

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

\* For further information, see GRI tables (www.telefonica.com/cr09).
1  100% of suppliers with risk with activities in 2009 were evaluated.

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

## Self-evaluation of at-risk suppliers (%)
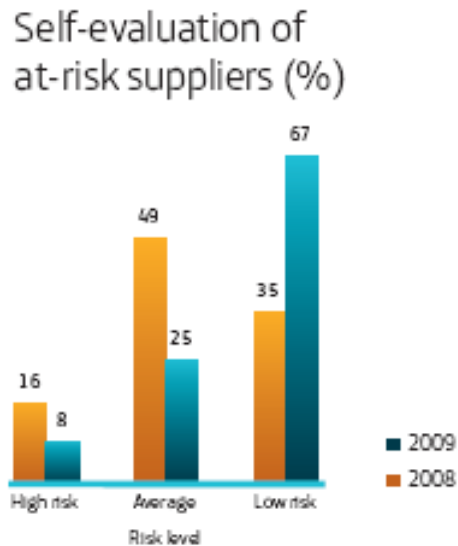


## Training and awareness raising

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

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

## Training for small and medium companies workshops
Nº of participating companies since 2007

**Spain:" Somos Humanos" Programme**
This programme was launched in 2009 by the Residential Mobile Channel of Telefónica España to promote team work with suppliers, dedicating time to people (customers and suppliers) because we are all human. In participating Call Centres, customer satisfaction increased by 4.6% in just two months from the start of the programme.

**Europe: Leading GeSI's Supply Chain Group**
Through Telefónica O2 UK, the Company has promoted initiatives in the ICT sector which guarantee respect for human rights and sustainable development. Worthy of special mention is the eTASC tool, which allows a supplier to attend to the demands of multiple customers regarding their sustainibility.

Also, at the beginning of 2010, the Telefónica Group signed a collaboration agreement with ITRI (a non-profit organisation that represents the tin industry, www.itri.co.uk) in order to implement a traceability system identifying the origin and treatment of materials that are critical for the sector (tantalum, coltan, etc.). The project was put into operation through a pilot programme in the Democratic Republic of Congo.

**Latin America: Aliados Programme**
In 2008, Telefónica launched a programme to guarantee compliance with socio-employment standards and promote the development of partner companies (companies related to production decentralisation) in Latin America in relation to hiring, training, compensation and improving the work environment. By the end of 2009 the programme was underway in every country in the region and covered:

- Over 170,000 people in collaborating companies who received commercial training (both in person and through e-learning).
- Over 12,000 people in collaborating companies certified in ESTELA (Tecnical School of Latin America: A pioneering initiative in the region in collaboration with suppliers) since 2007.
- The iCampus elearning platform with over 6,000 users.
- Over 900 people from Telefónica and managers of allied companies trained in correctly managing collaborating companies.
- More than 200 participants in Corporate Responsibility workshops.
- More than 800 external audits.

As a result of standardisation, regional tools are now available which will make it easier to implement the programme in 2010: a Guide to the outsourcing of activity and a Guide for contract administrators.

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

**Promoting Responsible Purchasing**

The Telefónica Group's Supply Chain consists of over 28,000 suppliers, with a truly worldwide presence and scope. Guaranteeing responsible management is therefore a matter of major importance.

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

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

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

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

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

# 4.1.3 Principle 3

> **Principle 3 of the Global Compact**
> "Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining".

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

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

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

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

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

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

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

## 64,902 employees directly involved in the election of employee representatives

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

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

- In **Latin America** a number of collective negotiations took place: these included negotiations in Brazil which gained the support of 60% of employees for the proposals jointly agreed with the unions; and negotiations in Peru where the two negotiations which took place during 2009 for the collective agreement for 2008-2011 are awaiting negotiations with the Fetratel Workers' Federation and arbitration.

- **In Europe** there was continuous dialogue with workers' representatives about organisational changes. The most significant changes included the integration of Telefónica Deutschland into Telefónica O2 Germany, which affected some 400 employees, and the restructuring of the company in the UK, which affected 1,000 jobs.

## Global Reporting Initiative Indicators*

LA4 Percentage of employees covered by collective bargaining agreement

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

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

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

## Transparency and Communication

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

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

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

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

**For more information, .**

**Telefónica Argentina's Commitment to Social Dialogue**

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

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

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

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

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

The Company Committee consists of the employer or its representative and two delegates: this body has a consultative role for the following: structural and technological transformations to be performed within the company; being present during approval of the social budget; the company's production strategy and ways to increase profitability; drafting and implementing social projects to benefit the workers, and continuing training programmes for the employees.

The Health and Safety Committee, consisting of the employee or his representative, the security manager, the company doctor and two delegates, is the body responsible for: detecting professional risks, ensuring compliance with legal regulations regarding health and safety; ensuring the maintenance of internal equipment and their proper use, and getting involved in any initiatives on the choice of new equipment, its usefulness and suitability for the job.

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

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

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

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

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

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

# 4.1.4 Principle 4

**Principle 4 of the Global Compact**
"Business should support the elimination of all forms of forced and compulsory labour".

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

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

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

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

## Global Reporting Initiative Indicators*

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

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

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

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

\* For further information see GRI tables (www.telefonica.com/cr09).
1 100% of suppliers with risk with activities in 2009 were evaluated

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

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

- **Fair wages**. The starting salary for all company employees is always higher than the local minimum wage. For example, in the case of Atento in Morocco, employee wages are 169% higher than the legal minimum wage in the country. This fixed starting salary is supplemented in many cases with variable remuneration and social benefits such as pension plans, health insurance and life insurance.

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

close of 2009, almost 7% of the Company's employees had a telecommuting contract (4% excluding Atento) and over 15% saw a reduction in their working day (2% excluding Atento).

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

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

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

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

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

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

## Employee Satisfaction Index (%)

| Year | Value |
|------|-------|
| 2007 | 66 |
| 2008 | 69 |
| 2009 | 73 |
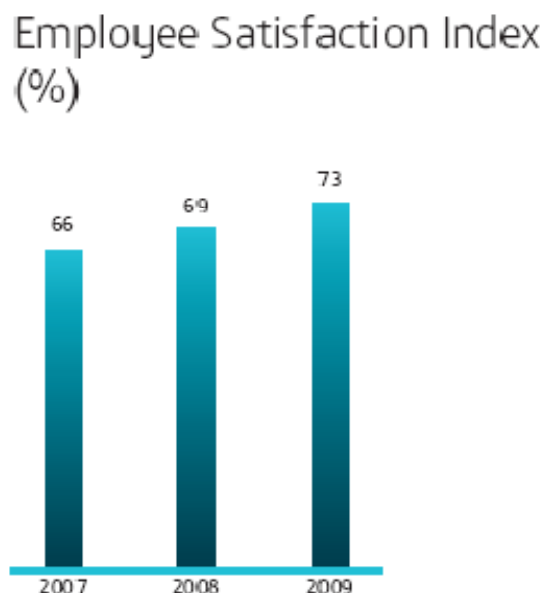
**Telefónica, the benchmark company for workers**
In 2009 the Company had the largest number of companies considered the best place to work according to *Great Place to Work* rankings in Latin America.

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

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

Telefónica's commitment to Principle 4 of the Global Compact is also **indirectly extended through its suppliers**. As a result, last year the Company once again continued with the implementation of its Guidelines for Extension of its Business Principles to the Supply Chain.

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

In order to improve this situation in Latin America, the Company is implementing the Aliados project, which aims to improve socio-employment conditions in suppliers which are intensive labour users.

**2009 self-evaluation by suppliers: Main causes of risk**

- Business Principles — 5%
- Child labour — 21%
- Forced labour — 20%
- Environment — 11%
- Health and safety — 1%
- Employment conditions — 9%
- Contracts according to the law — 6%
- Maximum number of hours — 4%
- Minimum wage — 23%
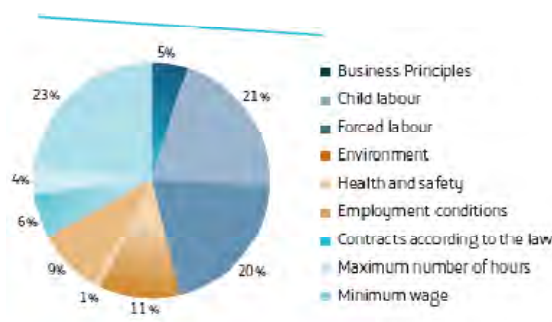
**For more information, refer to Principle 2.**

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

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

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

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

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



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

# 4.1.5 Principle 5

**Principle 5 of the Global Compact**
"Business should support the eradication of child labour".

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

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

**For more information, refer to Principle 2.**

## Child labour
(age group 5-14)
Million
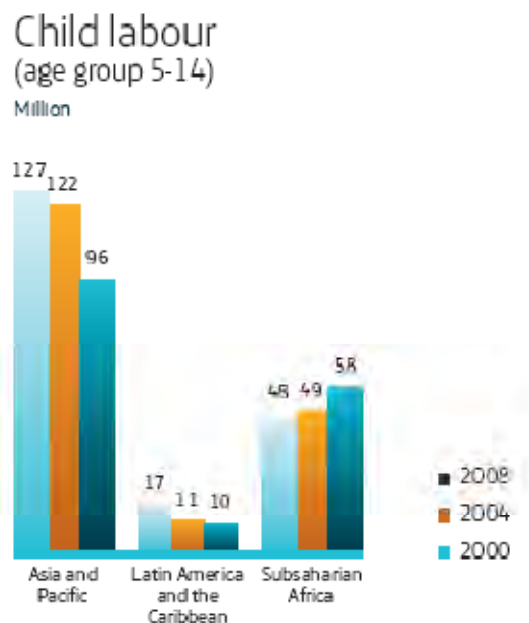


Source: International Programme on the Elimination of Child Labour

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

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

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

The Proniño programme has three focal points:

- **Comprehensive protection**: This ensures the measures necessary for the schooling of working children or who are at risk from being coerced into working. This not only includes the schooling and material, but also health check-ups, nutritional support and educational activities that promote the productive use of free time, thus avoiding

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

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

- **Educational quality**: Strengthening educational and learning processes in the educational centres used by beneficiaries of the Proniño programme through the use of ICT.

- **Social and institutional strengthening**: Producing and communicating knowledge about child labour to raise social awareness, strengthening all parties involved in implementing the Proniño programme and creating a network of organisations working in this area.

## Proniño in figures 2009

- 163,900 children returned to school.

- 144,760 children and teenagers helped in addition to those offered comprehensive protection.

- The Proniño programme is continuously active in 4,092 educational centres with the collaboration of 108 NGOs.

- 275 Fundación Telefónica Classrooms set up and more than 5,034 educators trained.

- 1,185 alliances will make it possible to mobilise more and better resources against child labour.

## Global Reporting Initiative Indicators*

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

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

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

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

## Significant indicators for the EducaRed Programme

- 86,623 direct participants in the 2,385 educational initiatives developed.

- 365,352 people registered in 178 virtual work and exchange communities.

- 72,689,811 Visits to the EducaRed website.

- 1,283,551 training hours given.

**World Day Against Child Labour in Latin America**
The 12th of June is the World Day Against Child Labour, instigated by the International Labour Organisation (ILO). This date is designed to accentuate the serious situation facing children and adolescent workers.

Telefónica has promoted and undertaken numerous activities related to child labour, both in Spain and the 13 countries of Latin America where it operates. Among these activities we should highlight the following: the opening of educational centres, open-house days, the launch of information campaigns through various media and SMS messages, the organisation of debate forums and a number of educational leisure activities. These activities, which enjoy the support of public and social representatives, spread the word about the work and achievements of the children and adolescents that go to make up Proniño.

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

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

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

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

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

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

In 2009, Fundación Telefónica set out to increase the reach of the Proniño programme, defining a high-impact strategy to achieve this, thus creating Proniño Plus. This initiative deals with the worst forms of child labour, those that threaten the physical and psychological integrity of the children, as well as declaring child labour-free areas in the countries involved in the project.

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

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

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

# 4.1.6 Principle 6

**Principle 6 of the Global Compact**
"Business should uphold the elimination of discrimination in respect of employment and occupation".

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

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

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

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

This commitment is embodied in Telefónica Group's Global Diversity Project. In its second year, the project became the framework through which the concept of cultural diversity is implemented within the Company.

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

## Global Reporting Initiative Indicators*

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

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

HR4 Total number of incidents of discriminated actions taken.

| Telefónica indicator | Measurement unit | 2008 | 2009 |
|---|---|---|---|
| Incidents registered through confidential help facilty related to discrimitation incidents | Units | 15 | 0 |

\* For further information, see GRI tables (www.telefonica.com/cr09).
1  Audited data in comparable terms. The indicator is calculated as follows: Number of women managers (Management and Executive Management) divided by total managers (Management and Executive Management).

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

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

Similarly, diversity management is a reality, both internal (employees with differing profiles) and external (a variety of customers), meaning that all advantages could be maximised as well as promoting **transformation thanks to this integration**. Telefónica's commitment to the abolition of employment discrimination can be seen in the criteria that lie

behind the processes of selection, hiring, remuneration, talent management, employee training and promotion. In each of these processes priority is given to capacity, competence and merit as determining factors, thus reflecting Telefónica's business principles.

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

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

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

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

## 50% of the Telefónica workforce are women

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

The Telefónica Group's commitment to disabled people goes back 35 years, during which time the ATAM - the Telefónica Disabled Attention Association - was founded, an association dedicated to improving the lives of people with disabilities. Another example of the Company's commitment are the Telefónica Ability Awards, which began in Ireland and which in 2010 were held in Spain. These awards provide public recognition of those companies that develop sustainable models, including disabled people in the value creation chain, either as employees, customers and/or suppliers.

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

As well as these internal initiatives, the Telefónica Group also worked externally to promote compliance with the aforementioned Principle 6. In order to so, it implemented the Supply Chain Business Principles Extension Regulation and worked to develop and implement the Workplace Integration of Disabled People Internal Regulation in Spain.

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

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

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

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

**ATAM, 35 years of commitment**

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

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

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

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

**For more information, visit www.atam.es.**

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

# 4.1.7 Principle 7

**Principle 7 of the Global Compact**
"Businesses should support a precautionary approach to environmental challenges".

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

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

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

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

The Company's global environmental management system contains a number of guides which set out the preventive measures to be borne in mind in the deployment of the network:

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

## Global Reporting Initiative Indicators*

EN14 Strategies current actions and future plans for manging impact of biodiversity.
EN26 Initiatives to mitigate environmental impacts of products and services, and extent of mitigation impact.
EN30 Total environmental protection expenditure and investments by type.
I005 Compliance with ICNIRP guidelines on exposure to radiofrecuency emisions from base stations.
I007 Policies and practices on the siting of masts and transmission sites including stakeholder consultation, site sharing, and initiatives to reduce visual impact.

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

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

## Environmental practices in network deployment



| 1) Network planning | 2) Construction | 3) Operation and Maintenance | 4) Dismantling |
|---|---|---|---|
| Optimum site selection | Reduction of visual impact | Measurement of electromagnetic fields | Landscape restoration |
| Environmental Impact study | Waste management | Information and transparency | Waste management |
| Analysis of visual sensitivity | | Noise control | |
| Participation of local people | | Waste management | |
| Measurement of electromagnetic fields | | Fuel storage control | |
| Legal compliance locations | | Efficient consumption of resources (energy, water etc) | |

● Mobile phone network
● Fixed telephony network

## Planning and Construction

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

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

This period is the time for dialogue and working together with interest groups - clients and customers, neighbourhood organisations, non-governmental organisations, local town councils, etc. - and helps the Company to improve. Certain operations require radio-electric emission studies to be undertaken before the base station can become operational.

## Maintenance

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

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

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

## Dismantling

A series of preventive measures is also applied when a Telefónica infrastructure is dismantled. Practices are therefore implemented in order to restore the area to its original condition in such a way that there is no sign that a facility ever existed there, applying minimum restoration criteria to all such facilities.

## Training and awareness raising

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

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

**Telefónica's activities are undertaken with the strictest of guarantees for local people**
As well as strict compliance with existing regulations governing exposure to electromagnetic fields, in order to respond to the need for information that the general public demand, Telefónica España as a socially responsible company has established a series of channels with which to ensure that the most relevant information can be passed on to its customers and other interested parties through its website, as well as keeping employees updated through its intranet (internal newsletters, FAQ documents, suggestion boxes, etc.). In order to do so, Telefónica:

• Maintains, on an institutional level, continuous collaboration with the Administration and other bodies, with a view to harmonising network deployment and ensuring greater and better dissemination of information. In 2009, Telefónica undertook a Visit Plan taking in Town and City Councils and Regional Government bodies, supervised by the company's Territorial Committees, with a view to giving greater impetus to collaboration with all levels of the Administration, especially within a local context, permitting deployment of the infrastructures that are necessary in order to support mobile services in an environment of understanding, contributing to flexible procedures which offer maximum guarantees.

• Collaborates in the holding of Informative One-Day Conferences, open both to the Public Administration and the general public, at which social issues may be examined as well as boosting the deployment of the infrastructures that are required for the mobile telephony services that the public demands. These one-day conferences cover subjects such as the functioning of mobile telephony networks, aspects which determine the design of networks in relation to their locations (vicinity or dispersion) and the technical requirements involved in installing base stations in an area, references to framework regulations regulating such facilities at a national, regional and local level, the definition of municipal powers relating to such infrastructures and the guarantees in place covering the deployment of telecommunications networks (the conclusions reached by the World Health Organisation's scientific committees and the Spanish Ministry of Health, among others). In 2008 and 2009 Telefónica collaborated in nearly 50 such one-day conferences.

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

**Minimising visual impact**

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

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

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



*An example of a mobile communications tower camouflaged under a structure that simulates vegetation*



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

# 4.1.8 Principle 8

**Principle 8 of the Global Compact**
"Business should promote initiatives which promote greater environmental responsibility".

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

## Global Reporting Initiative Indicators*

EN01 Materials used, by weight or volume.
EN03 Direct energy consumption by primary energy source.
EN04 Indirect energy consumption by primary source
EN08 Total water withdrawal by source.
EN16 Total direct and indirect greenhouse gas emissions by weight.
EN22 Total weight of waste by type and disposal method.
EN23 Total number and volume of significant spills
EN27 Percentage of products sold, and their packaging materials, that are reclaimed by category.
EN29 Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations and transporting members of workforce.
EN30 Total environmental protection expenditure and investments by type.

| Telefónica indicator | Measurement unit | 2008 | 2009 |
|---|---|---|---|
| Total white paper consumption (including invoices) | Tonnes | 16,281 | 16,943 |
| Total recycled paper consumption | Tn | 683 | 657 |
| Fuel consumption in fleets | Miles de litros | 27,677 | 24,443 |
| Electricity consuption in office buildings[1] | MWh | 874,730 | 695,989 |
| Electricity consuption in operational buildings[1] | MWh | 4,279,832 | 4,528,070 |
| Water consumption | Thousands of litres | 4,871,780 | 4,470,909 |
| $CO_2$ direct emissions[1] | Tn | 156,566 | 119,999 |
| $CO_2$ indirect emissions (electricity)[1] | Tn | 1,918,623 | 1,925,781 |
| $CO_2$ indirect emissions (from travel)[1] | Tn | 27,909 | 59,682 |
| $CO_2$ Total | Tonnes | 2,103,098 | 2,105,462 |
| Paper and cardboard waste | Tonnes | 3,587 | 2,237 |
| Telefónica electrical and electronic equipment waste | Tonnes | 2,509 | 1,978 |
| Battery waste | Tonnes | 2,110 | 2,681 |
| Other Telefónica facility waste | Tonnes | 37,202 | 81,221 |
| Customer electrical and electronic equipment waste | Tonnes | 1,632 | 1,895 |
| Total waste recycled | % | n/a | 75 |
| Oil | Thousands of litres | 112 | 89 |
| Reuse of equipment | Units | 1,512,892 | 1,377,990 |
| Fuel spills | Units | 27 | 37 |
| Fuel spill volume | Thousands of litres | 4 | 13 |
| Work travel by plane | Units | 72,338 | 117,709 |
| Work travel by train | Units | 45,525 | 88,550 |
| Work travel by car | Units | 13,965 | 18,946 |
| Expenses and investment in environment | Thousands of euros | 20 089[2] | 32,936 |

* For further information, see GRI tables (www.telefonica.com/cr09).
1 Energy and emission data through auditing processes and external verification.
2 Incomplete perimetre.

Environmental management plays a key role in the protection of the environment and the correct control and use of resources; as well as helping to establish a series on minimum standards that guarantee the protection of the landscape from the possible impact derived from Telefónica activities.

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

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

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

## Waste and Consumption Management

- **Waste Management.**The generation of waste is one of the most significant environmental impact issues resulting from Telefónica activities. Waste type is varied, and all are managed separately based on the danger they represent, and are treated by authorised companies. The most relevant are those which result from electrical and electronic equipment (1,960 tonnes in 2009 according to the RAEE - the Spanish Registry of Electrical and Electronic Equipment), other network and office waste (87,019 tonnes), and hazardous waste, the most significant of which in the case of Telefónica is batteries (2,681 tonnes). From the total amount of waste generated, Telefónica managed to recycle almost 75%.

  As well as its commitment to the environment, in most of its operations, the Group offers its customers the option to deposit all unused telephones in recycling containers. In 2009, 1,895 tonnes were recycled as a consequence of this practice.

- **Paper Consumption**. In 2009, 2,732 tonnes of white paper were used in company offices along with 657 tonnes of recycled paper. Telefónica implements practices aimed at reducing consumption and promoting the use of recycled paper which, year by year, will spread across the group, extending the "paper-free office" model.

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

- **Water Consumption.**While it is undoubtedly true that water is a scarce resource, Telefónica activities do not rely on its large-scale consumption, and therefore the company's actions focus on implementing good practices. In 2009, the company used over 4 million cubic metres of water.

- **Electricity Consumption: Energy Efficiency**. In 2009, the operations divisions began to implement efficiency measures at their facilities in order to reduce the consumption of electricity in the Group's operations, basing such implementation on the Telefónica Group's Manual of Energy Efficiency Good Practices. Implementation of these measures represents a process of transformation that will lead to compliance with the corporate goal of reducing Telefónica Group network electricity consumption on an equivalent access basis by 30% by 2015 when compared to 2007. In 2009 the company consumed 5,224.06 Gwh.

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

In 2009, the new headquarters of the company in Madrid was awarded the environmental management certificate by AENOR, having met the international standard ISO 14001:2004. These offices, in an open plan business complex with a floor area of almost 370,000 m2, at which 12,000 employees work in 10 Telefónica Group companies, are the largest of these size and characteristics in Spain holding such a certificate.

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

The office complex is certified under Telefónica's Global Environmental Management System.

In 2009 a series of measures were implemented aimed at reducing the environmental footprint of District C. These saw electricity consumption cut by 4.4% through steps such as the installation of LEDs, improvements to time schedule programming and the installation of presence detectors. Paper consumption across the office complex was also reduced by 15% with an increase of 88% in the use of recycled paper compared to white paper. All of these measures were accompanied by the Efecto Eco environmental campaign, which, in collaboration with the WWF, seeks to involve all the Group employees.

### *Smart metering* in the UK

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

This policy has ensured specialist management of the energy used in company operations, resulting in savings of 32 MWh since in terms of energy and an electricity bill saving of 740,000 € (£647,194) in 2009 alone. This intelligent management of energy use has meant a reduction of almost 16,000 tonnes of $CO_2e$ in 2009.

The installation of energy meters is one of the measures established in Telefónica's Energy Efficiency Good Practices Manual, which in the medium and long term will be implemented in all Group operations.

For this and other activities, Telefónica O2 UK was granted the 2009 Green Company award with Honours in the UK for its strategy in reducing carbon emissions. The judges commented that "O2 has made an admirable effort when one takes into account its rapid growth", also highlighting the use of smart meters. It has therefore become the first Telecommunications company to be awarded the Carbon Trust certificate.

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

**Telefónica Group Environmental Policy**

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

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

## Breakdown of environmental management at Telefónica

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

* Certificate does not cover the entire company

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

# 4.1.9 Principle 9

**Principle 9 of the Global Compact**
"Business should encourage the development and diffusion of environmentally-friendly technologies".

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

## Global Reporting Initiative Indicators*

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

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

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

In total, ICTs can provide emissions savings of approximately 7.8 GtCO$_2$e, representing 15% of the estimated emissions in 2020. In economic terms, energy efficiency resulting from ICTs meant a cost saving of approximately 600 billion euros[2].

Conscious of the importance of this role, in 2009 Telefónica worked with the Group's various business lines to identify the products and services that promote a low carbon emission economy, depending on the segment they are aimed at: Residential, Small & Medium Companies and Large Companies.

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

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

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

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

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

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

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[2] Smart 2020 report, Enabling a low carbon economy.

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**Telepresence, a solution for our customers**

Telefónica makes extensive use of its 17 telepresence facilities. The elimination of unnecessary employee travel has represented an emission reduction of almost 7,500 tonnes of $CO_2e$ per year. This service, aimed at business segment customers, has been designed, implemented, commercialised and operated on a global level by the Telefónica Group. It is designed not just to bring company members closer together, but is also aimed at closer relationships with their customers, suppliers and partners within a real *Business to Business* (B2B) environment.

In order to reach the customer and pass on the overall benefits of installing such facilities, business divisions have developed a tool which measures the impact of the use of telepresence systems in real economic terms, return on investment periods and environmental benefits (tonnes of $CO_2e$ avoided) in a clear visual manner.

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

The application of efficient measures in intelligent **transport and logistics**, which control, optimise and direct operations, help to reduce storage needs for inventory purposes, fuel consumption, kilometres travelled and the amount of journeys in empty or only partially loaded vehicles.

Services such as the Movistar App Ruta application, marketed by Telefónica España, which through voice instructions and moving maps indicates the correct route via mobile phone. The optimisation of logistics through the use of ICTs will produce a reduction of 16% in transport emissions by 2020[3].

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

Another example of this is what is called **intelligent networks**. ICTs form part of the different technologies that go to make up an intelligent power supply. Through its R&D, Telefónica leads BeyWatch, the European Research Project whose aim is to promote ICT services in conjunction with players in the electricity sector, targeted at residential customers, allowing them to control energy consumption in real time.

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[3] Smart 2020 report, Enabling a low carbon economy.

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

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

**Building Automation Service for Energy Efficiency**
Building automation allows for the remote and centralised management of automatic devices at a company's premises. This allows energy consumption to be significantly reduced through supervision of temperature and lighting levels, etc, and by implementing and monitoring a warning system based on pre-determined parameters. Telefónica's building automation service is a good example of the multiplier effect which telecommunications can have on current practices concerning the reduction of energy consumption by enabling its extension beyond a building, to the whole network of offices of a geographically disperse company, regardless of the physical size of its sites.
The estimated energy savings and $CO_2$ emission reduction thanks to building automation solutions are between 20% and 30%. Telefónica Soluciones currently supplies this service to a number of commercial and financial institutions across Spain, including, for example, companies such as C&A and Caja Navarra.

**For further information: www.pulso.telefonica.es**

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

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

- **The Green Power for Mobile Programme for the development of renewable energies**. Telefónica participates with the GSMA in the development of an international inventory of renewable energy networks around the world. In 2008, the Company joined the Green Power for Mobile programme in order to contribute to the aim of reaching a total of 118,000 base stations (new and existing facilities), in developing countries by 2012.

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

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

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

**Renewable Energy in Ireland**

In December 2008, Telefónica O2 Ireland commissioned the first self-sustainable base station in Ireland in Knockaleva, Colon, Co. Louth. The base station is supplied directly by electricity generated by a small wind turbine and solar panels, completely independently from any connection to the national grid. Telefónica O2 has reduced its carbon footprint by 44 tonnes of $CO_2e$ a year with this base station alone. The solution is scalable and other similar variants for base stations are currently being examined which currently use ESB connections. This project was presented at the prestigious *Sustainable Energy Ireland Awards* in 2009, and was the winner of the Pioneering Renewable Energy Projects category. The judges commented that the project constituted an "innovative project in the field of renewable energy efficiency with strong potential for duplication. The project presents a self-sustainable mobile communications station fed by a hybrid system consisting of a small-scale wind power generator and solar panels with battery storage which substitutes a conventional diesel generator".



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

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

# 4.1.10 Principle 10

**Principle 10 of the Global Compact**
"Business should work to combat corruption in all its forms, including extortion and bribery".

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

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

## Global Reporting Initiative Indicators*
S04 Actions taken in response to incidents of corruption

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

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

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

- An Audit Committee, answerable to the Board of Directors, a structure which is replicated in each of the publicly-quoted companies that make up the Group, as well as the Human Resources, Corporate Reputation and Responsibility Committee.

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

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

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

- Independent verification of the financial statements of the companies within the Group.

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

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

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

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

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

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

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

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

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

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

## Presence of the Telefónica Group in territories described as tax havens

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

## Confidential line associated with Telefónica Business Principles

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

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

## Communication associated with the failure to observe Telefónica Business Principles

- Human Resources — 31.1%
- Products / Processes — 22.2%
- Inappropriate Action — 20.0%
- Testing — 17.8%
- Conflict of Interest — 6.7%
- Others — 2.2%
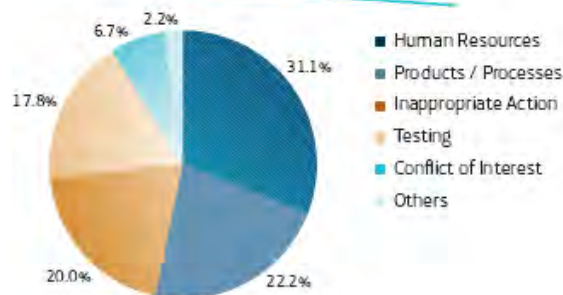
## Disciplinary action associated with the failure to observe Telefónica Business Principles

- Dismissal — 42.1%
- Warning — 26.3%
- Committee / procedure — 31.6%
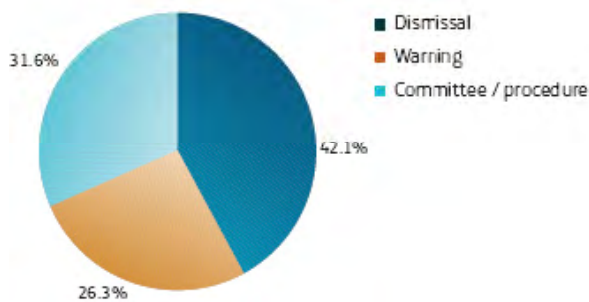
## Communications associated with the application of Telefónica Business Principles

- Human Resources — 22.1%
- Training — 17.7%
- General Principles — 32.7%
- Suppliers — 17.7%
- Not applicable — 2.7%
- Others — 7.1%

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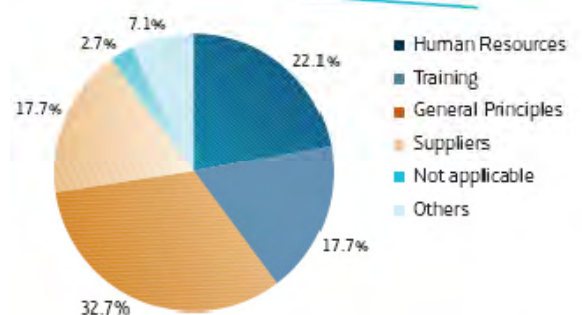
*"Under no circumstances will we offer or accept gifts, invitations, privileges or any other kind of incentive which may seek to reward or influence corporate decisions. We shall avoid or declare any conflict of interests which might put personal priorities before collective interests".*

**Honesty**

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

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

Telefónica Europe also applies corporate policies in respect of conflicts of interest and the acceptance of gifts and hospitality, which are reviewed annually.

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

# 5

## What is relevant to Telefónica

# 5     What is relevant to Telefónica

In order to draw up an Annual Corporate Responsibility report, and to ensure that it focuses on the most relevant matters regarding Telefónica's characteristics and the specific nature of the Group, a materiality or relevance study has been undertaken.

This study, which has been carried out since the first Telefónica S.A. Corporate Responsibility report was prepared, involves in its first phase the **identification of relevant subject matters**.

In order to do so, we took as a starting point the analysis undertaken on behalf of the Global e-Sustainability Initiative (GeSI) and prepared by Business for Social Responsibility (BSR)[4].

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

In carrying out this analysis four key audiences were born in mind: companies, investment analysts, civil society and Non-Governmental Organisations.

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

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

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

Once the relevant areas of concern for the Company have been identified, we can move onto a second phase which concentrates on categorisation and prioritisation. This stage is undertaken depending on two variables: impact on strategy, and impact or influence on interest groups.

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

## Impact on Telefónica strategy

### Criteria

Customer Satisfaction
Employee Satisfaction
Growth
Efficiency
Shareholder Return

## Influence on Stakeholder Groups

### Criteria

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

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

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

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

The information included in this 2009 Corporate Responsibility Report is structured to provide a response to this analysis (www.telefonica.com/rc09).

# 5 What is relevant to Telefónica

Identification of matters deemed relevant to Telefónica and its Stakeholder Groups

## Telefónica materiality table (2009)

Impact on Interest Groups

- Availability and service quality
- Data Protection
- Child protection
- ICT products and services - Efficiency
- Diversity
- Business Principles
- Digital inclusion and accesibility
- Energy efficiency
- Prices and tariffs
- Environmental and performance compliance
- Privacy
- Responsible purchasing
- Resource consumption
- Freedom of association and social dialogue
- Corruption and bribes
- Flexible working
- Job creation
- Responsible advertising
- Taxes
- Community investment
- Compliance with regulatory bodies and competitor guidelines
- Response capacity with natural disasters
- Responsible online presence
- Supplier training
- Security and Health
- Attracting and retaining talent
- Security and risks on line
- Intellectual property
- Commitment in paying suppliers
- Corporate Governance
- Pension Plans
- Purchasing system

Impact on Strategy

- Employee Relations
- Employee Relations
- Integrity and transparency
- Customers
- Use of ICTs
- Relations with the Community, Governments and Regulators
- Access to ICTs
- Environment and Climate Change

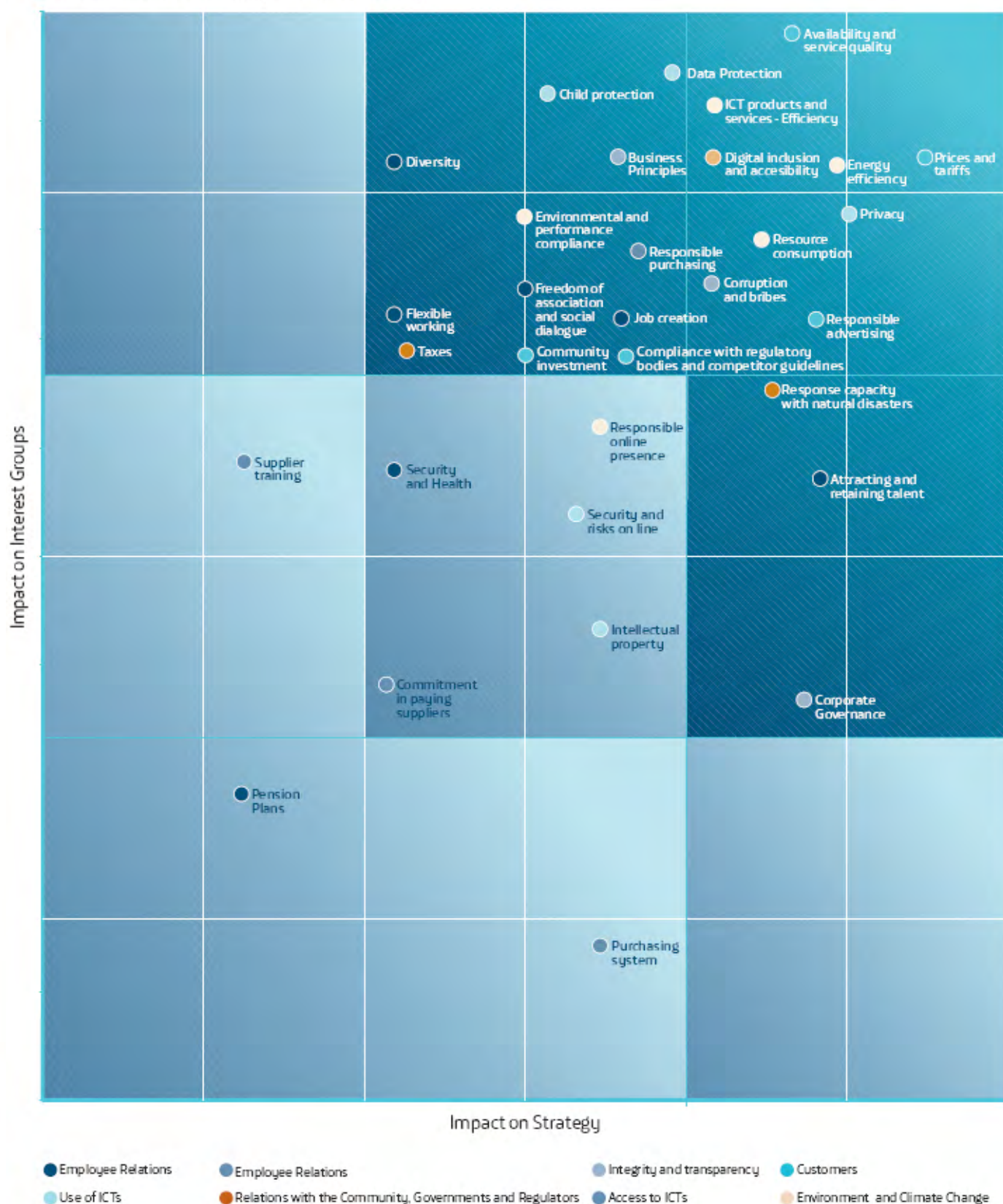## Relevant subject matters for Telefónica

- **Employee Relations.** Issues such as flexible working practices (initiatives such as telecommuting, mobility and the effect on $CO_2$ emissions, the tools available for mobility with regard to work, flexible job types, conciliation policies such as maternity and paternity leave), the freedom of association and social dialogue, programmes to assist the management of high-potential personnel, and practices designed to promote diversity of gender, age, disability, sexual orientation, ethnic background and religious belief within the Company, and health and safety practices. Net job creation and practices to promote it can also be added to the aforementioned.

- **Supply Chain**. Here we should highlight practices and regulations to ensure compliance with social and environmental standards in the
Telefónica Supply Chain. Other aspects of average relevance are those such as supplier training and payment commitment.

- **Integrity and Transparency.** Practices to promote compliance with the Company's Business Principles and Code of Ethics.

- **Customers**. Clear communication with respect to the pricing and rates of the Company's services and ensuring that service and network quality are matters of central importance and that marketing initiatives are honest and ethical.

## Matters which are relevant to the ICT sector

- **The use of Information and Communication Technologies**. Here we should stress the growing importance of aspects related to the confidence of telecommunications users due to the extensive use of areas such as data protection, privacy, network security and the protection of children.

- **Relations with the Community, Governments and Regulators**. Matters such as tax payment, the capacity to respond to natural disasters, complaints or fines resulting from breaches of regulation and competition issues, as well as relations with local communities (neighbourhood and local groups, indigenous peoples) in order to better develop infrastructures, and Investment in the Community programmes are just some of the especially relevant aspects to be taken into consideration.

- **Access to ICTs.** It is of great importance to ensure the development of programmes that allow access to telecommunications services to be extended in emerging countries and local communities, as is extending products and services to low-income groups and businesses with reduced revenues and the disabled, and facilitating access to education through the use of ICTs.

- **Environment and Climate Change.** Aspects such as the intensive use of ICTs and their capacity to reduce energy consumption through the metering of energy efficiency, the ability to supply efficiency solutions to other sectors, guarantee compliance with environmental standards, as well as the control of materials in both the manufacture and use of products are all of fundamental importance to the sector.

# 5

## 1

# Employee Relations

Telefónica's vision in respect of Human Resources involves improving the life of its employees, encouraging their growth, development and wellbeing; empowering talent and appreciating diversity, initiative and innovation, leading to a good work-life balance to achieve joint progress.

In recent years, Telefónica has consolidated its position as a leader in the telecommunications sector, but this is not sufficient. Accordingly, in early 2010, a new Global Transformation Programme called *bravo!* was launched; this will allow Telefónica to evolve from what it is today to what it will be in 2012, while continuing to grow and lead the market. This program has one goal: making us the best global communications company in the digital world.

The *bravo!* program will also make it possible to speed up the transformation process, becoming a real tool for internal communication, to ensure that everybody at Telefónica is rowing in the same direction.

# our employees can trust us

## professional development

- We will communicate our goals and strategies to our employees, to foster their commitment to and enthusiasm for achieving our vision.

- We will encourage the professional and personal growth of our employees, supporting the development of their skills and competences.

- We will ensure that policies on selecting, hiring, training and internally promoting employees are based on clear criteria relating to skills, competencies and merit.

- We will inform employees how their work will be appraised and expect them to participate positively in appraisals in order to improve their work, initiative and dedication.

## compensation

- We will offer our employees fair and just compensation in the context of the labour markets where we operate.

## human rights

- We will not use any form of forced or child labour, nor will we tolerate any type of direct or indirect threat, coercion, abuse, violence or harassment in our working environment.

- We will respect our employees' right to join the labour union of their choice and will not tolerate any type of retaliatory or hostile action towards employees who take part in union activities.

## health and safety

- We will provide our employees and partners with a safe working environment. We will establish suitable mechanisms to avoid workplace accidents, injuries or diseases associated with our work activity through strict compliance with all relevant regulations and the preventive management of workplace hazards.

# 5.1.1 Characteristics of the Telefónica workforce

## 5.1.1.1 Headcount trend

Telefónica provides direct employment for more than 257,000 employees. At the end of the financial year 2009, the Telefónica Group had a physical workforce of 257,426 employees. In 2009 the Group's workforce remained stable compared with the previous year.

**Telefónica Group's workforce in 2009**

|  | Excluding Atento | Including Atento |
|---|---|---|
| **Total number of employees** | **125,170** | **257,426** |
| Spain | 40,108 | 52,060 |
| Europe | 27,031 | 27,964 |
| Latin America | 58,031 | 175,350 |
| Rest of the world | 0 | 2,052 |
| Number of new personnel | 13,314 | 131,995 |
| Number of departures | 13,243 | 131,737 |
| Rotation index | 3.05% | 31.04% |

**Physical workforce of the Telefónica Group, by country**
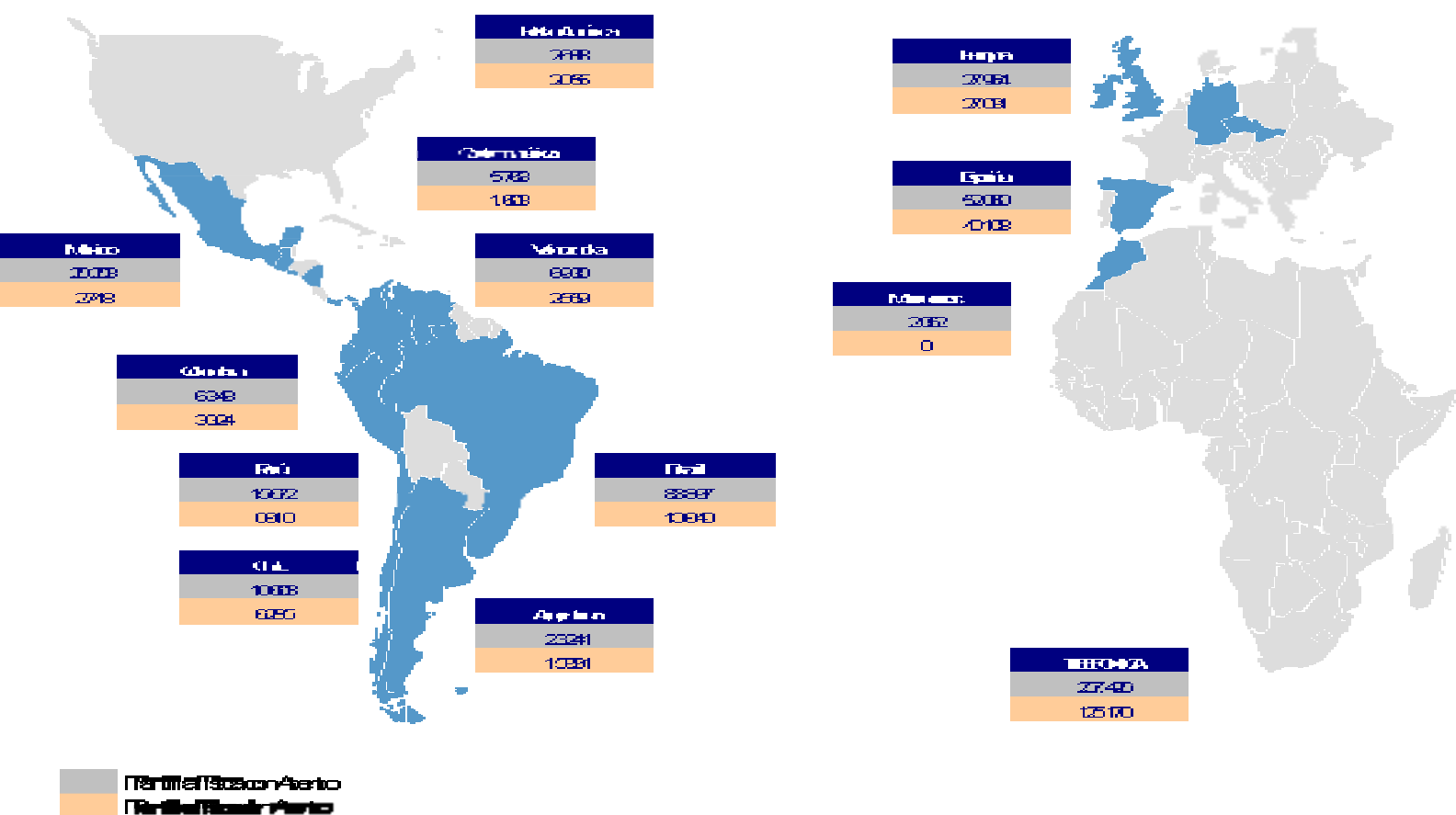
# 5.1 Employee Relations

By regions, Latin America has the largest percentage of the workforce (68.12%), followed by Spain (20.22%) and Europe (10.86%).

**Headcount trend by region**

|  | 2007 | 2008 | 2009 | Var 09/08 |
| --- | --- | --- | --- | --- |
| Spain | 53,300 | 52,576 | 52,060 | -0.98% |
| Europe | 29,310 | 29,349 | 27,964 | -4.72% |
| Latin America | 164,231 | 173,014 | 175,350 | 1.35% |
| Rest of the world | 1,646 | 2,096 | 2,052 | -2.10% |
| Total Group | 248,487 | 257,035 | 257,426 | 0.15% |

## Staff by regions
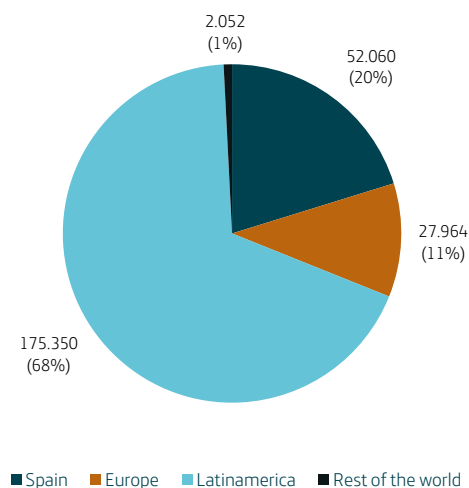


By business, and as in previous years, Atento, with 132,256 employees, continues to be the largest employer in the Telefónica Group.

## Staff by business
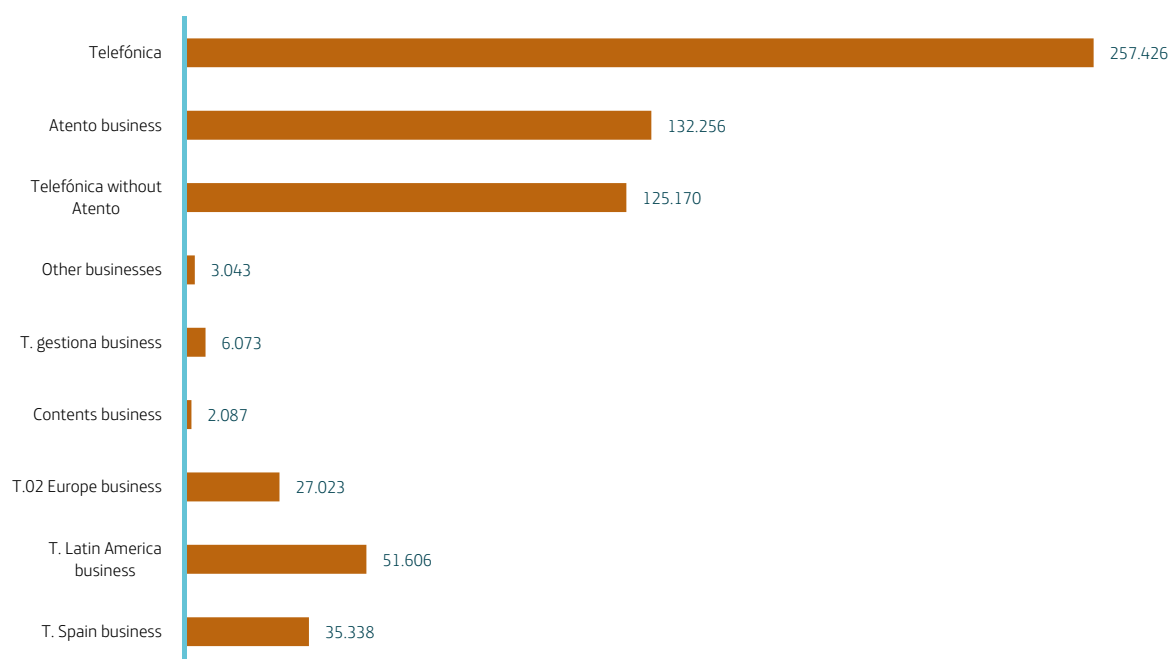
# 5.1 Employee Relations

Women account for 36% of the Telefónica Group's workforce; this figure increases to 50% if Atento is included.

**Workforce by gender**

| | Women | Men | Women % | Men % | Total |
|---|---|---|---|---|---|
| Spain | 17.391 | 34.669 | 33.41 | 66.59 | **52,060** |
| Europe | 10.942 | 17.022 | 39.13 | 60.87 | **27,964** |
| America | 99.578 | 75.772 | 56.79 | 43.21 | **175,350** |
| Argentina | 10.023 | 13.218 | 43.13 | 56.87 | 23,241 |
| Brazil | 56.278 | 27.619 | 67.08 | 32.92 | 83,897 |
| Chile | 5.203 | 5.400 | 49.07 | 50.93 | 10,603 |
| Peru | 7.192 | 8.480 | 45.89 | 54.11 | 15,672 |
| Mexico | 9.821 | 10.382 | 48.61 | 51.39 | 20,203 |
| Colombia | 3.133 | 3.215 | 49.35 | 50.65 | 6,348 |
| Venezuela | 3.946 | 2.984 | 56.94 | 43.06 | 6,930 |
| Central America | 2.536 | 3.232 | 43.97 | 56.03 | 5,768 |
| Rest of America | 1.446 | 1.242 | 53.79 | 46.21 | 2,688 |
| Rest of the world | 970 | 1.082 | 47.27 | 52.73 | **2,052** |
| **Total workforce** | **128.881** | **128.545** | **50.07** | **49.93** | **257,426** |

## Staff by sex
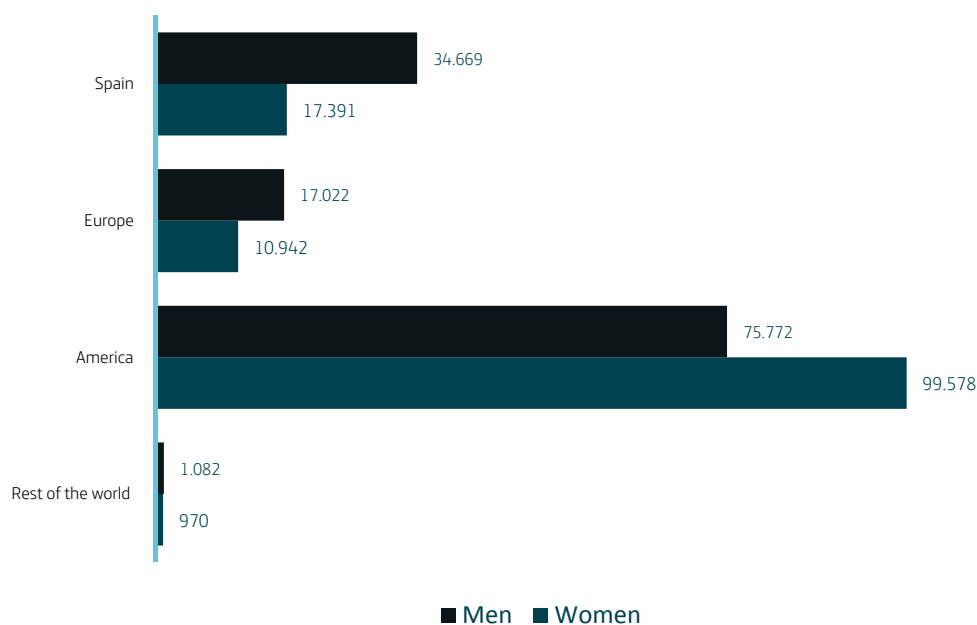


■ Men  ■ Women

Also, Telefónica is maintaining its commitment to equality and diversity, a commitment which is reflected in the percentage of female directors.

## Percentage of female managers in the Telefónica Group

| | |
|---|---|
| Telefónica Group | 21% |
| Latin America | 20% |
| Europe | 13% |
| Spain | 21% |
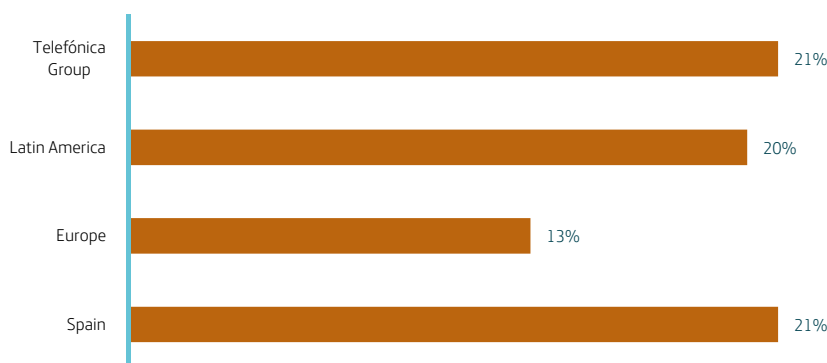
If Atento is not included, by professional profile, Telefónica's workforce is mainly divided between Commercial and Production roles, which account for 41.2% and 46.5% of the total respectively. The remaining 12.3% are involved in support functions.

Finally, by type of employment relationship, 97% of the Equivalent Workforce (workforce calculated according to the percentage of the working day actually worked) hold an open ended contract with the company (84% taking Atento into account).

## 5.1.1.2 Redundancy planning

Telefónica's objective is to maintain its leadership and competitive position in the telecommunications sector, as well as improving the employability of the workers that remain in the company, to deal with the challenges they are required to face in this new environment.

In 2009, Telefónica Móviles España (TME) reached a redundancy agreement (ERE) with the majority of the representatives of its employees (RRTT) represented on the Inter-centre committee, which is voluntary and based on the principles of universality and non discrimination, and affects all workers of TME and Telefónica Soluciones. The causes were technological and organisational. Telefónica maintained its commitment not to resort to unilateral methods when restructuring employment, instead opting for dialogue and negotiation with the representatives of its employees.

A target was set to lose up to 500 jobs, prioritising the principle of outplacement and reinsertion into the labour market. To reach this objective, the *"Outplacement"* program was developed to boost the employability of workers covered by the ERE, completely paid for by the company and lasting six months.

**Results of the Outplacement Program:**

| | |
|---|---|
| Total participants: | 270 employees |
| Program for those under 48: | 83 employees |
| Program for those aged 48-51: | 79 employees |
| Program for those aged 52-59: | 99 employees |
| Program for the over 60s: | 9 employees |

# 5.1.2 Diversity and inclusion

Telefónica, with a presence in 25 countries, is a company which respects human rights and has a strong commitment to the value of diversity. Accordingly it works to build a society of all people and for all people, accepting of differences, guaranteeing the independence of each employee, their full social and professional integration into the company and their participation in the company as a citizen with full rights.

In this respect, Telefónica boasts an extremely diverse team, in age, racial and cultural terms. This involves the active search for employees with different viewpoints; people who think out of the box and offer fresh and innovative proposals to resolve business problems; people who are independent and creative, but who place great importance on team work.

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

Un example of this respect for diversity is an event held in 2009 by Telefónica Móviles Chile. Here they held an event recognising different nationalities. Specifically the action involved interviewing foreign employees and then publishing, on their country's national day, an interview so that the whole company could learn about the traditions of the interviewee's home country.

# 5.1.3 Training and development

## 5.1.3.1 Attracting and retaining the best talent
Identifying and attracting the most suitable people to guarantee the sustainability of the business is a necessity for Telefónica. The company is also committed to rewarding, developing and keeping the best talent.

The Group has a challenge when it comes to managing and developing the talents of its workforce. Telefónica works alongside people, investing in the development of a satisfactory career. In this respect the company has a programme to identify talent at the various levels of the organisation; to develop key professional skills; and to generate a meeting point which facilitates a company-wide knowledge network.

In this respect, Telefónica is continuing to develop a Skills Model better suited to the needs of the company, with six skills for management levels:

- Leadership.
- Management of diversity.
- Customer focus.
- Business vision.
- Results and Effectiveness.
- Innovation.

As regards this model and as an initiative to promote the professional development of managers of the company, in late 2008 and early 2009 the 360º managerial assessment scheme was launched for the second time, with the same questionnaire in all Regions. In Telefónica España and Telefónica Latin America, the rate of completed reports was 99%; in Telefónica S.A. and subsidiaries it was 97% and in Telefónica Europe, it was 96%.

Also, Telefónica continues to work on the evaluation and development of its managers, recognising their importance for the results of the company. Through the company-wide publication of job vacancies, and encouraging transparency when it comes to new opportunities for professional development we identify the best professionals, thus fostering mobility.

In 2009, Telefónica published 55 new managerial positions globally. 25% of these vacancies were filled by candidates from different Group businesses. 95% of these candidates were expatriates.

## 5.1.3.2 International mobility
As a global company with an international network of employees, the Telefónica Group is aware of the fact that its employees want to try life abroad and develop new skills, so it helps its professionals move to different countries.

2009 saw the completion of the process to set up the Global International Assignment Management Model based on the management of global processes, with the goal of providing those assigned with the best personal and professional experience during their time abroad.

Most assignments are long term (2-3 years) or short term transfers or rotations (up to 6 months).

Depending on the type of international movement, the group of those assigned in Telefónica's New Management model at the end of 2009 shows that 57% of them were long term, 3% short term (up to 12 months) and 40% rotations. It is worth highlighting the increase in rotations over the last year.

## 5.1 Employee Relations

### Population of those assigned



Legend: ■ LT  ■ Rotations  ■ ST 6<12mths
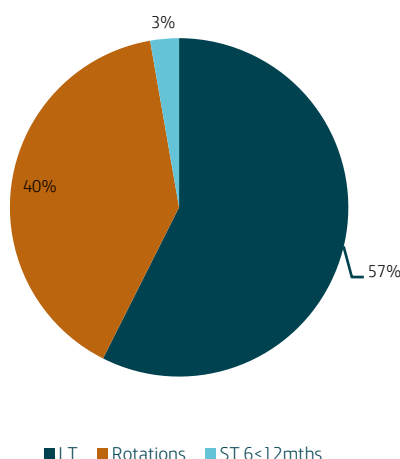
These programs have been developed with the aim of providing companies in the Telefónica Group with professionals who can bring their knowledge and skills to a business culture different from their own, as well as getting a professional refit and personnel collaborating in the development of areas in which there is mobility.

Management of the return of expatriates is one of Telefónica's biggest challenges, and forms part of the framework of Talent management programmes. Likewise, for the needs of the company, relocations are being carried out in recipient countries, 2009 seeing five relocations, two in Colombia, two in Spain and one in Peru. The last year saw 72 people completing their assignment and returning to their country of origin.

Also relevant is the growing presence of women in terms of expatriation and international mobility. Almost 49% of rotations are women.

| | LT | ST<6 mths | ST6<12mths |
|---|---|---|---|
| Number of assignees by type of expatriation 2009 | 147 | 102 | 7 |
| N. of new assignments in 2009 | 47 | 84 | 7 |
| N. of new assignments 2009 - women | 6 | 41 | 2 |
| % new assignments 2009 - women | 12.77% | 48.81% | 28.57% |
| N. of new assignments 2009 - men | 41 | 43 | 5 |
| % new assignments 2009 - men | 87.23% | 51.19% | 71.43% |

Note the rotation index was calculated with natural wastage.

## 5.1.3.3 Online and presence based training
2009 saw 11.21 million training hours, an increase of 4.27% compared with the previous year (10.75 million).

The inclusion of e-learning services in Universitas Telefónica in 2009 has helped improve the company's training services and also to disseminate its new strategy.

### Online training
**It doesn't matter where employees are in order to develop their skills and abilities.**

Telefónica has an e-learning online training platform accessible by all employees. All of the countries in which Telefónica operates participate in this type of training: Spain, Ireland, Germany, Argentina, Brazil, Chile, Uruguay, Peru, Ecuador, Mexico, Colombia, Guatemala, USA, El Salvador, Nicaragua, Panama and Venezuela.

Over 65% of the 150,000 Telefónica employees throughout the world used online training programs in 2009. Telefónica Latinoamérica alone trained more than 34,000 employees, with over 8.23 million training hours given.

# 5.1 Employee Relations

The corporate platform has an innovative strategy which includes various methodologies:

- Virtual reality: the setting up of the online program "the challenge of being a business person", a virtual business simulator which allows almost any Telefónica employee to compete in an environment which simulates management realities of a telecommunications operator, taking all types of decision and confirming the impact of those decisions, to get to know the essence of the business.

- Social learning: development of web 2.0 functions on the e-learning platform of Telefónica, to investigate and encourage new forms of learning based on social networks.

- Virtual/ physical university programs: the provision, within the framework of Universitas Telefónica, of two postgraduate programs in the telecommunications business with the Universidad Politécnica de Cataluña, enabling students from throughout Latin America to participate remotely.

- Estela Project: training and certification via online environments for client operations teams throughout Latin America, with over 10,000 certified operators.

- New learning technologies for society: the training of teachers in the use of new technologies applied to training, and the provision of tools via projects lead by Telefónica: EducaRed, by Fundación Telefónica and Internet in Telefónica Classroom *Learning Services..*

- Support for the spread of the internet in society: through online content providing educational support, covering the curriculum from primary to secondary school as an added value offer for Telefónica broadband customers.

Telefónica will continue to develop the online social learning network to encourage self development and networking between its employees. The knowledge generated on the Universitas Telefónica campus enables the creation ofonline content for dissemination to other employees, in this way making the most of the training given to Telefónica professionals.

## Universitas Telefónica

**Universitas Telefónica is a meeting place where the culture and values of Telefónica come to life, and a place to share knowledge and experience and establish links and relationships.**

The Campus Universitas Telefónica was set up in March 2009. Located 40 kilometres to the north of Barcelona, the campus covers 18,000 $m^2$ and includes sports fields where people can enjoy the natural environment. It also has a residential area with 180 rooms and numerous workrooms equipped with the latest technology for executive training.

The mission of Universitas Telefónica is to promote the continuous development of the Company's professionals; to promote a distinctive style of leadership; and to disseminate business strategy through teamwork and the exchange of knowledge and best practices in the markets where Telefónica operates.

Over the last year, Universitas has given 53 courses of 20 programs focusing on the skills in the Telefónica Leadership Model. A total of 34 managers participated as speakers in the programs, representing 5% of total training hours. The programs offered were attended by 1,395 professionals from Spain (47%), Latin America (34%) and Europe (19%). The overall satisfaction level of participants was 8.7 out of 10.

In total, 58,480 hours of training have been given, benefiting 1,667 people.

Additional activities included 28 corporate events, of particular note being the *Managers' Meeting, the Telefónica Europe Finance Conference* and the *annual meeting of Infonomía Re'09*, with a total of 1,178 attendees.

Last year also saw Universitas Telefónica launch its 2.0 strategy, and is currently present on most social networks, whether through its own blog or through groups such as Facebook, YouTube, LinkedIn, Slideshare and Twitter. These networks have more than 700 connected users and more than 2,400 total visits.

For 2010, Universitas Telefónica has set itself the following goals:

- Updating its model to adapt to the company's Strategic Plan, *bravo!,* and making itself the main vehicle for delivering it.

# 5.1 Employee Relations

- The range of programs will be based on the new leadership model, with programs focused on the business vision, customer focus, leadership, results and effectiveness, and functional and management programs.

- It will offer 21 programs, 9 of which will be new ones. All of these will be in line with the company's 2009-2012 Strategic Plan.

- The Universitas Telefónica Campus, as a company meeting point, will continue to host corporate events to encourage *networking* and the exchange of experiences for all professionals and interest groups.

## Experiences and development

**Telefónica helps with the development of its employees, providing them with all the experts and training options required to expand their knowledge and skills, and thus adapt to new requirements.**

- In Spain, of particular note are the Schools of Excellence and the Training Programs, which are given in the fields of: Leadership (Management of innovation, Teambuilding and Management skills), Commercial (Sales, Operational and strategic Marketing, Corporate ("Hagámoslo fácil", "ConceTe", Round tables with customers) and technical (Access networks and Connectivity), offering responses to the challenges facing Telefónica and making professionals in the company into reference role models in the sector, encouraging their talent and guaranteeing the best opportunities for growth. These programs are a milestone in traditional training methods, and they have all been highly rated, the average score being above 8.5.

  Telefónica instils a philosophy of valuing people, as they are the key to the development of the company. 80% of professionals are trainers in the School of Excellence in the technical field.

- In Latin America, the main development action that Telefónica offers its professionals is the running in Spain, through a program of scholarships, of the Masters in the Telecommunications Business. Scholarships are managed through the Carolina Foundation and financed by the company. With these studies, Telefónica is seeking to give students an in-depth knowledge of the sector, and provide them with the management tools suited to the telecommunications environment.

- Also, the "JP- Horizonte" program has among its goals: developing skills in business vision, contributing to results and team work, as well as the acquisition of business knowledge and the development of skills and learning about cultural and corporate diversity. In other words, understanding the concept of entrepreneurship and innovation.

## Managing knowledge and sharing of best practices

**eKISS 2.0 is the platform on which knowledge of the sector is concentrated, through in-depth analyses from international experts, industry analysts and other relevant sources such as Convergencia Latina, ITU and *The Economist Intelligence Unit*.**

The Knowledge Network project is based on a platform (*eKISS*) providing external knowhow in the sector, and has been in existence in Telefónica since 2000. This is the focus for knowledge through comprehensive analysis from global

experts, as well as relevant information from investment banks. The information found is both qualitative (sectoral and technological analyses) and quantitative (projections, historic data) and covers all business fields: analysis of operators, country profiles, technology information, the business and residential segments.

This platform is a powerful search engine with numerous options and collaboration tools such as forums and blogs, notifications and bulletins, classification of information, easy browsing, informative and news filters, as well as online access to conferences.

2009 saw the inclusion of new interest communities in *eKISS*, where company experts shared their experience with other professionals and contributed to improving the business process. In this way, *eKISS* is becoming Telefónica's global knowledge network to provide the transfer of knowledge and sharing of best practices.

The use of *eKISS* is widespread in all Telefónica operations, reaching more than 100,000 visits in 2009 and hosting more than 200,000 documents in the document database of the application. 2009 saw the publication of 45 new bulletins, reaching a total of 200. Also, through the media library it is possible to access 290 conferences. It is worth noting that more than 8,000 people attended the 20 held in the last year.
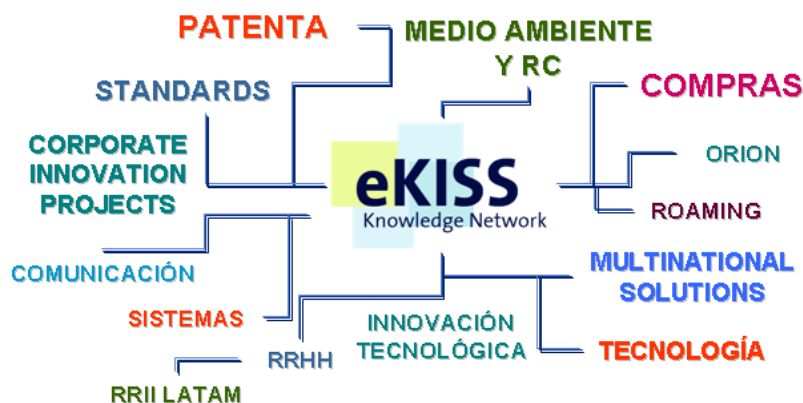


### Opportunities for young people / grants

**Telefónica provides young people with the possibility of acquiring experience and knowledge in order to begin their professional career.**

Telefónica España has maintained its policy of providing experience to young university students throughout 2009, with its scholarship policy. In December 2009 the company had 180 scholarship recipients in Spain, spread across the different units of the company. 102 of them have 6-month scholarships aimed at students in their final year, and 78 have 11- month scholarships aimed at recent graduates.

# 5.1.4 Recognition of the employees' work

Telefónica is committed to a rewards based culture in which employees and managers value the achievements and the difference made by people and teams.

To support the attainment of the strategic objectives in the GPS Transformation Program, Telefónica España has defined a Rewards Model which helps to develop a culture which standardises ideas about the behaviour to be rewarded, making sure that all units have similar tools and ensuring that they are not used only by management, but involve all employees.

For this, an awards program has been created, with a series of large and small achievements, annual, quarterly and daily, which are applied both to the company/operator level and to the head and regional management level. This program seeks to make an "exceptional award" for an "exceptional achievement".

In 2009 the Awards Program focused on Customer Service, giving out more than 30,000 rewards to own and third party employees for initiatives aimed at improving the experience of Telefónica customers.

- In Spain, Telefónica rewards customer service, innovation and efficiency through the Patenta Emprendedores and Premio Cliente awards.

  The Patenta Emprendedores prize, an initiative of the Telefónica España Innovation Program has, as its goal, the recognition of employee projects, creating an innovative culture and studying and developing new business, in line with the strategic objectives of the company. Recognition is given to those ideas that bring in new revenue, and improve the Customer Experience (Idealab), and to those that make improvements to the efficiency of processes (Eficiencialab).



- In Telefónica Latinoamérica, there are different rewards programs with their own identity -"Reconóceme", "Efecto Telefónica", "Protagonistas", "Muy Bien", "Con Nombre Propio", etc.-, which have similar goals: providing the tools that reward, in a differentiated manner, the behaviour, attitudes and achievements of staff, whether individuals, teams, small or large.



- In Europe one of the goals is to reward and motivate professionals. Accordingly we have implemented a series of programs in which employees can "applaud" and nominate the good work of their colleagues.

# 5.1 Employee Relations
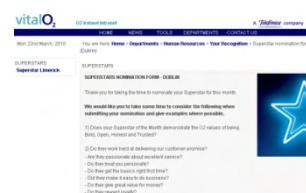


Also the Premio Cliente is a new competition launched by Telefónica España in March 2009. Its aim is to improve the quality of customer service, valuing the actions of employees. The prize rewards the most transformative actions that have contributed to improving customer relations. This competition falls within the remit of Institutional Rewards given by the Management.

Other forms of recognition the program includes are:

- Recognition by unit: the goal is to agree on a model of minimum standards that all units can share.

- Social recognition (colleague to colleague): unlike the previous ones, this award does not originate from management, but from any colleague, whether from the same unit or not.

- Digital thank yous: employees can send thanks to other colleagues using a series of templates designed for different situations.

- Colleagues + GPS: On a quarterly basis a participatory process is initiated in which employees nominate the colleague who best represents the attitude of the Blue Point selected within the "10 Blue Points" project of the Management Model. To facilitate a cross-departmental approach, it is possible to vote for any employee of Telefónica España.

Finally, it is worth highlighting the fact that to facilitate communication and recognition, the Te-Reconoce tool has been created, which gives everyone the power to acknowledge the efforts and professionalism of their colleagues, thereby spreading a positive environment for communication in which there is a focus on thanks and gratification for best working practices, both in terms of tasks and attitudes.

## 5.1 Employee Relations

### Investment in the future: *All Employee Share Plan*

Also, Telefónica rewards employees for their commitment, giving them the opportunity to participate in the most tangible aspect of the growth of the company: its share capital.

In this respect, the Telefónica approved a plan designed so that employees who invest in the future of the company are rewarded for it. This plan offers more than 120,000 employees worldwide the possibility of buying shares in the company up to a value of €1,200. If shares are held for a year, one free share is received for each new share purchased.

For Telefónica, this initiative is a way of recognising the importance of our team in the Company's success, and of reconciling the interests of shareholders and employees.

# 5.1.5 Employee satisfaction and commitment

## 5.1.5.1 Employee promise

To make progress on its Employee Promise, Telefónica has designed a new Value Proposal for Employees which is structured around eight main pillars: "we are committed to our customers"; "we are all one team"; "our leadership is inspiring"; "our way of communicating inspires trust"; "we are the protagonists of our own development"; "we recognise contributions that make a difference"; "we have an innovative spirit"; and "we are building the best place to work".

## 5.1.5.2 Communication
### The employee at the heart of global and local communication.

In 2009, Telefónica continued with its commitment to internal communication in its desire to make its human team more cohesive and motivated, as well as consolidating global communication actions for all its employees.

The overall goals of the company have been the integration and achievement of synergies. To encourage integration between the different communication areas of the Group, joint, regional and local Corporate Boards have been set up.

Also, throughout the year, bi-weekly multi-conferences by regions have been held with internal communication managers from all countries, with the aim of sharing best practice in the field of communication with employees, and with a view to pooling criteria and thus achieving the synergies sought.

Also, over the last year, the company has focused its efforts on giving a greater role to the professionals that work in it, through *online* and, fundamentally interactive communication tools: Diario de Telefónica, Diario TV, as well as mass *e-mailings* to all employees. Also numerous local events have been communicated and/or organised, such as raffles for tickets to museums, concerts, sporting and leisure events sponsored by the company; collaboration with Fundación Telefónica in joint volunteering initiatives; invitations to participate in opinion surveys, competitions for new books, conferences or acts etc.

The Internal Communication Model established in the Corporate Internal Communication Committee, fostered by the Technical General Secretariat of the Chairman's Office and Human Resources, continues to lead the global communications strategy and the editorial line of corporate channels. There are also regional corporate committees (Latin America, Europe and Spain). In line with this operational model, biweekly multi-conferences have been set up and reactivated between Telefónica S.A., Telefónica España, Telefónica Europa and Telefónica Latinoamérica, to exchange information and establish joint strategies.

Last year also saw the continued development of Communication Plans - corporate and for business lines such as: launch of the Global Knowledge Network "*eKISS* 2.0"; Volunteer day; "ATAM 35 years"; the Plan to Raise Awareness of Information Security, and *Bravo!*, Telefónica's new Transformation program, which is the "umbrella" for all internal communication over the next three years.

Likewise, special attention has been paid to finding out the opinion of employees through Satisfaction and Working Environment Surveys launched in all countries and regions.

Telefónica has continued to foster the different internal communication media available to employees. Among these, of note is the corporate magazine, *SOMOS*, and electronic and audiovisual media such as *El diario de Telefónica*, *El diario TV*, the corporate Intranet, the District C portal, the Telefónica España portal, the Management portal and *SOMOS*, in digital format, among others.

2009 saw the creation of a series of specific micro-sites or special informative sites, with the aim of providing greater visibility for teams of particular interest for employees, including the following: The*Mobile World Congress 2009*; the 2009 Managers Summit; the 2009 Shareholders meeting; the new Telefónica Environmental policy, the MTV awards; the Eco Effect; the anniversary of ATAM: "ATAM can also help you", our monthly sponsorship activities. etc.

Statistics reflect the fact that, in 2009, the corporate intranet recorded an approximate volume of 205,000 visits a month, broken down as follows:

# 5.1 Employee Relations

- *El Diario de Telefónica*: gets an average of 90,000 visits a month, and up to 110,000 visits at times of particularly interesting news.

- *El Diario TV*: this channel which, since starting up three years ago, has become a great source of audiovisual information on the company, records an annual number of visits that fluctuates between 12,000 and 22,000. Users mainly use it to watch video on demand and stay up-to-date with Telefónica news.

- The *Managers Portal* is a resource aimed at the group of lower and upper managers in Telefónica. It receives a daily number of visits of between 1,200 and 2,400.

- *The District C Portal*: this is the network where a professional working at the company headquarters in Madrid can find information on the activities carried out - conferences, visits, raffles, family activities, etc., as well as the most interesting offers and services from the complex or close to it. This communications tool, focused on the 12,000 employees of the complex, received visits of between 14,000 and 24,000 a month in 2009.

- *SOMOS*: the magazine for all company employees is distributed in online form in all countries, and is published in three languages: Spanish, English and Portuguese. Also, copies are printed in Spanish and English for distribution in Spain, Latin America and Europe.

## 5.1.5.3 Satisfaction and commitment of professionals: Labour climate

Telefónica continues to support the satisfaction and commitment of its professionals. The holding of an annual survey (Encuesta Anual de Clima y Compromiso - EACC), aimed at all of them, has as its goal the analysis of their satisfaction levels and commitment to the company. This survey records length of service in the company, a valuation of efforts and willingness to share their experiences in Telefónica with their workmates. The EACC is an online tool which enables the comprehensive management of the commitment: it measures its development, facilitates communication of results to the employee himself and enables mangers to monitor general and individual improvement plans.



The Employee Satisfaction Index (ICC) is drawn up on the basis of the annual survey, this being the average of favourable responses "I agree" and "I totally agree" to the 33 questions asked in it.

In 2009, and for the third year in a row, the same questionnaire was applied to all companies in the Telefónica Group, making it possible to measure their change and compare consolidated data for all regions.

A total of 90,407 employees from 76 companies participated in the survey, an increase of 2.7 per cent over the previous year, bringing participation to 73%. Much of this increase is due to the participation of Telefónica España, with an increase of 4.7 per cent over 2008.

The company's commitment to achieving improved satisfaction, and the commitment of its employees, is reflected in the 2009 survey, in which the ICC stood at 73%, 4 per cent higher than the 2008 ICC, exceeding the goals set by 2 per cent.

While in 2009 the six dimensions measured in the Annual Employee Satisfaction Survey improved 3.5 per cent on average, it was the areas of "Image and Pride" and "Leadership from the Direct Manager" which received the highest ratings from employees. The area of "Management Leadership" saw the greatest increase in the year (+4.8 per cent).

In short, the ICC of the Telefónica Group stands at 73%, exceeding the goals set the previous year. Of particular note is positive development in all regions, the 5 point improvement obtained in Spain thanks to the initiatives carried out under the GPS Transformation Program, and an increase of 1.3 per cent in Europe, something extremely significant

# 5.1 Employee Relations

these figures are based on extremely high starting values of commitment and the absolute leadership of Latin America, with an ICC of 83%.

## Satisfaction survey

| | 2007 | 2008 | 2009 |
|---|---|---|---|
| T Spain | 50% | 55% | 60% |
| T Latin America | 73% | 77% | 83% |
| T Europe | 75% | 75% | 76% |
| T,S.A. and subsidiaries | 75% | 66% | 67% |
| Atento (only structure) | 70% | 74% | 70% |

**2007  2008  2009**

## Objective 2012

| | |
|---|---|
| Objective 2012 | > 75% |
| 2011 | 74% |
| 2010 | 73,50% |
| 2009 | 73% |
| 2008 | 69% |
| 2007 | 64% |
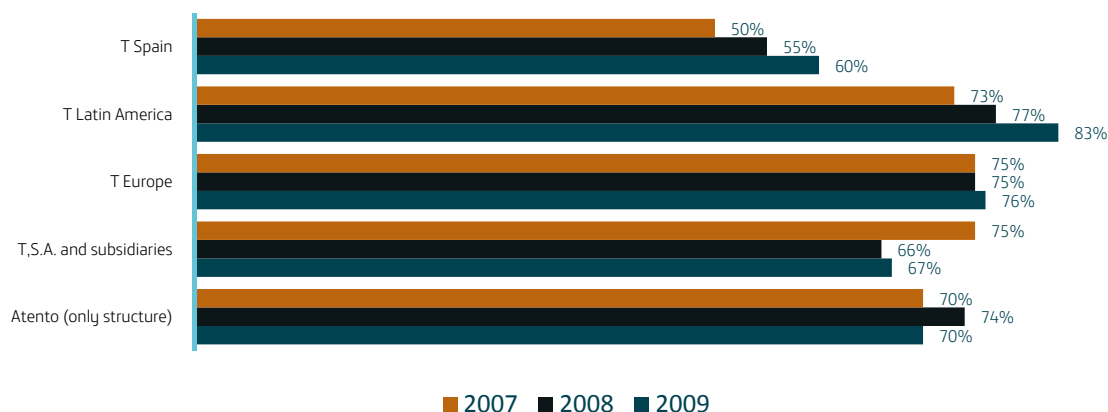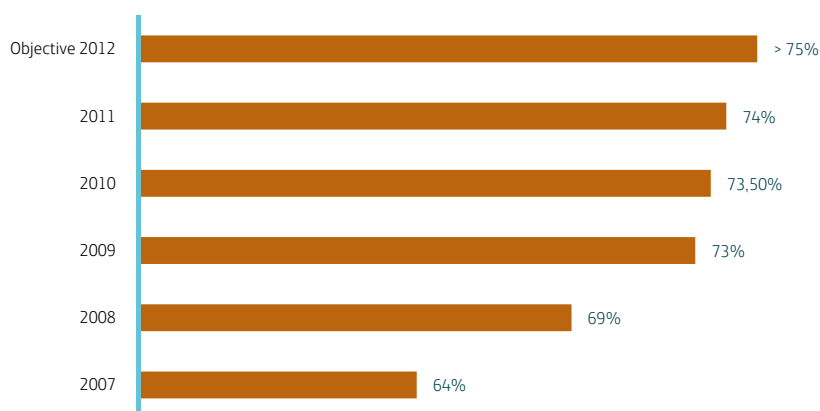
Thanks to the input from working environment surveys, the areas on *Great Place to Work*, workshops and corporate reputation studies, it is possible to identify the attributes that are most appreciated by the workforce. Thus the Employee promise was created with the aim of transforming the company, creating a joint culture for all.

In this respect, Telefónica has designed an integrated model based on best practices: multi-country teams will be set up and workshops held to identify and analyse best practices in the region and set up cross-departmental initiatives in each area of the promise - communication, development and remuneration, quality of life, recognition and leadership.

Also, with the launching of the AHORA program in 2007, the company committed to a big challenge, taking the form of an ambitious goal over 3 years: being, in all countries, the best company in the sector within the *ranking* of Best Place to Work, and reaching employee satisfaction of at least 75% in all countries in the region. Telefónica Latinoamérica has successfully exceeded this goal, in 2009 reaching 82.95% overall satisfaction of its employees in the region.

**Comunicación**
*"Una comunicación cara a cara que llegue en cascada de manera efectiva a todos los empleados"*

**Desarrollo y compensaciones**
*"Transparencia en la publicación de oportunidades y en la difusión de un sistema de remuneraciones transparente basados en el merito y desempeño"*

**Calidad de Vida**
*"Que Telefónica sea reconocida por generar experiencias memorables en la calidad de vida de nuestros empleados, fomentando el tiempo flexible, la camaradería, y hábitos saludables para ellos y sus familias."*

**Reconocimiento**
*"Una cultura de reconocimiento en la que nosotros y nuestros líderes valoremos los logros y actitudes diferenciales de las personas o equipos"*

**Liderazgo**
*"Impulsar un modelo de liderazgo más cercano, que aporte metas desafiantes, orientación y feedback."*

## 5.1.5.4 Committed to society

After nine years of work the Telefónica Volunteers department has been a priceless tool for channeling much of the Telefónica Group's social commitment, as well as a strategic value of its Corporate Social Responsibility. With more than 25,450 employees signed up, Telefónica Volunteers has become a benchmark for volunteering at a global level.

### Telefónica Volunteers, an opportunity to help that benefits everybody

Every day more companies, whatever their size, are becoming aware of the fact that Corporate Volunteering is an important aspect of Corporate Social Responsibility, through which they can help and enable their employees to carry out volunteering activities through the organisation of specific projects, associated or otherwise with social action programs, giving up working hours to carry them out or financing initiatives in which they are involved.

In this respect, for nine years now Telefónica has been committed to this practice, which strengthens the relationship between the company and its employees, and above all its links with the communities it operates in, through its Corporate Volunteering department, known as Telefónica Volunteers.

Telefónica Volunteers, run by the Fundación Telefónica and Telefónica's local operators in Latin America is a transnational section which promotes volunteer activities among company employees who would like to share some of their resources, their professional and personal knowledge, their time and enthusiasm in order to benefit the community and its most disadvantaged members. The section offers all registered volunteers the necessary means to ensure that these activities are of real use and have a positive effect on society.

# 5.1 Employee Relations

Telefónica Volunteers - currently operating in 14 countries, Argentina, Brazil, Chile, Colombia, Ecuador, El Salvador, Spain, Guatemala, Mexico, Nicaragua, Panama, Peru, Uruguay and Venezuela - is one of the strategic pillars of the company's social action programme.

## What does it mean to be a Telefónica Volunteer?

2009 saw the establishment, by consensus, of the definition of a "Telefónica Volunteer": a Telefónica Volunteer is an employee or retired employee who registers with the corporate volunteer department and who either devotes a part of his or her time or makes donations to a social action project promoted, supported or otherwise facilitated by one of the Telefónica Group companies.

## Telefónica Volunteers is a strong solidarity network made up of over 25,450 volunteers

The Telefónica Group today is one of the companies most closely involved with corporate voluntary work anywhere in the world. As 2009 closed, the department had a total of 25,453 employees registered in 14 countries, an increase of 17% over the previous year.

Achieving such high levels of participation has required a great amount of creativity and well developed process of recruitment and motivation, as often many employees have never before participated in volunteering initiatives. Little by little, the employees who have signed up to the Telefónica Volunteers scheme convince their colleagues to join them in their voluntary work.

## An example of a volunteer project: Solidarity Holidays

 For the fifth consecutive year, taking advantage of the holiday period from July to September 2009, a hundred Telefónica Volunteers - 43 from Spain, 29 from Telefónica Europe (UK, Ireland, Germany, Czech Republic and Slovakia) and 28 from Latin America (Argentina, Brazil, Ecuador, El Salvador, Panama, Peru and Venezuela) - spent four weeks travelling around various Latin American countries taking part in charity projects related to the Proniño programme.  In particular, the volunteers carried out a range of activities whose purpose was to instil the habit of reading and writing into children by means of games and to promote the refurbishing of schools, the use of new technologies, etc.

The volunteers visited Ecuador, Mexico, Panama, Brazil, El Salvador, Peru and Argentina. The combination of volunteers from various Latin American countries was a new development this year which stimulated an enriching exchange of experience and knowledge between volunteers and beneficiaries.

# 5.1.6 Freedom of association and social dialogue

In 2009, the Company's Business Principles, together with its Social Protocols of International Agreements and Code of conduct, between the *Union Network International* (UNI) and the UGT and Telefónica, were the main reference points in 2009 of its workplace dialogue, particularly with regards to rights of association, participation and collective bargaining.

## Freedom of association

In Telefónica, almost 200,000 employees are members of various union bodies, exercising their right to freedom of association.

These members are distributed throughout the three regions in which the company is present: Spain, Europe and Latin America, as well as in Atento - the call centre for Telefónica. Affiliation is mainly by fixed service operators and remote operation companies.

Union election processes are regular although periodical. In 2009, 64,902 employees participated in different processes to elect their representatives.

## Collective bargaining

In 2009, more than 72.6% of the Telefónica workforce had their working conditions governed by collective agreements, a clear sign of the scope of social dialogue in the Company.

Telefónica continues to be committed to social dialogue, and promotes it generally in the large majority of its companies. Accordingly it carries out collective bargaining processes, these agreements governing the economic and working conditions of employees. Matters such as employment, salary, training and professional development, benefits. health and safety, etc. are matters usually dealt with in collective agreements.

In Spain, the trend is towards the signing of agreements which are several years in length, with annual adjustments of pre-established salary forecasts. This is why in 2009 the companies with the greatest number of workers maintained the currently valid agreements in force. Precisely due to this characteristic, the agreements also contain "ongoing negotiation" mechanisms which ensure the continuity of social dialogue during the validity of same, making it possible to deal with problems of interpretation of the agreement in application, or include in negotiating forums new situations or necessities that arise as businesses develop.

In Latin America, collective negotiations are generally annual, and mainly economic in nature, thus determining the salary conditions that should apply to each financial year.

This characteristic means that, once the salary review processes have been completed, this in many cases being mandatory due to local laws, social dialogue is carried out through the mechanism of "Labour Agendas". These deal with, in collaboration with the different union organisations present in companies, other topics of interest not dealt with in the ordinary negotiation process. They are processes based on the transparency and clarity of communication and information, aimed at sharing corporate guidelines and objectives, in many cases ending up in agreements, avoiding disputes and litigation.

## International social dialogue

The Code of Conduct renewed and signed in December 2007 remained in force, agreed between the *Union Network International* (UNI), the UGT and CC.OO. unions and Telefónica, various meetings being held throughout the year to monitor its application in the different companies and countries.

# 5.1.7 Safety, health and well-being at work

*"We offer our employees a safe working environment. In order to achieve this, we establish the systems required to avoid accidents, injury and industrial diseases associated with our activities by complying fully with all current regulations, implementing safe working practices and training and preventative actions to avoid health risks at work".* Telefónica's Business Principles.

## 5.1.7.1 Safety and health

As in previous years, in the last year health and safety in the workplace has held an important place in the corporate management of the Telefónica Group, thus boosting the trend towards total integration in all decisions, activities and hierarchical levels of its companies. This is evidenced in various significant fields, which report on that which has been achieved.

Throughout 2009, Telefónica has continued to carry out basic preventative actions in the different regions it operates in (Spain, Europe and Latin America), of particular note being:

### Health surveillance

The promotion of health and early diagnosis of illness have been the focus of much of the work carried out in this area, of note being the following actions:

- **Preventative campaigns**: the regular provision of health checks in different regions has increased, with the intention of guaranteeing the medical aptitude of workers to correctly carry out their work, depending on the labour risks identified and associated with the carrying out of same.

  Among the protocols applied, of particular note are those for Data Viewing Screen Workers, Drivers, Work at Height, Cargo Handling, Work in Confined Space and Telemarketing.

  Along these lines there are various preventative campaigns designed to supplement, on an ongoing basis, the valuable information obtained from health checks. Of note are the "Campaign for the prevention of oncological illnesses", rolled out in Spain, *Media Networks* and Movistar Panamá; the "Campaign for the prevention of cardio-vascular risks" rolled out in Spain and Movistar Venezuela; and the "Campaign for the prevention of respiratory ailments" in Telefónica Móviles El Salvador.

  Also, greater support has been provided for the "Seasonal flu vaccination campaign", and various specific actions have been implemented in the different regions, with the aim of minimising the effects of bird flu among workers.

**Threat management: Bird flu campaign**

In April 2009, a strand of bird flu (H1N1) was detected in Mexico and California. This was a new virus that the population had no immunity against, its seriousness being unknown.

In Mexico, Telefónica adopted the measures that national and international authorities were recommending in a totally new and unknown situation. Measures such as: the wearing of a mask for 3 weeks, hygiene measures for workers (special gel dispensers were placed at the entrances to buildings); the cancellation of visits, meetings and trips, etc.

Workers who fell ill at their workstation were visited by a doctor, who referred them to hospital if deemed necessary. There was also a reduction of the workforce in buildings, separation of tables in the canteen, with pregnant and breast feeding women allowed to work from home. In the case of sick family members, they were isolated from their family, in line with government rules.

Also in Spain, Telefónica took a range of measures aimed at keeping the entire workforce informed of all the preventative actions that should apply when travelling to effect areas, while staying there and when returning. These measures, always in line with international protocols and following the criteria of the Ministry of Sanity and Social Policy, were in principle aimed at preventing contagion and the early detection of potential cases, with the aim of trying to halt the progress of the illness.

From June, when the World Health Organisation (WHO) declared phase 6 of the pandemic, Telefónica created a Flu Committee, following the recommendations of the Ministry of Health and Social Policy, which established guidelines similar to those put in place in Mexico: information on the illness on the corporate Intranet, general and specific hygiene measures, 24 hour telephone help line, medical checks and advice from the Joint Prevention Service, etc.

- **Promotion of Health**: there are many actions aimed at encouraging a healthy culture and habits, in which employees are provided with information, resources and subsequent support to help them improve their health. Of note is the "Stop smoking campaign", with online courses and periodic medical check-ups, developed in Spain; the "Minuto de salud" in Movistar México; the "TeleSalud" program in Telefónica USA; the "Atento Saludable" program in Atento Colombia, and information published in the internal Telefónica O2 magazine in the Czech Republic, drawn up with the help of a specialist medical company.

- **Psycho-social factors:** various proactive initiatives have been carried out to study and prevent the appearance of stress in companies of the Telefónica Group Of note are the"Stress management workshop", set up in Movistar México, this being a physical course with the support of e-learning platforms; the provision of training in this issue in Movistar Guatemala, with an 85% participation of the entire workforce; or "specialist courses on stress management, decision making and conflict management", developed in Terra Chile.

  There are other extremely interesting initiatives, such as the "Integrated psycho-social System" of Movistar Colombia, through which different phases have been distinguished, such as: identification and classification of risk, training, intervention and follow-up plan.

  Along these same lines, in Telefónica O2 Germany, a questionnaire was developed to analyse stress levels among employees, with the aim of preventing it, improving its management, reducing any possible related ailments, etc.

  Also, the *"Employee Assistance Program"* (EAP) is of particular importance to Terra USA, designed so that employees can call and talk to a professional about different aspects, in particular stress.

## Prevention of occupational hazards

Guaranteeing a safe working environment for Telefónica workers and other employees, as well as providing suitable mechanisms to avoid or reduce the occurrence of undesired accidents, are the main objectives of the prevention of workplace risks. Various actions are carried out in this respect, of note being:

- **Risk Assessment (ER)**: the carrying out of ER in the work centres of the different companies has increased in line with existing frequencies and requirements, taking into account the diversity of activities, workplace risks and preventative measures inherent to each region.

  Telefónica España, in 2009, re-evaluated the workplace risks of the various positions in the company through an ambitious project which involves analysing the range of activities carried out, identifying workplace risks inherent

to the processes and tasks involved to, subsequently, implement the preventative measures necessary to avoid or minimise them. This project has been recognised and praised by Representatives of Employees.

Likewise, Terra Perú rectified 100% of the observations detected in the ER of 2008, thanks to the necessary planning and monitoring of the applicable corrective actions.

It is important to assess the specific workplace risks affecting activities with the greatest risks, such as work at height for example. In this respect, Movistar Nicaragua has drawn up a document called "Safety guide for work at height", which contains the minimum safety requirements for the carrying out of this type of work, both for own workers and contractors. With this same objective, Telefónica O2 Alemania has also established the requirements that employees working at height must following, these including: two training days in safety and rescue, annual training update, first aid, updates every two years. etc.

Along the same lines, OTF Brasil reviewed and updated the procedure for work in "underground chambers", passing on the obligations included in the aforementioned document both to own workers and those from partner companies.

Also, Telefónica O2 Irlanda has intensified cooperation between the Health and Safety and Technology departments, with the aim of going in greater depth into the activities carried out, in this way ensuring that health and safety solutions are integrated into the business, with proper risk control.

Finally, of particular note is the initiative carried out in Telefónica Móviles Uruguay which, after assessing their facilities, renovated all offices and furniture, likewise replacing regular monitors with flat screens for greater user comfort.

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**Certification of prevention systems in Spain**

Spanish legislation states that companies who have their own Prevention Department must be subject to an external audit or appraisal. This audit (which needs to be repeated every 4 years) is a management tool that shows a real image of the company's workplace risk system, assessing its effectiveness and detecting any deficiencies that might give rise to breaches of current legislation to enable the adoption of decisions aimed at its fine tuning and improvement.

Throughout the 2009 financial year, Telefónica España has carried out, with extremely positive results (obtaining of the corresponding Audit Certificate) the process of the Legal Audit of the Prevention of Workplace risks.

Likewise, over the past year companies signed up to the Joint Department for the Prevention of Workplace Risks in the Telefónica Group in Spain (a total of 38 companies) have obtained positive results in the first phase of the Audit process, which will be completed in the 2010 financial year.

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- **Emergency measures**: Telefónica's commitment to the safety of its employees can be seen in the increase of emergency measures in general and the holding of emergency simulations in facilities in particular, in all regions.

  It is notable that Spain, in the buildings occupied by the company's businesses, has seen the establishment of the mandatory emergency measures, with the active participation of Representatives of Employees, and which in most cases culminated in a simulation of the evacuation of facilities, for which employees belonging to the emergency structures of work centres have been trained.

  Also, it is significant that Terra México has an organisation of volunteers covering all areas of the company, to take practical measures in all areas relating to prevention and health. The people in this team (10% of the total workforce) receive ongoing training in first aid, fire fighting, etc.

- **Agreements with Representatives of employees**: Workers are involved (through their representatives) in all aspects related to Health and Safety at Work; this is not just a legal requirement for Telefónica but rather it is fundamental to ensuring that the prevention of employment risks is fully integrated into the operations of the Company in a way which is both proactive and agreed.

  In this respect, there are ever more forums, agreements and procedures existing in the field of health and safety in the different regions, and which benefit from the participation of representatives of workers and their priceless cooperation so that "safe work" is a current reality in the Telefónica Group

# 5.1 Employee Relations

A clear example of this intention is Telefónica España's Health and Safety Committee which in 2009 revised the Company's General Employment Risks Evaluation, which evaluates the risks associated with each and every post in the Company based on the processes and tasks involved, specifying the applicable preventive measures in each case.

Also, "promoting health and safety in the workplace" is the main function of the Parity Committee on Health and Safety in the Workplace (CSST) of Movistar Perú, whose operation is regulated through internal regulations. Likewise, the CSST is working with a view to reducing the probability of accidents at workstations, for which it has drawn up a specific procedure for these tasks. Recently, new representatives of this parity committee have been trained through the Instituto Laboral Andino.

The systems company TmAs, located in Chile, has a health committee in which its members represent all workers, and in which has two main areas: to promote best workplace practices and prevent associated risks. As with the previous case, Terra Chile has a Parity Committee on Health and Safety, in which 3 representatives of the company and 3 workers participate.

Of particular note is the fact that Fixed Operations of Telefónica Chile and Movistar Chile have, throughout the country, 52 Parity Committees on Health and Safety, which during 2009 have carried out different risk prevention actions relating to technical telecommunications personnel working in external overhead areas, external underground areas and internally.

Particularly important are the agreements reached with unions, such as those existing in Telefónica Argentina, which cover different matters and, in particular: access to inspection chambers, climbing structures, provision of clothes and personal protective equipment, tasks of remote operators, actions to be taken in the event of an emergency, etc.

- **Training in health and safety in the workplace**: Telefónica is aware that training is one of the key foundations of the prevention of workplace risks and worker safety and, in this respect, numerous training actions have been carried out in all regions.

  A fundamental principle is that all Telefónica workers are required to receive specific training in the risks identified in the evaluation or analysis of workplace risks involved in their jobs, as well as the preventative actions necessary to avoid or minimise them.

  Some examples of training in health and safety in the workplace given in Telefónica during 2009 are:

  - Telefónica España structures its training into: initial training, when the worker starts their job; training when they change their job or activity and updated training every 5 years.

  - In Telefónica Argentina, different courses were given to 2,500 people on: electrical risk, work at height, computer typing ergonomics, organisation of emergencies, work on splitters, the use and care of your voice, etc.

  - Telefónica Telecom TF Colombia (Fixed Operation) gave various training sessions, such as for example: the use and maintenance of personal protective elements for departmental maintenance technicians, practical sessions on ascending and descending structures, etc.

  - In Movistar Ecuador, various training and information programs were implemented on health and safety, including: training of emergency teams, ergonomics, etc.

  - Movistar Panamá gave training in different matters such as: the prevention of traffic accidents, work at height, the training of emergency and first aid teams.

  - In Movistar Uruguay talks were held on issues ranging from preventative driving to voluntary assistance.

  - In Movistar Venezuela, various programs were implemented, both training and informative, relating to: safe work at height, training of emergency teams, etc.

  - Atento Venezuela promoted held informative chats aimed at all personnel carrying out external work, based on which safety inspections were carried out on external facilities.

# 5.1 Employee Relations

- Telefónica O2 República Checa trained its employees in: work at height, driving, health and safety legislation, work with computers, first aid, basic electrical equipment requirements, etc.

## Accident rate

Throughout 2009, Telefónica continued an in depth collection of information of accident rates in its different regions, which will allow it to draw up the qualitative reports necessary to implement "best practice" in its activities, tasks and processes.

The data obtained for the different regions in 2009 are those described below, of particular note being the fact that during the 2009 financial year, no fatal accident was recorded in the Telefónica Group.

**Spain**

| Total accident rate indicators | | |
|---|---|---|
| Incident rate (TI) | (N° of workplace accidents / total N° of workers) x 1,000 | 9.06 |
| Severity ratio (RG) | (N° of days by workplace accident / total N° of workers) x 1,000 | 208.75 |
| Average Duration Rate (TDM) | N° of days by workplace accident / total N° of workplace accidents | 23.02 |

**Latin America\***

| Total accident rate indicators | | |
|---|---|---|
| Incident rate (TI) | (N° of workplace accidents / total N° of workers) x 1,000 | 8.16 |
| Severity ratio (RG) | (N° of days by workplace accident / total N° of workers) x 1,000 | 137.75 |
| Average Duration Rate (TDM) | N° of days by workplace accident / total N° of workplace accidents | 16.87 |

*Does not include Chile and Argentina.

**Europe**

| Total accident rate indicators | | |
|---|---|---|
| Incident rate (TI) | (N° of workplace accidents / total N° of workers) x 1,000 | 5.21 |
| Severity ratio (RG) | (N° of days by workplace accident / total N° of workers) x 1,000 | 89.39 |
| Average Duration Rate (TDM) | N° of days by workplace accident / total N° of workplace accidents | 17.12 |

Along the same lines, Telefónica has been working throughout 2009 on the collection of information on key health and safety management indicators. Said results are shown in the following tables.

| | Telefónica Group | Spain | Latin America | Czech Republic | Germany | Ireland | United Kingdom |
|---|---|---|---|---|---|---|---|
| Accident rates | 1 | 1 | 1 | 1 | 1 | 0 | 0 |
| Occupational illness rate | 0 | 0 | 0 | 0 | 0 | 0 | 3 |
| Rate of days lost | 16 | 22 | 14 | 14 | 6 | 34 | 9 |
| Total absenteeism rate (total - GRI) | 6,046 | 5,939 | 8,639 | 116 | 864 | 4 | 237 |
| Number of fatal victims | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

2009 saw work on the standardisation of criteria in Spain and Latin America; accordingly data on the region of Europe appears separately. 2010 saw work on standardisation within Europe.

| | Atento España | Atento Brasil | Atento México |
|---|---|---|---|
| Accident rates | 4 | 1 | 1 |
| Occupational illness rate | 0 | 1 | 0 |
| Rate of days lost | 64,122 | 6,128 | |
| Total absenteeism rate (total - GRI) | 23,169 | 10 | 714 |
| Number of fatal victims | 0 | 0 | |

This data pertains to countries making up more than 70% of the Atento workforce, this being material for the company.

Finally, it is important to highlight the fact that in 2010 it is envisaged that the Telefónica Business Principles Office will begin the appropriate actions to support an improvement project in the area of health and safety in the workplace.

# 5.1 Employee Relations

**Sharing "best practice" in health and safety in the workplace**

In 2009, District C saw a meeting between the regions of Spain and Europe, a chance to present and share "best practice" in health and safety in the workplace. Among others, the event saw the presentation of the second version of the document *An analysis of workplace accident rates* in the *Telefónica Group*, applicable to all businesses in the company.

The most significant aspect of the new version of the document is the inclusion of a specific section for the "study of causal factors of workplace accidents" (as part of the challenge to reduce accident rates in Telefónica), based on the fact that all accidents have causes and therefore can largely be avoided by identifying and controlling causal factors by studying the way they occurred.

Based on this valuable information, the best working procedures and "best practice" in health and safety in the workplace" are encouraged and extrapolated to all regions in which the Telefónica Group operates.

## 5.1.7.2 Wellbeing

Telefónica wants to be recognised for its important experiments in improving the quality of life of its employees, encouraging flexitime and health habits for them and their families.

Increasingly, Telefónica is facilitating the work-life balance of all of its employees, harmonising their expectations and needs with the goals of the company, and creating an enthusiastic working environment where everybody feels important, stimulating cooperation between the different departments of the company.

Latin America has seen the development of action plans related to flexitime and healthy habits for Telefónica employees and their families. The initiatives encouraged were:

- Flexitime: programs, tools and policies were developed to help people reach their goals in a flexible environment in which to organise their time: flexible days, working from home on Fridays, open working hours, new licences, policies enabling staggered working hours, flexi-time, remote working and special leave for adoption.



- Momentos Telefónica: certain actions and initiatives have been set up with the aim of transcending the employee's link with the company, through actions aimed at improving access to their personal interests, those of their families and friends. Some of these actions were: leave to attend school activities, children's day, mother's day, and Days off for birthdays).

## 5.1 Employee Relations

- Health: the acquisition of health habits by employees is encouraged so they can improve their quality of life through extra-curricular talks linked to health, personal care, sport, blood donations, a canteen service, preventative health campaigns, etc.



Finally, it is worth highlighting the fact that full and permanent connectivity enables work from any site. The various types of spaces in the Company's buildings are facilitating interaction among our employees and making relationships less hierarchical, enabling greater flexibility, and making it possible to alternate working in the office and at home to achieve better balance between personal and professional life.

In this respect, Telefónica is increasingly promoting the spreading of collaboration networks, community and project work, which undoubtedly favours the integration of organisations and the interchange of best practice, as well as the transferring and sharing of knowledge.
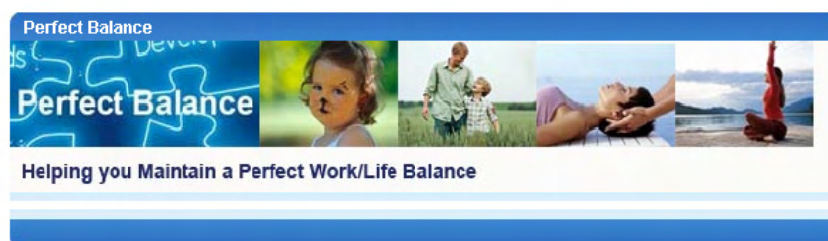
# 5.1.8 Awards and Distinctions

## Best Place to Work

**Spain**

Throughout 2009, Telefónica España has received various awards, making the company one of the best places to work. Various groups have participated in the basic studies on these distinctions, which appraise the working conditions enjoyed by employees of the company. These are the most significant achievements attained in 2009:

- "Top company to work for": Telefónica España has received a distinction as one of the *Employers ranking for Spain 2009*, a study carried out by the CRF Institute, an international organisation dedicated to business and economic research.

  For the third year in a row, Telefónica España has won this award as a *Top* Company to work for. In 2009, it won the best rating in the salary and benefits section, with particular reference given to professional career, training and development and workplace conditions.

  This study, whose aim is to assess - objectively and independently - those companies that do their best to improve their human resources policy, assesses different criteria based on the conditions, environment and culture in the workplace, commitment to the company, development of talent and a commitment to innovation.

  The groups interviewed by CRF Institute were: human resources managers, directors from different departments and other professionals from the different companies.

- "Mercopersonas 2009": Telefónica España attained 8th position in the general ranking of MERCO companies from among the 100 companies which participated in the 2009 study.

  The Mercopersonas study is in its fourth version, growing in participation and methodology. The groups which participated in the analysis were: the general public students, final year university students, former alumni from business schools, workers from MERCO companies, human resources experts and MERCO companies.

- "Top company to work for": Telefónica S.A. won second place in the international competition and first place in Spain, within the *ranking* from Actualidad Económica, research carried out by Iberinform. Much of this position is due to District C, the new headquarters of the company, to the north of Madrid, which was officially inaugurated in October 2008, and has been in operation since 2006. The contribution of these new facilities to the position achieved in this ranking is decisive, as it improves the personal and workplace conditions of employees through spacious working areas, technologically equipped facilities, meeting rooms, lighting in buildings, etc

  Also, in this small city, District C, workers have different services to meet day to day needs such as: pharmacy, opticians, gymnasium, crèche, hairdresser, travel and insurance agency, a bank and savings bank, a poly-clinic with different specialities, catering area, a tailor's shop and, in terms of communications, the metro and public bus right outside the front door.

  Not only were its facilities and services key to Telefónica winning various awards such as a "good place to work", the company is also a benchmark when it comes to training in its employees. As well as company training programs is the Telefónica Corporate University, located in the Roca del Vallés (Barcelona) campus, training being aimed at upper and lower management.

# 5.1 Employee Relations

**Europe**

- Telefónica O2 Ireland was awarded 2nd place in the ranking by the globally renowned company and consultant the *Great Place to Work Institute* (GPTW) in the country, and was voted the best company to work for in the Communications sector.

- Also in Ireland, Danuta Gray, CEO of Telefónica O2, was awarded the prize of "Most Trusted Business Leader" in the country.

- Telefónica O2 United Kingdom was awarded 16th position in the ranking of Best Big Company to Work in the country, carried out by the Sunday Times newspaper.

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**Telefónica O2 Alemania is the best company to work for in the over 5,000 employee category**

Being the best place to work according to the independent study into workplace culture carried out by the *Great Place to Work Institute* (GPTW) is something which delights the employees of Telefónica O2 Alemania, which in 2009 won 1st place in this ranking and the title of "the best company in Germany" in the under 5,000 employee category.

Telefónica O2 Alemania won this position based mainly on the results of its employee satisfaction survey: 97% of employees answered that they were well treated, and 89% answered that they felt proud to work in the company.

This is the eighth time that the GPTW Institute has recognised Telefónica O2 as the best company to work for in Germany. The company has proven that the company-employee relationship is a day to day job, "we all need to put all our energy and trust into our job. To balance this, flexibility and freedom is one of the key tools, which generates confidence" says Joaquim Kugoth, HR Director. "we meet this need by offering ongoing training opportunities, measures to improve the work-life balance and, in particular, because we are concerned about the health of our employees".

René Schuster, CEO of Telefónica O2 Alemania, states: "We believe that the satisfaction of our employees is a priority for our economic success. The prize underlines the fact that we are extremely proud to work for Telefónica O2: our corporate culture is based on team spirit, creativity, the shared goodwill of our employees, the management of new and unknown challenges and the attainment of good results".

# 5.1 Employee Relations

Back to report contents
Back to the beginning of chapter 5

**Latin America**

- Telefónica Chile was chosen by the *Great Place to Work Institute* as the 4th best company to work for in the country. It is important to highlight the fact that the company has multiplied the number of employees by five from the three organisations that excelled in this evaluation (6,348 employees).

| GREAT PLACE TO WORK INSTITUTE 2006 | GREAT PLACE TO WORK INSTITUTE 2007 | GREAT PLACE TO WORK INSTITUTE 2008 | GREAT PLACE TO WORK INSTITUTE 2009 |
|---|---|---|---|
| **5 Operadoras** | **6 Operadoras** | **17 Operadoras** | **22 Operadoras** |
| 10 TM Ecuador | 1 TM Colombia | 1 Uruguay | 1 Uruguay |
| 11 TM Colombia | 4 TM Ecuador | 1 Ecuador | 1 Ecuador |
| 32 TM Chile | 5 TM Uruguay | 5 TM Chile | 1 Venezuela |
| 48 TASA | 13 TM Chile | 10 Venezuela | 4 Chile |
| Telesp | 26 Telesp | 12 TM Colombia | 4 TM Colombia |
| | 33 Terra Chile | 19 Telecom | 10 Telecom |
| | | 23 Terra Chile | 11 TM Argentina |
| | | 29 Terra Perú | 11 T. Centroamérica |
| | | 30 Media Networks | 13 TM Perú |
| | | 39 TM Argentina | 18 TSC |
| | | 40 TM México | 24 Terra Perú |
| | | (°) TM Perú | 25 México |
| | | | 25 Terra Argentina |
| | | | 41 TASA |
| | | | 48 Terra México |
| | | | 35 Telesp |
| | | | 53 Vivo |
| | | | 56 Terra Brasil |
| | | | (°) TdP |

- In Ecuador, for the second year in a row Telefónica won first place in the *ranking* carried out by the *Great Place to Work Institute* (GPTW) in the country.

- In Guatemala Telefónica won first place in the ranking carried out by the *Great Place to Work Institute* (GPTW) in the country.

- Telefónica Móviles Uruguay, for the second year in a row, won first place in the ranking carried out by the *Great Place to Work Institute* (GPTW) in the country, something unusual in the history of this ranking in Uruguay.

2009 Corporate Responsibility Report / **Telefónica S.A. 106**

# 5.1 Employee Relations

- Finally, Telefónica Venezuela won first place in the ranking carried out by the *Great Place to Work Institute* (GPTW) in the country.

## Diversity and inclusion

- In 2009, Movistar and Telefónica were distinguished with the prize "Best companies for working parents", which is awarded by the Fundación Chile Unido, El Mercurio and Revista Ya. On this occasion, Movistar won first place, and Telefónica el 5th on a country wide level.

- Once a year, the Chilean Government, through its Fondo Nacional de la Discapacidad organisation, recognises the main contributions that, in different fields, are made by disabled people. In this context, awards were given to Carla Figueroa, as the best disabled sports person in Chile, and to the Publimetro braille newspaper for its valuable contribution to the blind.

## Safety and health

2009 saw specific awards for exemplary corporate performance in the area of health and safety in the workplace, such as for example:

- Telefónica Telecom Colombia (Fixed Operations) was audited by the Consejo Colombiano de Seguridad with the aim of evaluating and certifying its management system in industrial safety and occupational health. 2009 saw the commencement of the program so that its employees could be audited by this organisation, which is why the Committee's magazine acknowledged it as being the first company in the telecommunications to be certified.

- The Consejo Nacional de Seguridad de Chile, a body which is part of the Consejo Interamericano de Seguridad, in a ceremony held on 26 May 2009, awarded Telefónica Chile the prize for "Excellence in Risk Prevention", awarded to those companies that have managed to maintain a 0% frequency over two consecutive years.

- Telefónica Ecuador was recertified with Standard OSHAS 18001 AENOR (Asociación Española de Normalización y Certificación.

- Terra México was awarded 48th position in the *ranking* of *Great Places to Work* (12th within the GPTW ranking in the IT and Telecom industry in the country).

- Telefónica Venezuela was recognised by the Instituto de Protección Civil of Chacao City Hall, Miranda, for its participation in the Withdrawal from the Municipality of Chacao.

- Telefónica USA was recognised by the *Miami-Dade Department of Health* for its efforts as part of its health program, Tele Salud.

- Telefónica O2 Czech Republic is certified in *Health Promoting Enterprise the 2nd Grade*. The initial certification was granted in 2005, and is valid until 2011. This is a high level certificate in prevention and health, in accordance with the "criterion for evaluating the promotion of health in the workplace" drawn up by the Instituto Nacional de Salud Pública. This activity is recognised by the Health Ministry and coordinated on a European level by the ENWHP.

- Telefónica O2 República Checa has been certified compliant with British standard OHSAS 18001 by TÜV NORD CERT GMBH. The city is valid from October 2004 until August 2010. The certification confirms the fact that the company applies a management system in line with standards on the sale and provision of communications, business solutions and information systems, including the installation and operation of public telecommunications networks and the measurements of these parameters.

# 5
# 2

# Responsibility in the supply chain

## 5.2.1 Commitment to responsible management in the Supply Chain

Telefónica remains committed to promoting and ensuring socially responsible activity in its entire Supply Chain, as stated in its Business Principles:

our **suppliers** can trust us

our business principles
*Telefónica*

**conflicts of interest**

- We will establish controls in our procurement processes to manage situations in which a person with a material financial interest (whether through employment, investment, contract or otherwise) in a supplier or potential supplier is likely to be directly or indirectly involved in a procurement process or decision relating to that supplier.

**responsibility in the supply chain**

- We will require our suppliers to meet similar ethical standards in their businesses and to comply with existing legislation and regulations in each country where they operate.

- We will fulfil our payment commitments to our suppliers.

**fairness and transparency**

- We will guarantee transparent and equal opportunities for our suppliers, fostering competition whenever it is possible.

- We will adhere to strict procurement procedures to ensure we receive services and products under the best possible conditions and will award business solely on merit.

# 5.2 Responsibility in the supply chain

The almost 29,000 companies that work with the Telefónica Group make up a worldwide Supply Chain, where the contracts awarded in 2009 totalled 23,000 million Euros.

Considering this diversity and its impact, it becomes even more important for the Company to guarantee Responsible Management in its Supply Chain. The Group carries out this management with two focal points:

- **Establishing a relationship with suppliers based on transparency and trust**. All Telefónica Group companies make their purchases according to a common Management Model, which is characterized by transparency in the negotiation process, objectivity in decision making and equal opportunities for all suppliers.

  The Purchasing Model is applied through the Purchasing Committee[5] and the e-commerce tools. In 2009, 95% of purchases in Spain and Latin America (80% of the Group's purchases, including Europe) were negotiated through the e-commerce platform. This figure reflects the momentum the Group has given to the electronic management of transactions with suppliers at the time of negotiation, formalizing commitments (award letters, contracts and orders), and invoicing.

  All this has been made possible thanks to Telefónica Electronic Purchasing (Spanish acronym: TCE), a company in charge of managing the e-commerce platform and deploying electronic tools for the purchasing of all products and services in all the Group companies.

  In 2009, when striving for a better performance, TCE changed the purchasing platform to the new version of the "Ariba Spend Management Suite" product. In 2009, the platform had an average availability of over 99.6%.

  One of the most important changes of the Purchasing Model in 2009 was the creation of Telefónica Global Services (TGS), a company that aims to strengthen relations with the Group's main suppliers within the scope of network infrastructures, client devices and information systems. The objective is to promote the overall management of negotiations with suppliers and streamline the processes in order to improve efficiency.

  The Telefónica Supplier's Portal (www.telefonica.es/proveedores) offers more information about TGS, the Purchasing Model and other existing procedures, including the supplier registration process.

  Telefónica, which is aware of the impact of its activity, continues to improve it invoicing management and has therefore reduced the amount that was paid late, compared to 2008:

| % LATE INVOICES | | |
|---|---|---|
| **LATAM** | **2008** | **2009** |
| % Invoices | 13.99 | 11.1 |
| % Amount | 14.6 | 4.6 |
| **SPAIN** | **2008** | **2009** |
| % Invoices | 5.81 | 7.02 |
| % Amount | 16.51 | 12.53 |

*2009 data includes both average times for postal processing of the receipt of invoices, as well as days approved for payment by the Telefónica Group.

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[5] The Telefónica Group's Purchasing Committee has been in operation for over 12 years. There are currently eleven Committees located in: Madrid, London, Prague, São Paulo-Telesp, São Paulo-Vivo, Buenos Aires, Santiago (Chile), Bogota, Lima, Caracas and Mexico City.

# 5.2 Responsibility in the supply chain

- **Building a relationship framework that promotes and monitors the responsible activity of suppliers in accordance with the law, Human Rights, health and the environment.** This means that it helps comply with the Group's Business Principles.

    Telefónica requires all of its direct suppliers to accept and comply with these Principles and encourages them to disseminate and promote these among their collaborators and suppliers.

**SELF-ASSESSMENT ON REGISTRATION**

7,182 Suppliers

782 Suppliers initially classified as high risk

**TRAINING AND AWARENESS-RAISING**

➤ **Contract demand, in PdA training,** at labour intensive countries in Argentina, Brazil and Mexico.
➤ **SME training courses** in Ecuador (17), Colombia (98*), Mexico (3) and El Salvador (15).
➤ **PdA training courses were also given to** 2,100 people in Latam

*Includes those attending the March 2010 Workshop

**AUDITS**

➤ **840 audits in 11 countries** (Spain, Argentina, Brazil, Peru, Colombia, Chile, Mexico, Venezuela, China, Finland, United Kingdom)

➤ **Highlights:**
  - Launch of improvement plans with advance on contract
  - Improvements to compliance indicators
  -

➤ **To be improved:**
  - Extension of socially responsible practices throughout the chain

Telefónica also actively participates in sector and inter-sector initiatives that aim to guarantee Human Rights and respect the environment in order to reinforce its 2002 commitment to join the United Nations Global Compact.

- Telefónica is a founding member of the GeSI (Global e-Sustainability Initiative) and is the co-leader along with Motorola of the Supply Chain Work Group. GeSI, in collaboration with the Electronic Industry Citizenship Coalition (EICC), has promoted standardized and joint activity of the ICT sector since 2004, so that all suppliers of the sector can have tools that help improve socio-occupational and environmental activities. One of these tools is the E-TASC (Electronics - Tool For Accountable Supply Chains, www.e-tasc.com).

    Telefónica aims to incorporate its main suppliers in 2010, considering their risk level based on the nature of the product and/or service that they provide.

    In 2009, GeSI-EICC promoted two training workshops for suppliers in Shenzhen (China), where more than 200 people attended from 75 companies. GeSI also launched two e-learning training modules to show buyers and suppliers the need to integrate socially responsible behaviour in the purchasing management process.

**GeSI**
**GLOBAL e-SUSTAINABILITY INITIATIVE**

## 5.2 Responsibility in the supply chain

Telefónica also promotes responsible action in the extraction of basic minerals for the ICT sector in conflictive areas. Along these lines, the Company has signed a collaboration agreement with Intri Tin Supply Chain Initiative (ITRI), a non-profit institution that represents the tin industry (www.itri.co.uk). The agreement aims to design and implement a tracking system in order to identify the origin and treatment of minerals. The implementation is done through a pilot in mines located in eastern Democratic Republic of the Congo (DRC). This initiative has the support of GeSI, EICC and the Ministry of Mines of the Republic of the Congo.

- Finally, Telefónica has collaborated with Forum Empresa since 2006 in the promotion and training of Corporate Responsibility in Latin America. In 2009, training workshops were organized for SME's in Colombia, Ecuador, Mexico and El Salvador, where more than 120 companies participated.

# 5.2.2 A significant commitment given the impact of Telefónica's activity

In 2009, the awards in the Telefónica Group amounted to € 23 billion. The distribution, across the three regions in its structure, was as follows:

## Sales volume adjudicated 2009



■ Rest  ■ Latin America  ■ Europe  ■ Spain
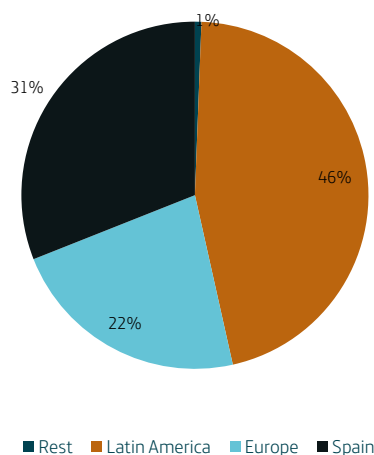
Note: Latin America includes purchases made in Argentina, Brazil, Chile, Colombia, Ecuador, El Salvador, US, Guatemala, Mexico, Nicaragua, Panama, Peru, Puerto Rico, Uruguay and Venezuela.
Europe includes Germany, Ireland, Czech Republic, Slovakia and the United Kingdom.
Others include the purchases made in Morocco.

The leading suppliers of 2009 were: NOKIA, ERICSSON, SAMSUNG, NOKIA SIEMENS, APPLE, HUAWEI, SONY ERICSSON, LG, ALCATEL LUCENT and IBM.

The Group, in line with its inspirational vision, is an Engine of Development and Progress for the Societies in which it is present. An example of this is that nearly 80% of the successful bidders were local suppliers in 2009, who accounted for 88% of the awarded amount.

# 5.2.3 A purchasing model based on transparency, where e-commerce tools become important.

Telefónica has a common Purchasing Management Model in all of its companies that guarantees the responsible management of purchases by applying the following principles:

• Concurrence and equal opportunities.
• Transparency in processing and decision making.
• Objectivity and unanimity in the award decisions.
• Commitment to provide service to internal and external customers.
• Mutual fulfilment of commitments with suppliers.

Based on these principles, Telefónica has promoted electronic trading for several years with two objectives: On the one hand, guaranteeing transparency, concurrence and equal opportunities with suppliers; and on the other hand, seeking greater efficiency in the request and receipt of offers. These advantages are further illustrated in the electronic auction, which was used as a negotiation technique in 2009 for over 7,500 negotiations, accounting for more than 4 billion euros.

In 2009, the number of suppliers incorporated in the platform continued to increase, until there were more than 20,900 at the end of the year.

The following graph shows the evolution of electronic trading and auctions:

## Evolution of the amount traded electronically

| Year | Managed in e-Sourcing | Managed in auctions |
|------|----------------------|---------------------|
| 2009 | 18,329 | 4,084 |
| 2008 | 18,152, | 3,750 |
| 2007 | 16,519 | 2,563 |
| 2006 | 12,469 | 1,367 |
| 2005 | 8,264 | 710 |
| 2004 | 3,987 | |
| 2003 | 740 | |

■ Managed in e-Sourcing    ■ Managed in auctions

At the end of last year, the electronic transactions amounted to over 18 billion Euros, and there were more than 38,000 electronic invoices. In 2010, the Telefónica Group plans on increasing this figure by promoting electronic invoicing for all the worldwide suppliers.

# 5.2.4 A process that encourages ethical, labour and environmental standards among our suppliers

In 2009, Telefónica continued the deployment of the Responsible Purchasing Policy that began in 2008, was integrated in the purchasing process, and responds to the following phases:



**Minimum requirements:**
- Child labour is not permitted
- Forced labour is not acceptable
- Working conditions which represent a risk to the life of workers and inhumane treatment at work are not permitted
- Compliance with environmental laws is required
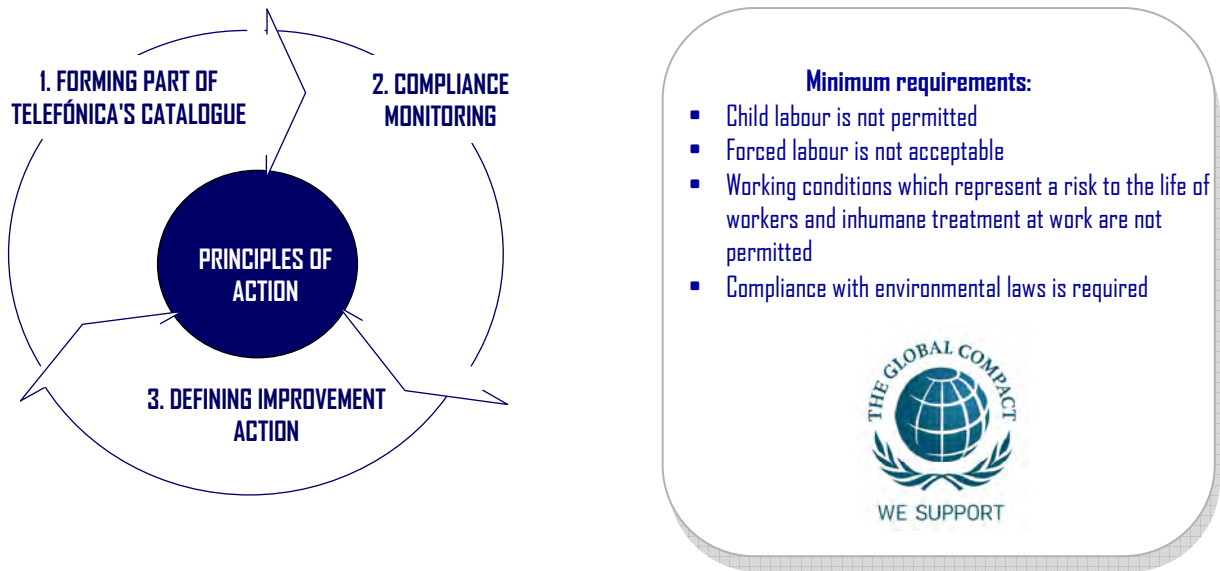
- **Self-evaluation before being included in the Telefónica catalogue**: According to the cited regulations, in 2008, Telefónica classified its suppliers in two potential risk levels (high and low) based on the activity, country of production, impact on the customer and impact on the brand.

  2,453 suppliers were identified that could be considered a priori high risk, within a catalogue of over 29,000. These suppliers are required to fill out a detailed Corporate Responsibility questionnaire at the time of their registration or renewal.

  As regards the other suppliers, they complete another smaller survey on a voluntary basis. In both cases, with the voluntary or required questionnaires, the evaluated aspects are related to codes of ethics and compliance with socio-occupational, environmental, safety and health regulations.

  The supplier response levels that were initially considered high-risk were:

## Number of risk suppliers evaluated
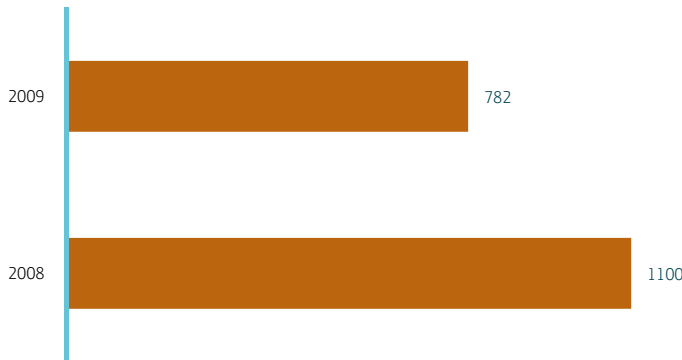


| | |
|---|---|
| 2009 | 782 |
| 2008 | 1100 |

## 5.2 Responsibility in the supply chain

### Analysis of risk levels (%)

| | 2009 | 2008 |
|---|---|---|
| High | 8 | 16 |
| Medium | 25 | 49 |
| Low | 67 | 35 |

■ 2009  ■ 2008

### Analysis of risk values 2008

| | High | Medium | Low |
|---|---|---|---|
| Environment | 146 | 213 | |
| H&S | 108 | 20 | |
| CR | 156 | 317 | 401 |
| HR | 78 | 29 | |

■ High  ■ Medium  ■ Low

### Analysis of risk values 2009

| | High | Medium | Low |
|---|---|---|---|
| Environment | 251 | 183 | 348 |
| H&S | 183 | 68 | 619 |
| CR | 200 | 481 | 101 |
| HR | 17 | 21 | 744 |

■ High  ■ Medium  ■ Low
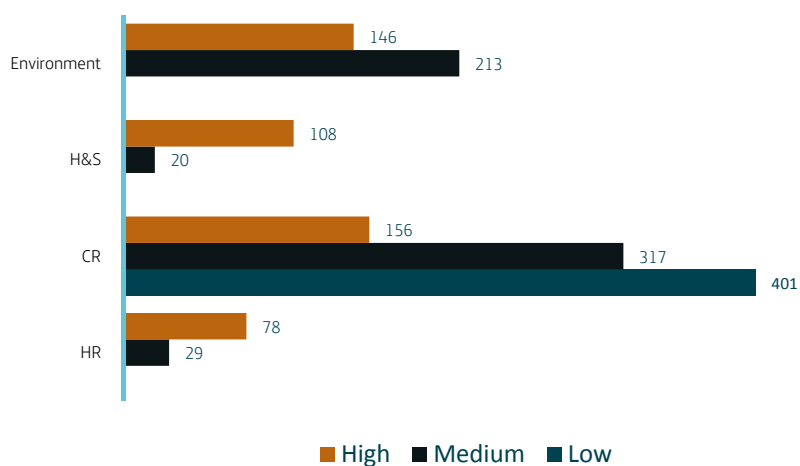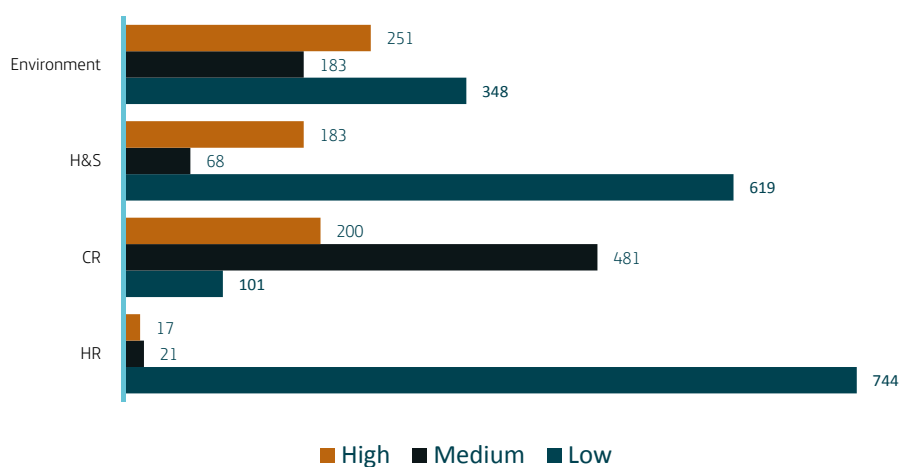
Also, more than 6,400 suppliers voluntarily filled out a self-evaluation questionnaire in 2009.

The main risk factors are based on guaranteeing the inexistence of child labour and forced labour, as well as paying a salary that is commensurate with the law.

## 5.2 Responsibility in the supply chain

### Causes of risk



- Code of ethics
- Child labour
- Forced labour
- Environment
- Health & Safety
- Risk Work Condit.
- Contract in accordance with law
- Max. no. of hours
- Minimum Wage
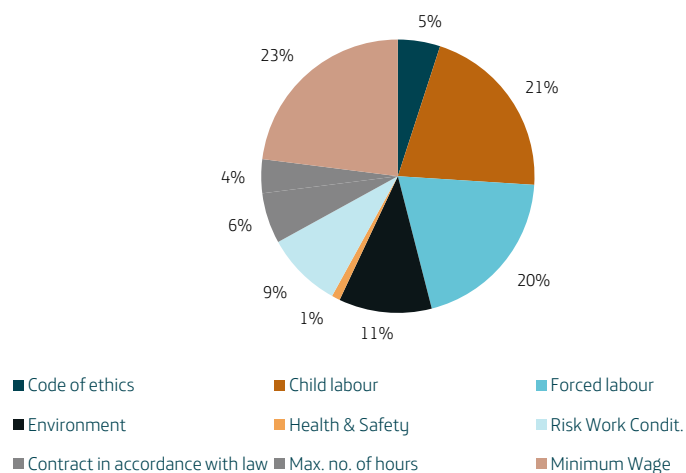
- **Monitoring the level of compliance:** The on-site audit is a key piece to ensuring the level of compliance with the Business Principles. The Telefónica Group has conducted 840 audits on suppliers, which mostly respond to local or regional criteria.

One of the Company's challenges is defining and using a homogenous audit checklist for the entire Group by the end of 2010. This task began in 2009, and currently more than 60 high-risk suppliers in Spain and Latin America were audited based on standardized criteria, with the presented reports being homogenous and comparable.

**In situ audits based on standardised criteria for the entire Group**

### No. of risk suppliers evaluated
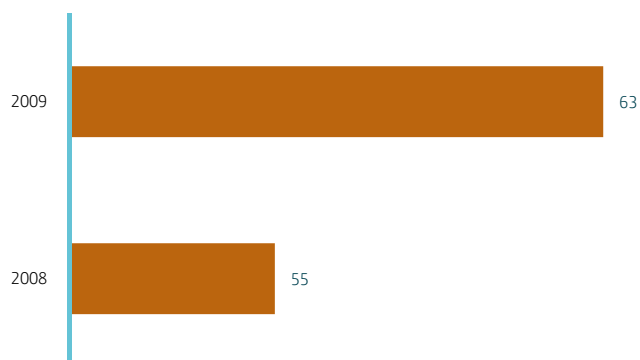
## 5.2 Responsibility in the supply chain

### % total compliance in each area

| Area | Compliance |
|------|-----------|
| Environment | 54% |
| Health & Safety | 90% |
| HR | 89% |
| CSR | 55% |
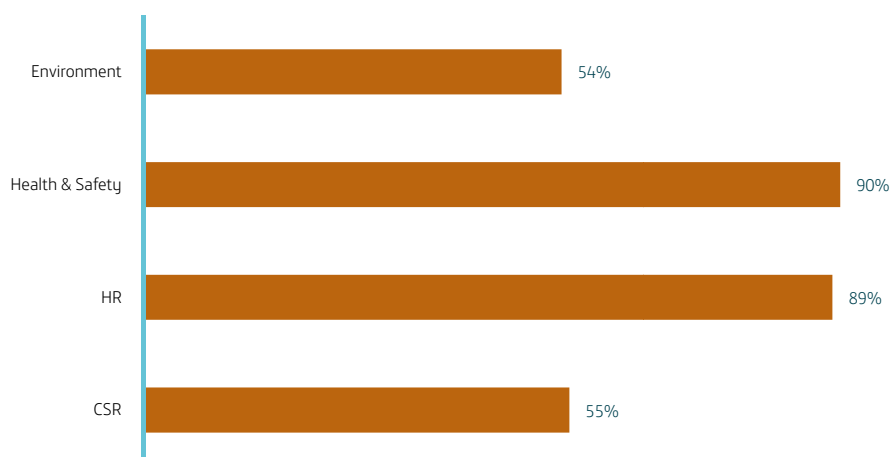
**Strong points**
- Employment requirement control, principally:
    o Work contract
    o Minimum wage
- Health and safety assessment

**Points to be controlled**
- Promote CSR training both for companies and their workers
- Greater control of environmental management

## 5.2 Responsibility in the supply chain

Working together with all the regions: Besides the boost in corporate areas of the Responsible Purchasing Standard, actions are carried out by each region or country that responds to the local needs. Some of the most important are:

- **Spain. "We are human" programme**: A programme that was launched in 2009 by the Mobile Residential Channel Management of Telefónica España, which promotes teamwork with suppliers and dedicating time to people (customers and suppliers), because we are all human.

  Training activities were carried out among Call Centre sales reps and Telefónica supervisors. During the 2009 pilot programme, customer satisfaction grew by 4.6% in all the participating Call Centres (in just two months since it began).

**COMMITMENT**

**MAIN LINES OF ACTION**
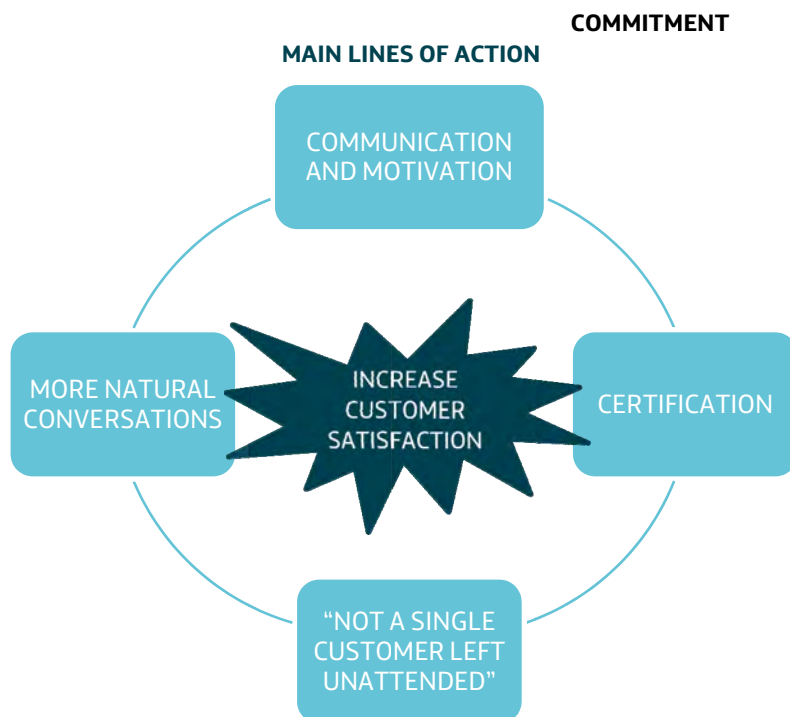


- We have created a new way of communicating.
- Improving relations with salespeople, more teamwork involving the supplier structure.
- Inter-cultural sessions in order to brainstorm ideas, learn, improve communication and ensure more humane treatment. We all have a lot to learn.
- Salesperson Accreditation. Self-training and control over the progress of salesperson training.
- New ways of gathering ideas, ensuring greater salesperson involvement in the whole process

- **Latin America. "Aliados" programme:** In 2008, Telefónica Latin America launched a programme for partner companies in order to guarantee compliance with socio-occupational standards and to encourage their development in terms of recruitment, training, compensation and improved working environments. This is a large programme since indirect employment is generated through the companies for about 200,000 people in 13 Latin American countries.

  The "Aliados" programme also directly affects customer satisfaction, since roughly 80% of contact with customers is through partner companies.

  This programme is externally aimed at all managers or administrators of allied companies, and internally aimed at all departments of the organisation: Mobile Business, Residential, Customer Service, Corporate Social Responsibility, Communication, General Secretariat, Purchasing, Quality Control and Human Resources; all of which are members of the Third-party Committee. The creation of this Committee has been able to join all of the Company's projects that are related to partner companies.

  A remarkable milestone of the programme is that the methodology, model and framework were developed in house based on the region's best practices. The main consolidated results for 2009 are:

o Since 2008, more than 170,000 people from partner companies have received sales training (both classroom and e-learning).

o More than 12,000 people from collaborating companies, certified by ESTELA (Escuela Técnica en Latinoamérica - Latin American Technical School) since its launch in 2007. This is a pioneering initiative in the region in collaboration with suppliers, lead by the customer service department, and which is currently integrated as part of the "Aliados" program.

o At the end of 2009, the iCampus platform was created for the exclusive use of partner companies, which currently has more than 6,000 users.

o Also in 2009, over 900 people from Telefónica and managers from allied companies received training on how to properly manage partner companies.

o There were Corporate Responsibility workshops with over 2,000 participants.

o More than 800 external audits with improvement plans were in place for those cases where irregularities were detected.

o Establishment of labour bonds in contracts and penalties in case of non-compliance with work obligations.

Telefónica's goals for 2010-11 include consolidating the Sustainable Model of the "Aliados" programme in Latin America and progressing from the current rational connection to the emotional connection in order to keep improving Customer Satisfaction.



- Europe. Telefónica O2 United Kingdom is the regional leader of Supply Chain practices. In 2009, it focused its activity on working with important technology and terminal suppliers, as well as service providers.
  The work includes activities related to raising awareness, inspections and audits, where environmental impact management is identified as a strength and responsible management in the early stages of their respective Supply Chains is identified as a weakness.

  It should also be pointed out that some of the less-known brands have developed important activities aimed at the sustainability of their value chain, whereas other larger and more prestigious companies are still in an earlier stage.

  Telefónica O2 United Kingdom has also collaborated with its suppliers and partners on recycling issues, with activities that range from consulting to development to the promotion of sustainability policies and standards.

# 5.2.5 Special attention to sustainability training for SME's

The Telefónica Group, besides presenting and disseminating its Business Principles, works on promoting and raising awareness about Corporate Responsibility in its entire Supply Chain.

In collaboration with Forum Empresa, Telefónica has promoted Business Social Responsibility workshops since 2007 that are designed for SME's in Latin America. The number of companies that participated in the workshops held until the first quarter of 2010 was:



In 2009, Ecuador, Mexico and El Salvador joined this experience, and new workshops were planned in Colombia that finally took place in March 2010.

The main comments that the participating SMEs communicated to Telefónica were as follows:

- Corporate Social Responsibility (CSR) is not a limited or exclusive activity for large companies.

- By developing CSR activities, a "win-win" situation is created, where the company benefits economically and these activities contribute to the country's social and environmental development.

- CSR opens up great opportunities and competitive advantages to join large companies' supply chains.

- CSR is a tool that can help the company achieve its consolidation.

- CSR can provide the opportunity to build alliances between SME's and large companies in areas of common interest.

For example, below are some comments that were made at the workshop held in Ecuador:

**Average: 4.8**

**Observations:**
- It was interesting and easy to understand, as well as providing incentives to meet targets.
- Dynamic course, it allowed the interaction of all who took part. Very practical examples.
- Excellent workshop, comprehensive, active, dynamic.
- It was an excellent workshop for me; I'd like to pass on my congratulations to CERES for having such an efficient and knowledgeable person on the subject.
- Clear course material. Dynamic workshops. Duration of the seminar.
- Perhaps there will be other opportunities for Telefónica employees and suppliers to socialise and get to know each other better.
- I'd like to thank Movistar for its kind invitation to this important workshop.
- An excellent Telefónica initiative, bringing the CSR system closer to its suppliers. An important way of doing business.

# 5.2.6 A commitment that is reflected in the 2010 business guidelines

Telefónica will continue working to have a Purchasing process available to the entire Group that covers sustainability issues among suppliers. Along these lines, the 2010 objectives have been raised throughout the chapter, which are summarized as:

- Promoting trust and transparency:

  - Increasing electronic trading, especially among our global suppliers.

  - Improving invoice management by reducing the amount paid late.

- Promoting sustainability standards among suppliers:

  - Encouraging dialogue, training and audits for suppliers classified as high-risk due to the nature of the product, service or the country where they provide it.

  - Promoting the use of the eTASC tool among the Group's main suppliers.

  - Consolidating the actions of high-risk suppliers by responding to each region's situation: Europe, equipment and component suppliers; Latin America, labour-intensive suppliers.

Therefore, throughout 2010, the entire Company will follow the criteria marked by the Supply Chain Responsibility Policy in order to materialize **Telefónica's commitment**:



*In line with our Business Principles, we take our social and environmental responsibilities seriously here at Telefónica.*

*We want everyone to be aware of our values and commitment throughout the whole supply chain. And we think hard about who we choose as suppliers. Our Supply Chain Responsibility Policy helps us in our drive to build a better future.*

*We always:*
- *make sure everyone who deals with suppliers understands and is aware of the benefits of working responsibly*
- *tell our suppliers how we work, so we share the same vision*
- *encourage our suppliers to go the extra mile in anticipating and exceeding legislation*
- *promote continuous improvement and make sure we're working together in more and more environmentally and socially responsible ways*
- *encourage our suppliers to work in the same way with their suppliers. So the values are carried through our entire supply chain.*

*We are focused on sustainability in the supply chain, a key factor that makes a difference.*

# 5
# 3
# Integrity and Transparency

Telefónica continues to be committed to honest and transparent management, based on identical self-regulation across the Group, which at times goes much further than the national legislation.

## 5.3.1 Business Principles

*In 2009, Telefónica's Business Principles were recognised as one of the best sets of working practices within an economic framework, situating the Company at the forefront of the Dow Jones Sustainability Index.*

The Business Principles, Telefónica's Code of Ethics, inspires and defines the way in which the Company undertakes its activities and its relations with its stakeholders. They constitute the basic set of rules which are the basis for the policies and regulatory frameworks required, and which help all professionals in the company in their day to day business.

Since they were approved in 2007, and from an external point of view, the Company's Business Principles have allowed Telefónica to respond to concerns regarding questions of corporate integrity and transparency when dealing with other institutions, as well as competing on socially responsible investment indexes such as the *Dow Jones Sustainability Index* or the FTSE4Good, among others.

In 2009, the Telefónica Group's Business Principles were formally recognised as one of its strengths, as well as being a best working practice within an economic framework, in the review undertaken by the *Sustainable Asset Management* (SAM) rating agency. This, among other factors, resulted in Telefónica leading the *Dow Jones Sustainability Index* (DJSI) last year.

# 5.3 Integrity and Transparency

## Codes of Conduct/Compliance/Corruption&Bribery



| | |
|---|---|
| Best Company | 90 |
| Telefonica SA | 90 |
| Sector Average | 70 |
| DJSI Sector Average | 82 |

Relative best in class (%): 100%

From an internal point of view, the Business Principles represent a "guide" which assists all the Company's staff in their day-to-day activities, as well as reinforcing the sense of belonging to a large, ethical and responsible organisation, contributing to a better workplace.

An example of this is the increase by almost 20 points in Telefónica Latin America and 10 points in Telefónica Spain in employee response to the question: ""*Do you consider that Telefónica acts in an ethical and responsible manner?*"[6], as included in the Working Environment and Commitment Index which is undertaken annually.

## Result of the question "Do you consider that Telefónica acts in an ethical and responsible manner?"



Telefónica Spain — Telefónica Latin America
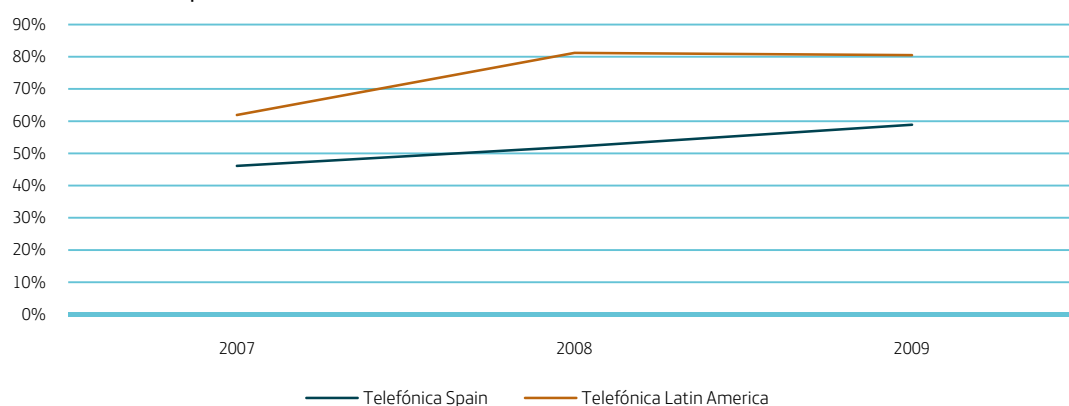
There is also a clear commitment amongst Telefónica's executive management to ensuring full compliance with the Company's Business Principles. Thus in 2009, all Telefónica Colombia's directors ratified this commitment, which includes, among other aspects:

• Knowing the Business Principles and act in consequence.
• Leading by example or replicate the principles through your behaviour in the environment in which you carry out your activities.
• Reporting any processes and/or actions which breach the Principles.

**In order to find out more about Telefónica's Business Principles, click here.**

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[6] The question "Do you consider that Telefónica acts in an ethical and responsible manner?" is included in the Working Environment Study undertaken in Spain and Latin America.

## 5.3 Integrity and Transparency

### 5.3.1.1 Business Principles Office

Telefónica uses its Business Principles Office to ensure the implementation and observance of its code of ethics, to identify and develop standards and support its staff by responding to their concerns, queries and allegations.

The Business Principles Office, which reports to the Human Resources and Corporate Reputation and Responsibility Commission, is the body charged with communicating these Principles, making sure the right processes for implementing them have been put into place, dispensing advice and dealing with complaints lodged by various groups, and drafting policies and regulations.

#### Operation

**In 2009 the Project Unit was set up, as part of the Business Principles Office, which seeks to identify all risks associated with Telefónica's Code of Ethics and promote projects and action that mitigate or minimise this risk.**

The Office, which reports to the Management Board through the HR, Corporate Reputation and Responsibility and Reputation Committee, is composed of the corporate areas of Human Resources, Internal Audit, General and Legal Secretariat, and Telefónica's Technical Secretariat to the Chairman. In addition, there is a representative from each of the regions in which the Group operates: Spain, Latin America and Europe.

Alongside this Office and seeking to support the raising of awareness with respect to these principles, there are a number of "Local Offices" throughout Latin America, in Argentina, Brazil, Chile, Colombia, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, Panama, Peru, Uruguay and Venezuela. These local offices have the same make-up as the Corporate Business Principles Office and feature a person who is responsible for ensuring internal coordination between the local office and the Company's various units throughout the country in question.

In Europe there is the figure of the *Compliance Officer* in all Telefónica Europe's operations, with this person being responsible for ensuring compliance with the Business Principles in each country.

In terms of its operations, the Office held four meetings during 2009 which were attended by the representatives from all areas as well as regional representatives. At these meetings the current state of corporate training was monitored, along with the most important employee complaints and questions, the ratification of regulations arising from our Business Principles etc.

2009 also saw the setting up of the Project Unit within the Office of Business Principles, in order to encourage and promote the creation of policies and projects which further our Principles and facilitate their day-to-day application, thus helping to build a corporate culture within the Group which guarantees reliability.

To this end, Telefónica has, within the functions of the Office, included identification and assessment of the risk associated with Business Principles, which are then included as global risks within the new Telefónica Group management model. This allows Telefónica to identify courses of action that mitigate or minimise such risks, and monitor and report on them.

**Table showing the functions of the Office of Business Principles**

# 5.3 Integrity and Transparency

## 5.3.1.2 Training

Over 70,200 employees of the Telefónica Group have successfully completed Business Principles training, 57% of the workforce.

In 2009, Telefónica continued to make its staff aware of its Business Principles through online training. The aim of this training, of an obligatory nature, seeks to make all staff aware of the Company's Code of Ethics and reflect upon the importance of the Group having a set of ethical standards which assist in the undertaking of day-to-day activities. The course has thus been included in local "induction" programmes for new staff in countries such as Spain, Germany, Argentina and Peru.

As of December 2009, 70,286 employees had received training, representing 57% of the total Telefónica Group workforce[7].

## Percentage of employees trained in the Business Principles



Telefónica Spain — Telefónica Latin America — Telefónica Europe — Other businesses
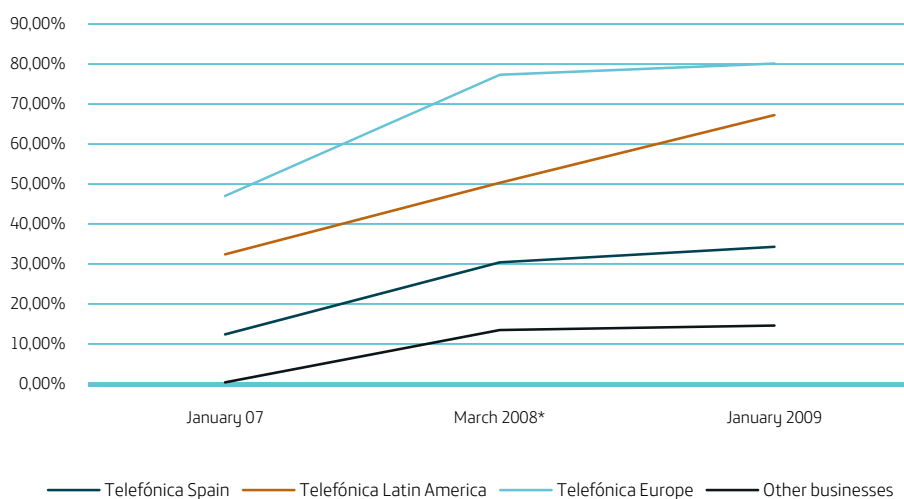
*The 2008 Telefónica Corporate Responsibility Report reports the percentage of employees receiving Business Principles training as of 1 March 2008.

This activity has been complemented in many countries, with face-to-face training for employees and suppliers, thanks to the work of Local Business Principle Offices:

- In Spain, the number of employees who have completed the online course in 2009 exceeded 12,110. An "Open Classroom" was also held - a series of conferences on current matters which offer employee training opportunities which complement the Company's Individual Training Plan. The conference, through the resolution of practical cases, ethical dilemmas, theories, etc, focused on how employees might apply the Business Principles in their day-to-day activities.



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[7] Employees trained as of December 2009. Does not include telephone service staff.

# 5.3 Integrity and Transparency

- In Latin America, the number of employees receiving training stands at 34,113. We should highlight countries such as Colombia, Mexico and Panama, where the percentage of trained employees represents almost 100% of the workforce. In Argentina, Chile, Guatemala, Ecuador and El Salvador the figure is close to 80%, and around 50% in Brazil, Nicaragua, Peru, Uruguay and Venezuela.

## Percentage of employees trained by countries

| Country | Percentage |
|---------|-----------|
| Venezuela | 56,% |
| Uruguay | 56% |
| Peru | 48% |
| Panama | 100% |
| Nicaragua | 56% |
| Mexico | 99% |
| Guatemala | 89% |
| El Salvador | 96% |
| Ecuador | 74% |
| Chile | 100% |
| Colombia | 84% |
| Brazil | 31% |
| Argentina | 79% |
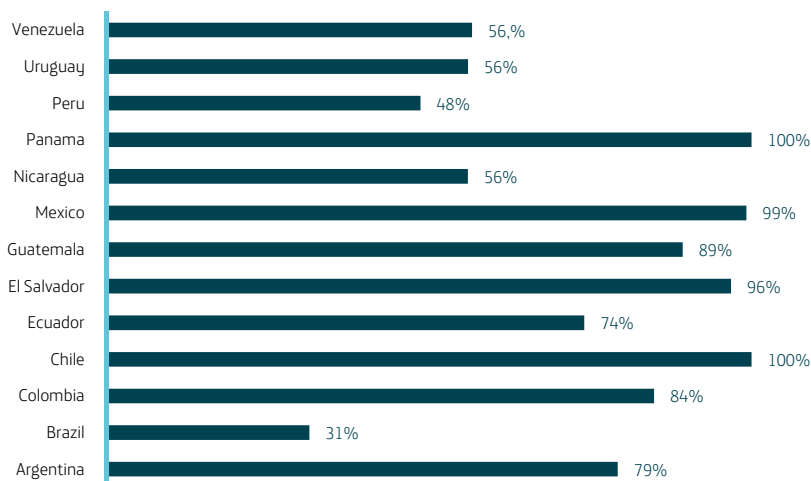
As well as our online training, a number of specific workshops were held, including:

- Ecuador: In 2009, the Company reinforced the role of training concerning its Code of Conduct with its collaborators, small and medium-sized suppliers and authorised distributors, with a view to guaranteeing transparent and responsible management in the supply chain. As a result, 87% of staff involved in administering contracts for products and services received on-site training in the course "A culture based on our Vision and Business Principles" as a key requirement in the implementation of our policy for managing relations with third parties.

  17 small and medium-sized suppliers also received guidance through the preparation of a code of conduct and the electronic "Red Movistar" newsletter, 160 executive managers and sales coordinators in Authorised Distributors received messages related to our Business Principles.

- Colombia: As part of training and development programmes, a face-to-face training process aimed at 100% of the Group's employees (Telecom, Movistar and Terra). The aim was to show, through practical case studies, how Telefónica's Business Principles could be a tool of fundamental importance in day-to-day decision-making processes. By the end of 2009, there were 40 trainers who in turn trained 460 people from both branches of the Company's operations in Colombia (land-line and mobile services), a figure which represents approximately 22% of Telefónica's workforce.

  The objective for 2010 is to achieve 100% coverage of employees receiving face-to-face training, and to commence work on a similar model to that used in the workshops to ensure that Telefónica's Code of Conduct training extends to third parties (suppliers, collaborators, etc.).

- Mexico: Through the Human Resources department, 115 people completed the "Effective Workplace Management Workshop", a face-to-face learning programme the aim of which was to provide tools to ensure good staff management within the workplace, as well as reinforcing understanding of the Company's Business Principles.

- In Europe, over 22,600 people have completed the course, representing more than 80% of the total workforce at a regional level, meeting the target initially set.

## Percentage of employees trained by countries

| Country | Percentage |
|---|---|
| Czech Republic | 71,69% |
| Germany | 87,72% |
| Isle of Man | 93,86% |
| Ireland | 70,53% |
| United Kingdom | 86,35% |

*Business Principle training in Slovakia will be launched in 2010.

In additional to ongoing online training, face-to-face workshops have been held in countries such as Germany, studying specific corporate areas (market research, business intelligence etc.) relating to Telefónica's Business Principles. Furthermore, the "Welcome Session" which new employees attend now include a series of induction courses covering aspects covered by the Business Principles: corruption and bribery, the fight against discrimination, data protection etc.

## 5.3.1.3 Communication

The Business Principles website - replicated on corporate intranet sites covering all the Company's operations - provides internal publicity, producing a total of 34,548 page views and 5,411 downloads of the information pamphlet outlining the Code of Ethics (translated into Spanish, English and Portuguese).

To consolidate this, the internal magazine "SOMOS", distributed throughout the Company, carried the article *"A Day in the Life of the Business Principles Office"*, in which Office members described their activities since the Code was approved in 2006. The magazine also included a Business Principles pamphlet distributed to almost 45,000 employees throughout the Group.

On an external level, Telefónica has taken part in and collaborated with numerous forums, universities and organisations. This has encouraged debate and reflection on the importance of companies evolving and implementing their ethical parameters, making them the basis for the promotion of a common culture across the organisation.

In addition to these global initiatives, we should also make special mention of the development of a number of projects on a local and regional level which aim to help employees better assimilate our Business Principles.

- Colombia: Business Principles Office approved a communication strategy based on three pillars: knowledge, appropriation and reinforcement. Therefore during 2009, employees were interviewed in order to determine the level of knowledge and assimilation of the Principles, interactive case studies concerning the breach of these principles were made public, *pop-ups* were designed for each Principle as well as memory-jogging banners, and printed material was prepared for distribution among the workforce. In a similar vein, Telefónica executives worked with reinforcement guides which informed them of the latest developments regarding the matter and the level of approval of the Principles among their teams.
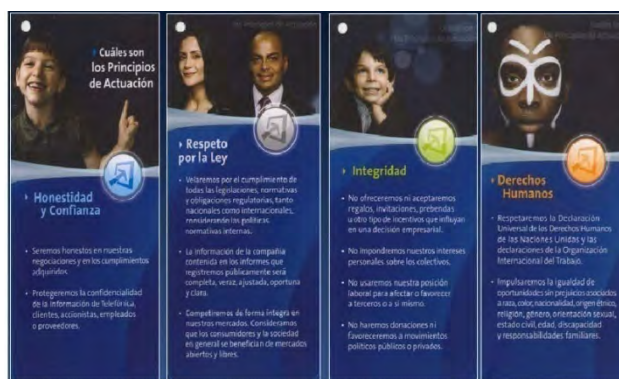
- Mexico: Throughout 2009 the Company launched a series of communications initiatives through various channels, with a view to ensuring the widest possible national coverage. Emails are sent out, videos are played on the various plasma screens in our offices and articles are published in the internal magazine "Gen_ Telefónica" distributed among all Group employees throughout the country.



- Telefónica Europe interviewed its employees working on all the company's operations (Germany, Ireland, the UK, Isle of Man, Slovakia and the Czech Republic) on its Business Principles, with special attention paid to employee awareness levels of these Principles, as well as gathering comments on the tools available - confidential assistance lines and registration of gifts and hospitality, among others. The results garnered from these interviews were positive: knowledge and awareness of Business Principles among employees at each of the European divisions is high. Also, numerous comments have been received.

## 5.3.1.4 Whistleblowing Channel

In 2009, Business Principles channels received 158 communications from employees. Of these, 113 were consultations which referred to the application and implementation of the Business Principles. The other 45 related to possible breaches of or failures to observe these principles.

At Telefónica, all employees may, either personally or anonymously, ask questions, seek advice and make suggestions regarding compliance with the Company's Business Principles and associated policies, through confidential help channels available on the Principles website. Suppliers and other interested parties can also access these confidential channels through websites set up to accommodate Telefónica stakeholders.

Those requesting assistance or reporting an incident are always treated with respect and dignity, in line with the following principles:

1. Confidentiality: The information and declarations are examined in strict confidentiality.
2. Exhaustivity: the information that is received regarding potential breaches of the Business Principles are comprehensively investigated in order to determine the veracity of the declaration.

# 5.3 Integrity and Transparency

3. Respect: At all times the rights of the people involved in potential breaches are taken into consideration. Before assessment is made of these declarations, the affected people and/or employees have the right to state their side of the matter.
4. Foundation: All decisions should be adopted in a reasoned, proportionate and appropriate manner, taking the circumstances and context of the facts into consideration.

In 2009, Business Principles channels received 158 communications from employees. Of these, 113 were consultations which referred to the application and implementation of the Business Principles. The remaining 45 concerned possible breaches of the Business Principles, of which, 43 were closed, with 17 incidents investigated.

### Breakdown of the communications received on the application of Business Principles Office



■ Human Resources ■ Training ■ General Principles ■ Suppliers ■ Not applicable ■ Others
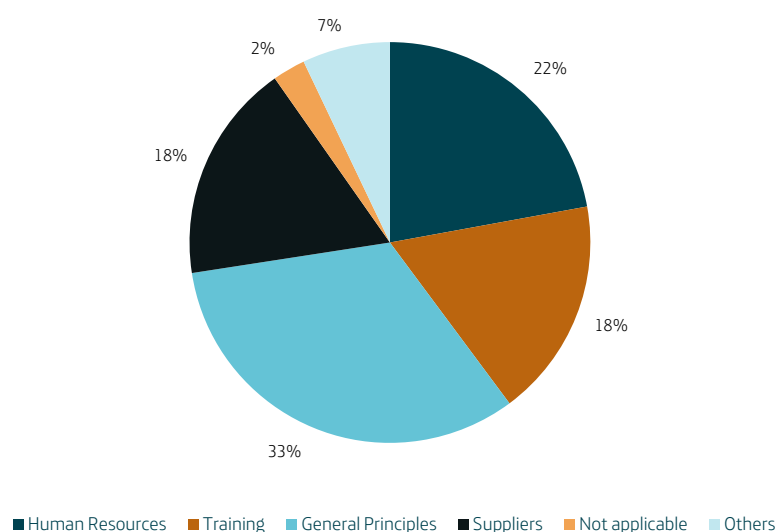
### Breakdown of the communications received on the lack of observance of the Business Principles Office
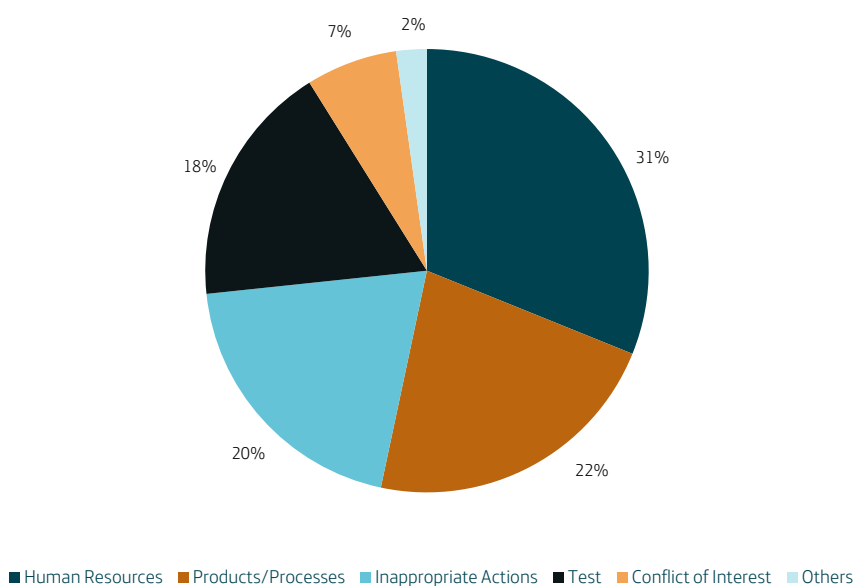


■ Human Resources ■ Products/Processes ■ Inappropriate Actions ■ Test ■ Conflict of Interest ■ Others

# 5.3 Integrity and Transparency

It should be highlighted that as a consequence of the investigations resulting from these reports, last year 19 interventions were undertaken in order to ensure future compliance with the Business Principles.

## Breakdown of the disciplinary actions carried out

32%

42%

26%

- Dismissal/Cancellation ■ Notice ■ Advice/Procedure
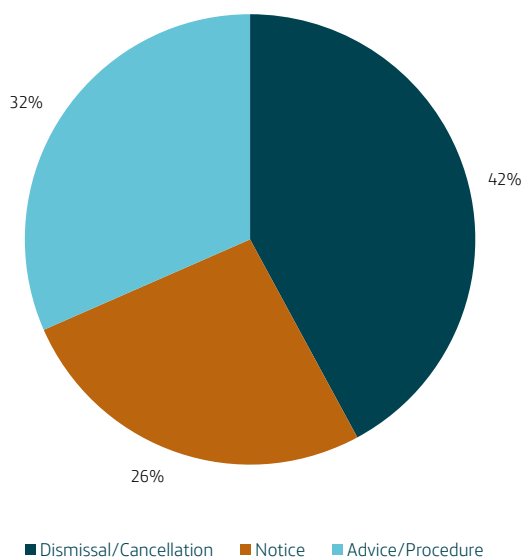
# 5.3.2 Transparency

## 5.3.2.1 Tax havens and donations to political parties

In general, the Telefónica Group does not use investment structures which are based in so-called tax havens. As an example of this commitment, last year Telefónica paid 20.7% of its revenue in tax in the countries where the group operates.

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

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

| Name | Activity | Country |
| --- | --- | --- |
| Terra Panamá | Internet Portal | Panama |
| Telefónica Móviles Panama | Mobile telephony services | Panama |
| Atento Panamá | Call Centre Services | Panama |
| Manx Telecom Ltd | Operator, Telecommunication Services | Isle of Man |
| 02 Assurance LTD | Inactive insurance company | Isle of Man |
| Kilmaine Ltd | Holding company | Isle of Man |
| 02 Isle of Man | Inactive company | Isle of Man |
| 02 Online Hong Kong | Inactive company | Hong Kong |

Telefónica, through its Business Principles, and regardless of the different regulations that exist in each of the countries in which it operates, has a declared commitment to political neutrality. In 2009, there was no record of any donations to any political parties or associated foundations, having analysed payment databases for this period.

## 5.3.2.2 Conflicts of interest

Telefónica's Business Principles stress the importance of Honesty, with special reference to conflicts of interest, gifts and hospitality.



**GENERAL PRINCIPLES**

**Honesty**

We will never seek, offer or accept gifts, hospitality, bribes or other inducements to reward or encourage a decision.

We will avoid or declare conflicts of interest that may lead to divided personal loyalties.

We will behave with integrity and not seek gain for ourselves or for a third party by misusing our position or contacts within Telefónica.

As a corporate entity, we will act with absolute political neutrality. We will abstain from any direct or indirect participation that could be interpreted as taking a position in favour of or against legitimate political parties. In particular, we will not make donations of any type, whether in cash or in kind, in support of political parties, organisations, factions, movements, or public or private entities whose activities are clearly linked with political activity.

The Corporate Office of Business Principles is working to develop a common policy which establishes specific directives, incorporating the processes and mechanisms which are well suited to application in the day-to-day activities of all the Group's workforce.

Independently of this policy, a number of local initiatives have been developed. Here we should mention the case of Telefónica Colombia. In 2009 Colombia approved and implemented a Conflict of Interest policy with a view to guaranteeing ethical and transparent operations to prevent possible situations arising.

Among the mechanisms introduced in Colombia, it is worth highlighting that the organisation has a confidential channel which can be used to report such situations, and the creation of a Conflict of Interest Sub-Committee for the analysis and monitoring of critical cases. This Sub-Committee, consisting of the Vice-Chairman of the Human Resources departments at each of the Group's operations, working under the auspices of the Local Office of Business Principles, and the analysis and monitoring of critical cases. The confidential channel, which in 2009 registered 2,070 reports, is reviewed twice a month by delegates from the Local Office and monitored by the Sub-Committee.

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

## 5.3 Integrity and Transparency

# 5.3.3 Shareholders

## 5.3.3.1 Shareholders

**In 2009, the basic net earnings per Telefónica share was 1.71 Euros, with a year-on-year growth of 4.5%.**

The Telefónica share is listed in the major national and international exchanges, which shows its importance within them:

- Spanish Continuous Market (in the selective Ibex 35 Index) and the four Spanish Stock Exchanges (Madrid, Barcelona, Bilbao and Valencia).
- London Stock Exchange (United Kingdom).
- Tokyo Stock Exchange (Japan).
- New York Stock Exchange (United States).
- Buenos Aires Stock Exchange (Argentina).
- São Paulo Stock Exchange (Brazil).
- Lima Stock Exchange (Peru).

Telefónica ended the 2009 financial year with a market capitalization of 89,089 million Euros, occupying the third position among companies in the worldwide telecommunications sector (up one place compared to 2008), and was therefore trusted by about one and a half million shareholders[8].

For the seventh consecutive year, the Company obtained solid results in 2009, fulfilling all the objectives announced for the financial year, despite the difficulties caused by an adverse economic environment and significant operational challenges that have arisen throughout the year. These good results have allowed the basic earnings per share to be worth 1.71 euros last year, with a year-on-year growth of 4.5%. It should be pointed out that the Company maintains its goal of reaching 2.10 Euros of Net Earnings per Share (EPS) in the 2010 financial year.

### Share Capital
On 28 December 2009, according to the resolution adopted by the Telefónica, S.A. General Shareholders Meeting held on 23 June 2009, the Board of Directors resolved to implement the reduction of the Company's share capital by redeeming treasury shares.

As a result, 141 million shares belonging to Telefónica S.A. were redeemed, and the Company's share capital was reduced by 141 million Euros; creating an amendment to the article 5 of the Corporate Bylaws related to the share capital, which amounted to 4,563,996,485 Euros, composed of an equal number of shares of a single series and a par value of one euro each, fully paid.

Also, according to the information available on the Company, there is no individual or legal entity that has directly or indirectly, separately or jointly exercised or may exercise control over Telefónica. As of 31 December 2009, Caja de Ahorros y Pensiones de Barcelona (La Caixa) and Banco Bilbao Vizcaya Argentaria, S.A. (BBVA), were the direct or indirect holders of 5.54% and 5.17% of the share capital of Telefónica, respectively.

[8] There were 1,451,316 shareholders on 21 May 2009, according to separate records for both individuals and legal entities, and according to the information obtained from the Spanish Central Depository in charge of the Register of Securities and the Clearing and Settlement of trades (Iberclear).

## 5.3.3.2 Profitability for shareholders

*"We manage the Company in order to create value for our shareholders".* **Business Principles.**

The Telefónica share resumed the upward trend from the 2003-2007 period in 2009 and recorded an annual revaluation of 23.2%, ending the year at 19.52 Euros per share. This solid growth, supported by the recovery of stock markets in 2009, reinforced the company's differential profile, which recorded a better relative performance both against its benchmark sector in Europe - the *DJ Stoxx Telecommunications* index which recorded a revaluation of 11.2% - and against the *EuroStoxx-50* general index, which presented a revaluation of 21.3%.

The better relative performance of Telefónica compared to other European operators -Vodafone (+3.2%), BT (+1.5%), Deutsche Telekom (-4.3%), Telecom Italia S.p.A. (-5.4%) and France Telecom (-12.2%)- reflects the benefits of the Company's high geographical and business diversification, its proven ability to operate in changing environments, the Company's strong cash generation and its focus on the shareholder. The latter is clearly reflected in its commitment to continue to increase returns for shareholders in the form of dividends, with dividends being announced in February 2009 and October 2009.

All this has allowed the total return of Telefónica shares in 2009 to be 29,5%, after including the dividends that were distributed throughout the year (0.5 Euros on 12 May 2009 and 0.5 Euros on 11 November 2009).

Telefónica's average daily trading volume in the Spanish continuous market was 48.5 million shares (57.2 million shares in 2008).

## Accumulated Profitability of Telefónica (%)



Telco Index DJ Europe — Eurostoxx 50 — Telefónica
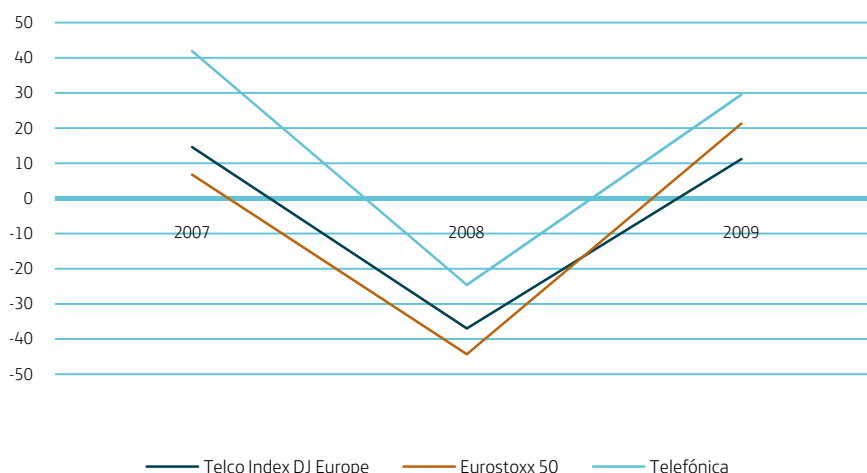
### Dividends paid in 2009

Telefónica confirms its growing dividend policy. In 2009, the Company allocated 5,516 million Euros to paying shareholders, equivalent to 61% of the cash flow generated in the financial year.

Shareholder return involved the payment of dividends in cash and buying back shareholders' equity. It should be pointed out that on 31 December 2009, the Company had derivatives on 150 million Telefónica shares. It also repurchased 27.3 million treasury shares (on 19 February 2010), representing 0.6% of the Telefónica share capital.

The Company's Board of Directors agreed on 28 January 2009 to a proposal for updating the amount of dividend payable for the financial year 2009, placing it at 1.15 Euros per share. The proposed dividend represents a year-on-year increase of 15%. In this regard, the following payments were made in the past year:

- On 12 May 2009, Telefónica distributed a dividend on account of the 2009 financial year profits, amounting to 0.50 Euros per share. With this payment, and with the payment made in November 2008, the Company fulfilled its announced promise to pay shareholders with a 1 euro per share dividend before the end of the first half of 2009.

- Likewise, on 11 de November de 2009, a dividend of 0.50 Euros per share was paid, charged to Unrestricted Reserves.

# 5.3 Integrity and Transparency

| Earnings per share 2009 | No. of shares | Gross amount in € |
|---|---|---|
| Value of 100 shares on 1 January 2009 | 100 | 1,585 |
| Cash dividend (12 May 2009) | 100 | 50 |
| Cash dividend (11 November 2009) | 100 | 50 |
| Value of 100 shares on 1 January 2010 | 100 | 1,952 |
| Value of portfolio consisting of 100 shares | 100 | 2,052 |
| Return | | 29.46% |

Ever since 2003, when Telefónica brought back the dividend policy, the shareholder remuneration policy has been progressively improving, which has made it one of the best companies in this practice.

Following the announcement in February 2009 of a 15% increase in the annual dividend to 1.15 euros per share, and the subsequent reiteration of this commitment by the Company's Board of Directors at its meeting held on 29 April 2009, the Telefónica Group once again committed itself, at the Investors' Conference held on 9 October 2009, to a schedule of gradual increases in dividends in the medium term.

Thus, it was announced that there would be a dividend increase in 2010 of 21.7% over the dividend of 2009, up to an amount of 1.40 Euros per share. Additionally, a goal was established to distribute a dividend of at least 1.75 Euros per share in 2012.

## 5.3.3.3 Transparency

***"We promise to immediately provide all information relevant to your investment decisions without discrimination".* Business Principles.**

The Company has different communication tools and channels to guarantee the principles of transparency and equality in the relations with both retail and institutional shareholders. This is reflected in the Telefónica Board of Directors regulation, which regulates the channels through which that relationship is established.

The shareholder's website www.telefonica.com/es/shareholders_investors/jsp/home/home.jsp and exclusive telephone number 900 111 004 are the most frequently used channels, although others also exist, such as e-mail (accion.telefonica@telefonica.es), postal mail, forums, the Annual Report and corporate profiles and the shareholder's magazine.

### Who assists the shareholders

The Shareholder's Office ensures smooth and transparent communication with investors. At the end of 2009, there were 205,577 registered shareholders, which can access all the Company information, including the financial results and any corporate event that may be relevant to their investment.

Similarly, the Investor Relations department provides personalized attention to institutional investors and maintains communication with national and international markets. Through this department, markets learn about the Company's main organizational, operational and business strategies, as well as expectations about future performance.

### Communication channels with shareholders

The Telefónica shareholders have different communication channels for them to be constantly informed about what is happening in the Company.

**Free telephone number for shareholders**
Individual shareholders are offered the free service telephone number 900 111 004. In 2009, there were 73,881 calls to this number, recording a 7.27% increase from 2008, with a monthly average of 6,157 calls.

In addition to telephone queries, the Shareholders' Office dealt with a further 3,487 queries by email and post (up from 2,360 in 2008).

# 5.3 Integrity and Transparency

Of the queries received in 2009, 54,955 related to economic and financial issues as follows:

- 25,085 queries about the General Shareholders Meeting.
- 22,318 queries about stock market performance and the share price.
- 7,507 queries about results and relevant events.
- 45 queries on rights issues and special financial operations.

The 205,577 Telefónica shareholders registered in the Shareholders' Office have an identity card that can be used to access different services, as well as advantages and offers on products and services, draws, tours and invitations to museums and cultural events throughout Spain. They can also choose to activate their card for use as a personal card that can earn easy-to-use advantages and prices on calls corresponding to this telephone service.

### Online channel

In 2009, there were a total of 1,363,455 page views on the Shareholder and Investors website (www.telefonica.com/es/shareholders_investors/jsp/home/home.jsp), a 12.4% increase on the 1,213,070 the previous year. The website is available in Spanish, English and Portuguese, and has specific sections on:

- Information about the Company and its corporate profile, business lines and presence in other countries.
- Presence in the Stock Exchange, where the Company quotes are offered online, interactive graphs can be created, the Telefónica quote can be compared to quotes from other companies in the sector, the profitability can be calculated in the period chosen by the user, and the benchmark rates can be compared.
- The opinion of analysts, which reflects the consensus and objective price comparison.
- Dividends, results and communications with the markets, relevant facts and information on Corporate Governance (composition of Governance Bodies, Articles of Association, Regulations, etc).
- Information on share capital, *ratings*, debt profile and corporate presentations to the investment community.
- Viewing and downloading documents, including annual reports, the Regulations of the General Shareholders Meeting and the Board of Directors, the Articles of Association, and official records of information on the Company's activities.
- In the Shareholder's Corner, retail investors are offered a customized interactive area to make enquiries, receive specific information and an alert service with relevant information about the company.
- Broadcasts can also be seen online of the Company's management team's leading conferences and interventions.

### Conferences and forums

In 2009, the Shareholder's Office took part again in the two most important Stock Exchange Fairs of Spain for professionals of the financial world, savers and investors, where Company presentations were made, analyzing Telefónica's financial results and prospects.

- Bolsalia, held from the 2nd to 4th of April 2009 at the Municipal Conference Centre of Madrid.
- Borsadiner, held from the 29th to the 31st of October 2009 at the Palau de Congressos de Catalunya, in Barcelona.

Furthermore, within the programme of presentations and round tables of the 5th Conference of Senior Citizen Associations, the Shareholder's Office -invited by the Telefónica National Association of Senior Citizens (AGMT)- held a conference under the heading "Round Table: Economy for Retirement".

### "Acción Telefónica" magazine

The Shareholder's Office publishes a magazine for the Company shareholders called *Acción Telefónica*. The magazine is published every three months. In 2009, 603,676 copies were sent to the homes of shareholders. The magazine contains information about the financial results, corporate events, the Stock Exchange, news and cultural reports, draws and offers on different products and services.

# 5.3 Integrity and Transparency

## Standard for sending information to the markets

*"The information contained in the reports registered with the relevant Supervisory Bodies for Securities Markets, as well as in other public communications from the Company, will be complete, true, fitting, timely and clear".* **Business Principles.**

In 2003, the Telefónica Board of Directors approved the so-called Standard on Communicating Information to the Markets, which sets out the legal requirements affecting Telefónica under both the Spanish legislation and the international laws that apply as a result of the Company's listing in other markets.

According to this standard, the Company immediately and simultaneously disseminates all information to the markets in which it is present that it considers to be relevant and therefore of a nature to be communicated to the market. These statements are also posted on its website.

## External auditor

**Once again, in 2009, the Company's corresponding internal departments collaborated and facilitated the external auditors' work.**

It should be pointed out that the Company's Audit and Control Committee has, among others, the ability to propose the appointment of the account auditor and, where appropriate, the terms of appointment, scope of professional mandate and renewal of his/her appointment to the Board of Directors, for submission to the General Shareholders Meeting.

The external auditor has direct access to the Audit and Control Committee, participating in its meetings without the presence of the management team when it might be necessary. According to the internal Telefónica standard, and in line with legal requirements imposed by Spanish and American law, the contracting of any service with the Company's external auditor, other than those pertaining to the accounts audit, must always have the previous approval of the Audit and Control Committee.

The procurement of these services is done in strict compliance with the Account Audit Law and the Sarbanes-Oxley Law and their implementing regulations. In this regard, the amount of work other than audit reports for the total charged by the auditing firm was 0.225% in 2009.

# 5

## 4

# Customers

# 5.4.1 Customers, in the centre of everything

Telefónica always seeks to place its customers at the very centre of all it does. Our challenge is *"to develop positive emotional relations with our customers to earn the right to provide them with all kinds of efficient, competitive services, motivating and encouraging our team while we serve the societies in which we operate"*. This is the purpose of the *bravo!* transformation programme that is part of the Company's Strategic Plan 2010-2012. The initiative is based on four pillars (Customer, Offer, Platforms and Culture) and seeks to turn the Telefónica Group into the best global communications company in the digital world.

To achieve positive emotional relations with customers instead of relations based simply on transactions, there is a need for a cultural change so that the entire organisation focuses on the customer. This has led the Company to equip its professionals' bonuses with customer satisfaction and service quality indicators; to check that the products that are launched meet the brand's promises; and to include someone who always "speaks" on the customer's behalf in the decision-taking bodies, etc.

Telefónica considers that the starting point for building this type of relationship is technical excellence. Furthermore, to ensure that the customer's perception of the company is good, we need to redesign business models and build brand values, as well as experiences that correspond to these values.

The three pillars on what this vision of the Company is based and becomes tangible are: new brand promise, listening to the customer and customer culture.

## 5.4.1.1 New brand promise

In 2009, Telefónica announced its new brand model. The model implies using the Movistar and O2 brands in all its commercial activities. As far as the Company is concerned, it is much more than a change of name. The objective is to provide value through new business models, customer-focused initiatives and brand promises.

Last year, this new model was put in place to change the brand in Chile, where Movistar became the brand name for the company's fixed and mobile telephone business. The project involved the entire organisation and was based on various approaches, thanks to which there has been an improvement in brand perception and customer satisfaction.

- Development of a unique value proposal for fixed and mobile telephony.
- Extension of the mobile phone loyalty initiatives for every customer.
- Development of an innovative product and service catalogue to foster the single brand.
- Adaptation of unified channels to capitalise on points of contact with every customer.

# 5.4 Customers

- External communication based on convergence and simplicity.
- Internal communication that motivates and involves.



## 5.4.1.2 Listening to the customer

In order to develop a strategy in line with our customers' priorities, Telefónica increased its efforts to listen and get to know them throughout 2009. The initiatives that were put in place included the following:

- **"We're listening to you":** this initiative enables senior Telefónica España managers to listen to customers and employees in call centres, shops, homes, etc. Also, so that employees can actively listen to customers who callcall centres, we have set up the so-called "Voice of the Customer" lounge (Sala de Voz del Cliente)".

- **"The customer's voice":** Telefónica Telecom Colombia created space on its Board of Directors to listen to its customers. Their opinions are passed on once a month by those who are in permanent contact with users in *call centres*, stores, the technical department, etc.

- **"Face-to-face with the customer":**developed in Brazil, this programme introduced ten different transactions to 488 Telefónica (Telesp) and TVA executives (commerce transactions, telesales, commercial service, technical service and Regional Operations and Supervision Centre, among others) so that they could listen to users and live the customer's experience to identify new improvements.

- **"I live for the customer":** in this programme, employees of the Brazilian operator Vivo, senior managers and strategic suppliers experience customer service in person in shops and call centres, as well as corporate customer service, over three days. The participants then work on opportunities for improvement with the Executive Committee. This programme won an award at the *2009 Mobile World Congress*.

- **"60 minutes with the customer":**program carried out in Venezuela, in which employees observe the customer service provider to users in service centres.

- **Voice of the customer Report :** Telefónica O2 Ireland produced two monthly reports: The Voice of the customer report and the *Talk202* report, an online portal for users, which were distributed to all corporate departments, senior managers and board members. They were also discussed at monthly meetings of the Customer and Operations Committee.

In its efforts to "listen to customers", Telefónica also uses the information provided by the call centres, shops and services, such as the Dissatisfaction Monitoring Centre (in Spanish, CSI) in Spain. Other sources of information which are becoming ever more important include the Customer Ombudsman Service in Spain and the Ombudsman in Brazil: The Company is involved in other ways of understanding its users, such as the Voice of the Customer Committee in Peru and the eight User Committees in Brazil, which met four times in 2009.

# 5.4 Customers

## 5.4.1.3 Customer culture

Customer Culture is the name given to the idea of placing the customer at the centre of everything the Company does. In 2009, Telefónica designed various programmes to help its professionals develop this initiative:

- **"Integra":** this project has become a reference point for the cultural change in Latin America. It is part of the AHORA programme and is designed to raise the awareness of and encourage employees through the use of specific workshops called 'Inspira'. Telefónica Mobiles Chile won second prize at the "Human Resources Innovation" awards of the *Mobile World Congress 2009* for "Inspira".

- **"Telefónica Ambassadors":** after receiving further training on the processes for solving contingencies and providing customer service, as well as information about the Company's products, employees are certified as "ambassadors". At the end of the year, there were more than 500 "ambassadors" in Venezuela and Ecuador, where every member of the team was certified.

- ***"Customer experience trail":*** the "customer experience trail" is a course developed by Telefónica O2 Germany to strengthen its employees' emotional commitment to users. During the training process, the professionals become customers to experience what they feel, especially the difficulties, so that they can realise how important it is to make their lives easier. The initiative comprises eight phases: attracting the customer's attention; informing the user of the offers made by every telecommunications company; advice and purchase; the bill and understanding it; using the services; asking for help or information; and renewing or terminating the contract.

- ***"Customer insight":*** Telefónica O2 United Kingdom has an activities programme for helping its employees gain an insight of their customers and empathise with them. The initiatives have been developed into sessions with users, rooms where their lifestyles can be analysed and an online community for entering their world, etc.

- **"Customer handbook":** this is a code of respect for customers approved by the Management Committee of Telefónica Spain as a norm to be followed by the organisation. It includes the so-called "10 BLUE points", behaviour guidelines that must be understood as actions and behaviour that can be recognised on a day-to-day basis and that are coherent with the transformation of the business culture.

- **"Customer Award":** this award has been created by Telefónica Spain to recognise the practices and behaviour that focus on customer satisfaction.

- **"Customer Roundtable":** this course is for executives and middle managers at Telefónica Spain and is attended by customers to help them understand the factors that are involved in their satisfaction.

# 5.4.2 Customer accesses

Telefónica closed 2009 with almost 265 million customer accesses, [9] up 5.1% on 2008. This growth is the result of intense commercial activity and the right level of business diversification.

By products, special mention must be made of the heavy increase in mobile telephony1 (+7.4%), fixed broadband (+8.2%) and pre-pay TV (+9.8%). There has also been a significant increase in the mobile broadband access rate, which numbered more than 15 million at the close of 2009 in comparison with 9 million in 2008.

By geographic areas, Telefónica maintains its leadership in Spain with 46.8 million accesses and it has grown by 6.5% in Latin America and 6.9% in Europe, with 168.6 million and 49.2 million accesses, respectively. Growth in Latin America is based on mobile telephony and broadband, whereas in Europe it has come mainly from the continuous expansion of the mobile phone business, mainly in the United Kingdom and Germany.

## Mobile telephony

**The mobile accesses of the Telefónica Group exceeded 202 million with a net gain of more than 14.4 million accesses in comparable terms in 2009.[10]**

- In Spain, the activities focused on higher value customers and the year was closed with 23.5 million mobile accesses (23.6 million in 2008).
- In Latin America, Telefónica reached the figure of 134.7 million mobile accesses, with a year-on-year growth of 9.2%, after recording a net gain of 11.4 million accesses with particularly high contributions from Argentina (1.1 million), Brazil (6.8 million) and Mexico (2.1 million).
- Telefónica Europe's mobile phone business reached 44.1 million accesses at the close of 2009, 6.5% up on the previous year, after recording a net gain of 2.9 million customers[11] and a very sound performance in the contract segment.

## Fixed telephony

**Telefónica closed last year with 40.6 million fixed telephone accesses in comparison with 42.9 million in 2008. This good result is explained by market maturity and the processes for the replacement of fixed telephony by mobiles.**

- The estimated market share in Spain stands at around 72% (14.2 million), with a net growth of wholesale accesses that compensate the 66% fall in retail accesses.
- The fixed-mobile substitution process has been particularly relevant in Latin America, with a reduction in percentage terms of the accesses of 5.4% in comparison with 2008 and an absolute total of 24.6 million.
- In Europe, special mention must be made of the 1.8 million accesses in the Czech Republic, which accounts for a significant improvement in net losses despite the complicated operating environment.

## Broadband

**Telefónica keeps its leadership in broadband in Spain with a 56% share and 5.5 million accesses. The total number of internet and data accesses via Telefónica broadband was almost 13.5 million at the end of 2009, with a year-on-year growth of 8.2%.**

- The position of leadership in Spain can be seen in a growth of 4.4% in comparison with 2008. 88% of the retail accesses were part of a duo or trio package.
- At Telefónica Latin America, the number of accesses was higher than 6.4 million at the close of 2009, with a year-on-year growth of 5.9%, based on the progress made in Argentina (+14.4%), Peru (+10.0%) and Chile (+9.3%). Furthermore, Brazil returned a positive figure in the fourth quarter of the year after solving its problems with quality.
- In Europe, accesses increased by 37.1% to 1.6 million, distributed among Germany, United Kingdom and Czech Republic. The launch of the new O2 Home Phone service, scheduled for March 2010, will improve O2's fixed broadband offer with voice options at very competitive rates.

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[9] Excluding Medi Telecom customers in 2008 and 2009 after it was sold in the fourth quarter of 2009.
[10] Excluding Medi Telecom customers in 2008 and 2009 and the disconnection of inactive customers.
[11] Excluding the disconnection of inactive customers in 2008 and 2009.

# 5.4 Customers

## Pay Television

**Accesses to Pay TV were almost 2.5 million at the close of 2009, 9.8% up on the figure for the previous year. The Company now offers pay TV services in eight countries.**

- Telefónica Spain gained 90,486 new customers, rising to 702,980 customers (a year-on-year increase of +14.8%), with a significant climb in estimated market share, which stood at around 17% at the end of 2009.
- In Latin America, the Company closed the year with 1.6 million customers (year-on-year rate of +7.0%) and a pay TV offer in 6 countries: Argentina, where it signed a commercial agreement with Direct TV, Brazil, Chile, Colombia, Peru and Venezuela.
- The total number of pay-TV customers of Telefónica O2 Czech Republic stood at 137,630 at the end of 2009, with a year-on-year increase of 20.2%.

### TELEFÓNICA GROUP ACCESSES

*Unaudited figures (thousands)*

| | December 2009 | 2008 | % change |
|---|---|---|---|
| Final Clients Accesses | 260,510.2 | 255,671.1 | 1.9 |
| Fixed telephony accesses (1) | 40,606.0 | 42,930.8 | (5.4) |
| Internet and data accesses | 15,082.5 | 14,654.3 | 2.9 |
| Narrowband | 1,427.5 | 1,997.2 | (28.5) |
| Broadband (2) | 13,492.6 | 12,472.1 | 8.2 |
| Other (3) | 162.4 | 185.0 | (12.2) |
| Mobile accesses | 202,332.5 | 195,818.6 | 3.3 |
| Pay TV | 2,489.2 | 2,267.5 | 9.8 |
| Wholesale Accesses | 4,095.3 | 3,433.0 | 19.3 |
| Unbundled loops | 2,206.0 | 1,748.1 | 26.2 |
| Shared ULL | 447.7 | 602.3 | (25.7) |
| Full ULL | 1,758.3 | 1,145.8 | 53.5 |
| Wholesale ADSL (4) | 463.4 | 534.7 | (13.3) |
| Other (5) | 1,426.0 | 1,150.1 | 24.0 |
| **Total Accesses** | **264,605.5** | **259,104.1** | **2.1** |

*Notes:*
*- As of 31 December 2007, in order to align the criteria for the key performance indicators of the mobile operations of the Group, the series of mobile accesses, and therefore, of total accesses, have been revised, including machine to machine accesses. In addition, the accounting criteria for pre-pay access in the Czech Republic and Slovakia have been modified to align them, changing from 13 months (registered) to three months (active).*
*- December 2008 and 2009 accesses include the disconnection of inactive customers.*
*(1) PSTN (including Public Use Telephony) x1; ISDN Basic access x1; ISDN Primary access; 2/6 Access x30. Company's accesses for internal use and total fixed wireless included. Includes VoIP and Naked ADSL.*
*(2) ADSL, satellite, optical fibre, cable modem and broadband circuits.*
*(3) Retail circuits other than broadband.*
*(4) Includes Unbundled Lines by T. O2 Germany.*
*(5) Circuits for other operators. Includes Wholesale Line Rental (WLR).*

For a detailed analysis of the Telefónica Group's financial statements, you can access the audited information included in the Annual Accounts.

# 5.4.3 Customer experience

To increase customer satisfaction, Telefónica bases itself on the "Customer Experience" methodology that has been successfully applied in the United Kingdom and stands as a common reference for local quality plans. This focus is based on the following:

- Determining the customer's life cycle: process followed by the customer from when he/she learns about the Company's products until he/she terminates his/her relationship with it.
- Identifying the most critical aspects of the life cycle from within.
- Creating improvement plans for each one to offer an excellent Customer Experience that allows Telefónica to stand out and create value.

## Customer life cycle

In 2009, each region developed its vision of the stages of the customer life cycle in which the key interactions with the customer (points of contact) take place.



After certain life cycles, the regions gave priority to the stages on which they wanted to focus their activity and developed plans to improve customers' experience at the main point of contact. This method included the development of initiatives to achieve the desired Customer Experience in the main company-customer interactions. They were then linked to the quality assurance plans.

At the 2nd Quality Congress, which was held in July, the progress made by the three regions in this area was presented and the emphasis was placed on the need for Telefónica to make a commitment to its customers from an emotional point of view.

Thanks to the simultaneous broadcasting of the Congress over the web, remote presence and social networks (blogs, expert groups, etc.), the messages reached 8000 employees in 24 countries.

To foster the Customer Experience focus in the organisation, the Company focused on other lines of action:

# 5.4 Customers

- Telefónica's Corporate University continued to give customer-focused courses with external and internal speakers, who spoke of the method used to improve the Customer Experience.
- Presentations of the experiences of other organisations were shared regarding the results and focuses of the Customer Experience, using two online internal collaboration tools: *Commercial Wings,* with over 5,400 users, 15,800 documents, 98 community and 19 forums in 2009; Quality and Customer Experience Community, with 232 documents, virtual meetings and presence based forums; and *e-kiss*, with more than 100,000 visits and over 200,000 documents.

- A video was made to show the Customer Service staff that the way they behave can mark the difference as far as customer experience is concerned. The idea is to remind them that the voices they hear during the calls correspond to real people who are often in difficult situations.

## Pilot programmes

In 2009, Telefónica launched various pilot programmes in Chile, Spain and the Czech Republic to improve the bond with customers in a structured Customer Experience framework. Besides progressing on these markets, the aim of the plans was to uncover the best practices for other countries.

For its part, Chile drew up a plan of 19 projects in which it made a commitment to its customers to be a simple company that was available, reliable and competitive.

Said pilot programmes were monitored through the so-called Customer Experience Committees. The points of contact on which Telefónica placed special emphasis were as follows: billing, the process for registering new customers and the service provided by the call centre. It also set 191 indicators, which were signed by all the Company's Directors with customer vision to assure the quality of the services.

In the last quarter of the year, Telefónica Spain also launched its *"Customer Journey"* programme, undertaking to offer its customers a service that was more entrepreneurial, honest, understanding, simple and intimate.

In 2009, Telefónica also created the Customer Department, which designed an action plan that will be developed in 2010 and focuses on the following:

- Processes reviewed from the customer's point of view and with a focus on his/her satisfaction.
- Assuring the quality of each contact with customers.
- Making transparency and honesty values of distinction.
- Simplicity to make customers' lives easier.

For its part, Telefónica O2 Czech Republic started working on its *"Customer Experience"* programme at the end of 2009 to design a plan based on what customers really appreciate and bring their expectations into line with the Company's strategy. When this report was closed, the targets were being set and will be drawn up with different areas in mind, such as quality and innovation, experience on the internet and the price-value ratio.

## 5.4.3.1 Customer satisfaction

The satisfaction of Telefónica's customers remained stable in 2009 and obtained a score of 6.98 in comparison with the 6.92 of 2008. The improvement to this indicator and the fall in the number of dissatisfied customers form part of the Company's Strategic Plan.

Telefónica regularly measures its customer satisfaction levels and compares them with those of its competitors, since its target is to be the best-considered company on every market. To monitor this situation, it uses the Customer Satisfaction Index (CSI), which is one of its own indicators and is based on the international *American Customer Satisfaction Index standard* (ACSI).

The CSI is obtained on the basis of surveys, usually made over the telephone, on a representative number of customers. More specifically, they are asked to respond to the following three questions by giving a score of from 1 to 10: "What is your general level of satisfaction with Telefónica?"; "In general, have you considered that Telefónica meets your expectations at the present time?"; And "Imagine a telecommunications company that is ideal in every way, where would you put Telefónica with regard to such a company?". With the answers to these questions, Telefónica applies the ACSI methodology and calculates the CSI on a scale of from 0 to 10.

# 5.4 Customers

## Evolution of the global customer satisfaction
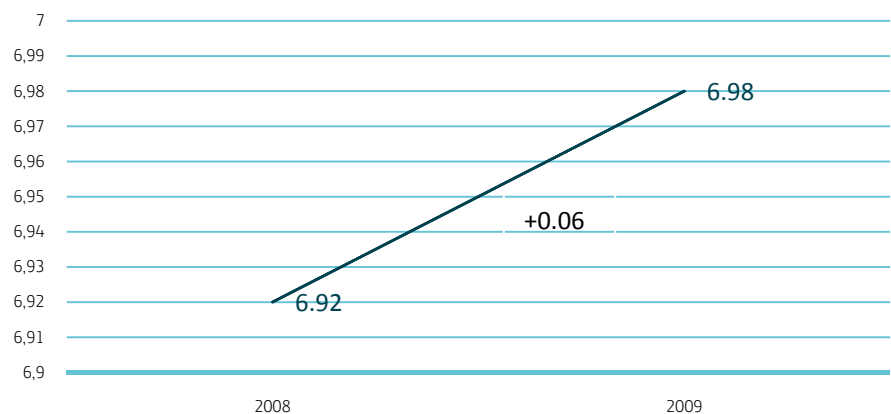


*\* Note: The 2008 figure does not include Telefónica Europe. If Vivo is included, the figure rises to 6.97.*

At the close of 2009, Telefónica's CSI obtained a score of 6.98 and was above its competitors in several European countries (Spain, United Kingdom and Slovakia) and Latin American countries (mobile business in Argentina, Brazil, Chile, Colombia, Mexico, Nicaragua and Uruguay), leading a total of ten markets in comparison with seven in 2008.

**Leaders in Customer Satisfaction on ten markets**

## Regional Evolution of Customer Satisfaction

- **Telefónica Spain**

  In Spain, the Company closed the year with a score of 6.25 in Customer Satisfaction. This consolidates the change in the trend, which began in September, thanks to the improvement projects that have been put in place and the initiative launched in the last quarter of the year as part of the new CEX (*Customer Experience*) programme. The gap with regard to competitors also remained on the positive end of the scale.

### Customer satisfaction in Spain
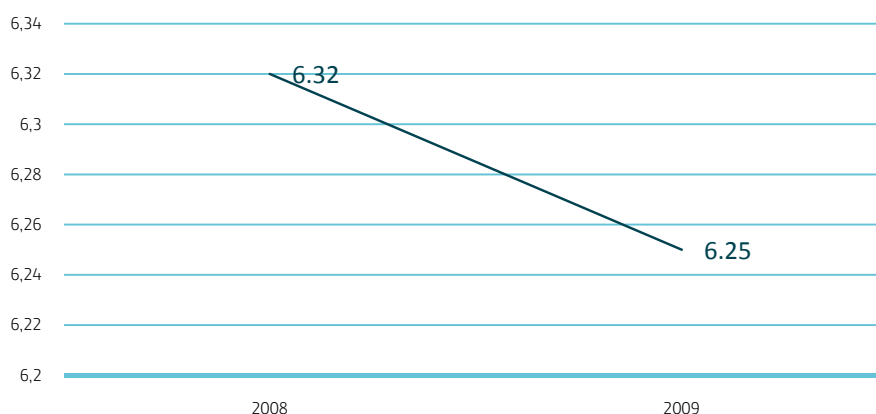


- **Telefónica Latin America**

  In Latin America, Telefónica increased its CSI significantly to a score of 7.55, which has been the Company's highest score in the region in recent years.

  In fixed telephony, the initiatives that focused on the priority points of contact as provided in the Customer Experience plan returned the benefits. Furthermore, mention must also be made of the improvement in Brazil thanks to the actions that were put in place, which meant that the Company overtook its mobile business competitors for the first time.

### Customer satisfaction in Latin America
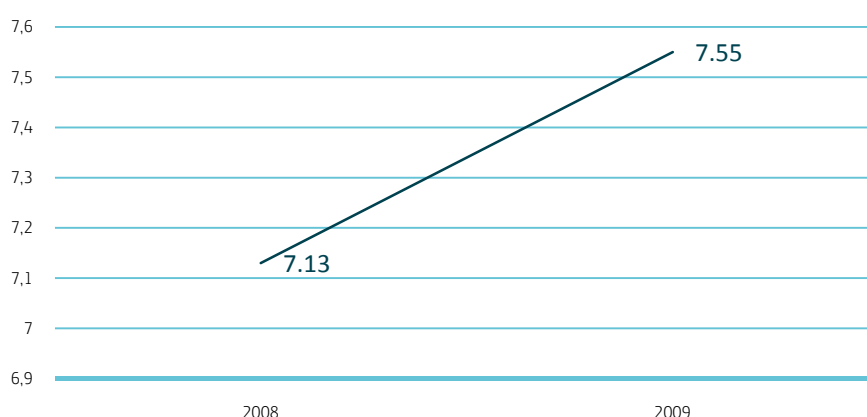


* Note: The 2008 figure does not include Telefónica Europe. If Vivo is included, the figure rises to 7.27.

- **Telefónica Europe**

  The CSI of Telefónica's operations in Europe achieved a score of 7.30. Special mention must be made of the United Kingdom and Slovakia, with a Customer Satisfaction Index that was higher than competitors'. Telefónica O2 Ireland also made progress in this area.

# 5.4 Customers

## Customer satisfaction in Europe
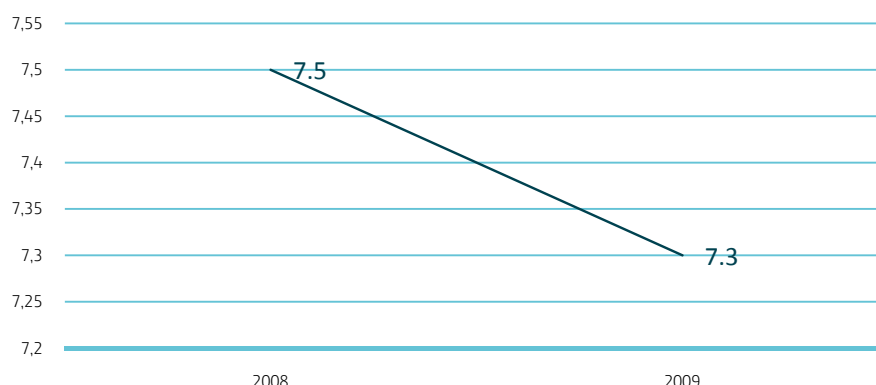


## Putting an end to dissatisfaction, a priority

Halfway through 2009, Telefónica introduced a global indicator for dissatisfied customers. The indicator considers customers with a CSI of between 0 and 4.30 in all the countries in which the Group operates, guaranteeing the consistency of the measurement process across the organisation.

Besides starting to monitor this parameter on a regular basis, with a view to the year 2010, the Company has set a global target and regional targets for reducing dissatisfaction.

## Monitoring Process in the Quality Committee of the Board of Directors

The evolution of the CSI and, since 2010, the new dissatisfaction indicator is monitored in detail by Telefónica's Service Quality and Customer Service Committee, a consultant committee of the Board of Directors that was set up in 1999 and focuses on several lines of action:

- Examination of the quality targets in place.
- Guaranteeing the use of common methodologies and systems for measuring Customer Satisfaction Indexes.
- Analysis and monitoring of the content of the claims filed by customers at any level provided by the Telefónica Group, regardless of whether they use the 1004 or 609 telephone number services or the Customer Ombudsman Service, etc., as well as the actions that are being taken for solving said claims.
- Strategic positioning and monitoring of the Customer Ombudsman Service in the Telefónica Group.
- Inclusion of more information about this subject in the respective Management Reports on the lines of business.
- Analysis of the impact of *outsourcing* on quality, especially the call centers and installations and maintenance contract.

For the year 2010, the Commitees's priorities are as follows:

- To look in greater detail at the levers behind customer satisfaction and dissatisfaction so that the countries can develop their improvement plans.
- Monitoring of the regional quality plans and transfer of best practices.

### Composition of the Quality Committee of the Board of Directors

| | |
|---|---|
| Mr Antonio Massanell Lavilla | Chairman |
| Mrs. Eva Castillo Sanz | Director |
| Mr Carlos Colomer Casellas | Director |
| Mr Alfonso Ferrari Herrero | Director |
| Mr Gonzalo Hinojosa Fernández de Angulo | Director |
| Mr Pablo Isla Álvarez de Tejera | Director |

# 5.4 Customers

## Quality and satisfaction are also closely monitored on a regional and local scale

In Latin America in 2009, the Telefónica Latin America Quality Committee consolidated its role after one year in existence to share the best practices among countries, placing the customer at the centre of the decisions. The Committee involves the Quality managers, Customers, Technology and Segments departments and the senior managers and CEOs of all the operators in the region. At each meeting of the Committee, a specific point of contact with the customer is examined (call centre, billing, technical support, etc.) and both the positive experiences and future challenges come under analysis.

In Europe, Telefónica O2 United Kingdom monitors the customers that are now fans of the Company, according to its *'Fanometer'*. The term 'fans' is applied to the users who give it a score of more than 8 on the Customer Satisfaction Index (CSI). For O2, a real fan is a customer with an emotional connection and, therefore, one who will remain loyal to the company, give it good publicity and consider other services the company offers.

## Customer perception

Telefónica closely monitors the perception citizens have of it in the countries in which it operates. In 2009 and according to the general public (customers and non-customers), Telefónica exceeds the acceptable minimum of 60 and obtains a score of 63.3.

 Customer perception is measured using the RepTrakTM method. This method includes measurements of the following attributes: satisfactory claims management; response for product and service quality; satisfaction of customer requirements; product and service quality; price-quality ratio; and good customer service. Monitoring these aspects allows Telefónica to identify strengths and weaknesses.

## 5.4.3.2 Products and services
In 2009, Telefónica started testing LTE (*Long Term Evolution*), or in other words, the fourth generation network (4G).

### a. Digital home

In 2009, Telefónica worked to expand digital home capabilities with new devices and services. These included the gateway, which will serve as a dynamic service deployment platform, with the corresponding operation tools, and Mediabox, a device that allows users to store their individual content and also offers access to content stored on other devices around the home or on the internet.

Easy to install and use, both devices integrate seamlessly with electronic equipment (TV, sound system, etc.) and computer systems in the home (external hard drives, PCs, etc.).

Our will to further improve the digital home also led to the launch of two self-installation *kits*. The first of these helps users manage their electricity consumption by producing updates on current use at any time and a historical record of the previous months. It also offers recommendations on how to save in the electricity bill and avoid consumption peaks. The second is a home video-surveillance kit that makes use of IP cameras. Installation is extremely easy for both these kits.

The final weeks of 2009 saw the launch in Spain of Terabox, a new 5 GB data storage service complete with automatic backup, which protects the hard drives of Telefónica users and allows them to restore their drives to their original state from anywhere on the internet. Terabox also enables users to share files with people included in their list of contacts, and features multimedia functions for viewing files on any computer.

### b. Handsets

In 2009 Telefónica maintained its policy of supporting open operating systems - Android, Linux, Symbian, WM7, etc. - launching the most advanced handsets on an exclusive basis, such as the Nokia N97, Samsung's *Ultra Touch* and models based on Google's Android operating system, such as the HTC Dream, the Motorola DEXT or the Toshiba TG01. A number of important smartphones were also introduced last year, including the new iPhone 3GS, launched in June simultaneously in Spain and the UK, the Palm Pre and Blackberry's Curve 890.

As part of Telefónica's "green" initiatives, Sony Ericsson's Naite was launched in the UK last year. This model cuts total carbon emissions by 15%. In the summer, one year after its launch, over 17,000 units of the Nokia 3110 Evolve had been sold. This model has an outer case made with 50% reusable materials, and it is packaged in a small, recycled box. It also includes a power-saving charger that reduces electricity use to a minimum when the handset is fully charged, and displays a warning so that the user will not forget to unplug it.

# 5.4 Customers

In December, the first green SIM card was launched in Spain, at half the weight of a normal card. The product's packaging has been simplified, achieving a 6-fold reduction in the weight of the paper and the cardboard used, which, for an even more environment-friendly result, are obtained from recycled materials and sustainably managed forests.

Also at the end of the year, the presidents of Nokia and Telefónica signed a collaboration agreement to ensure the joint development of alliances based on values and principles of environmental sustainability. The purpose of this initiative is to find synergies between the two companies, focusing on the development of mobile telephony solutions that are compatible with the environment and rely on sustainable products and innovative applications. The initiative is the first in a series of projects for recycling, green outlets, sustainable handsets, packaging, e-services and product power-efficiency.

## c. M2M (Machine To Machine)

M2M is a general concept that refers to the exchange of information in the form of computer data between two remote devices via a mobile or fixed network, without any human participation.

At Telefónica we have been working in this area for over 10 years. In mid December of 2009, the Company announced the creation of a new global M2M unit. With this new unit, Telefónica seeks to cover a growing need in the corporate market, where M2M environments are critical. The use of M2M is growing in a range of applications, including payment (point of sale terminals), tele-management and tele-metering in energy distribution (water, electricity, etc.), security and alarm management, fleet management, tele-medicine, automotion and emergencies, and tele-maintenance of vending machines.

## d. "Movistar Developers Platform"

Movistar *Developers Platform* came into being in Mexico in 2009. The initiative is Telefónica's first milestone in the opening up of its capabilities to developers in Latin America. One of our top priorities for 2010 is to integrate all local communities in a global platform that will offer developers around the world access to the markets where the Company operates.

Developers and end customers alike have a part to play in the Movistar *Developers Platform*. Developers use APIs to build products and services on the network infrastructure provided by mobile operators in Latin America. A variety of services and downloadable applications are available at the application store, and users have a chance to test innovative new developments before they are launched on the market, interact with the people who created them and participate actively in the testing process for new products and services.

## e. "Application Store" and "Application Folder"

Telefónica's *Application Store* is available in Argentina and Spain. It provides an environment where customers can download applications to their mobile phone or PC and, very soon, their TV.

*Application Folder* takes the *"Application Store"* one step further by enabling the customer to manage, organise, search and recommend applications and services, using his or her handset to interact with the Store. The fall is more than an applications store and places the customer at the centre of the experience, allowing him/her to use his/her Telefónica device wherever he/she goes and Telefónica will help him/her to discover and use its services.

## f. Cloud services

Telefónica has a range of Cloud services adapted to each of the market segments where the Company operates. Specific services are already available for Small & Medium Companies, Large Corporations and also for Home Users. In addition to the Terabox storage system, 2009 also saw the introduction of another new service in Spain: Aplicateca, an environment that enables SMEs to add and self-manage their applications.  We are currently also working on an array of Hosting  and Storage solutions for corporate customers, offering Cloud services tailored to their needs.

## g. Connectivity

- **"*Speedy*"**: In February 2009, we commenced the implementation of *Speedy* 30Mb across 26 districts in São Paulo, Brazil. This service offers a 30Mb connection, content on high-definition open and closed channels, and unlimited interaction and voice services in local calls between fixed numbers within the Telefónica network, using a fibre optic infrastructure that reaches 370,000 homes. In July, different modalities of *Speedy* and mobile internet were launched in Argentina.

- **Trío Futura**: In November 2009, Telefónica launched the new modalities of Trio Futura in Spain, with speeds of 30/1 and 25/1 Mb. The Company, which started marketing this service last year on the fibre optic network, has successfully extended the offer to VDSL, while also achieving a broader coverage for this type of service. In addition, as evidence of its commitment to TV services, the DVR recording service is extended to VDSL Trio Futura modalities and, as from December 2010, high-definition content will be on offer on top-rating channels.

# 5.4 Customers

- **HSPA+**: In April 2009 we started deploying HSPA+ in the major Spanish cities. On the current scenario, HSPA+ allows for high upload and download speeds, which will gradually be increased. This new improvement in Telefónica's 3G network paves the way for further improvements in mobile broadband and is a stepping stone towards fourth-generation technologies.

- **"LTE" (*Long Term Evolution*)**: In 2009 Telefónica carried out the first lab tests using LTE, also known as fourth-generation (4G) network technology. LTE will provide download speeds of up to 320 Mbps and upload speeds of up to 80 Mbps. The aim of these tests is to verify that suppliers meet the requirements laid down in the standard specifications so that, once this has been established, tests can move on to the field stage.

- **EDGE**: Honouring our commitment to continuously improve the quality of our products and services, at Telefónica we place great emphasis not only on developing cutting-edge technologies, but also on enriching the internet services we currently provide to all our customers worldwide, particularly those who do not enjoy 3G coverage. To this end, the Company has deployed EDGE technology across a large part of the 2G network. This technology brings substantial improvement to the cover and quality of mobile networks inside buildings and offices, in rural areas and, generally speaking, throughout the broad scope of 2G coverage. It also enables speedier data transfer, with up to five-fold increases.

## h. Education

- **Aula 365 (365 learning)**: In a pre-emptive initiative to counter the effects of a possible swine-flu pandemic in 2009, Telefónica offered the Aula 365 service free of charge to the entire education community. The service offered educational content for all curriculum levels during the winter season, which was extended on account of the disease.

- **"Kantoo *English*"**: Last year also saw the launch of Kantoo English in Brazil, an English language mobile learning application with thousands of words, phrases, sounds and images, as well as games and the possibility to come into contact with a community of users. The application offers an innovative, highly attractive approach to learning to all those seeking to learn and practise English, available anywhere and anytime and adapted to their own style of learning and individual capacity.

## i. Productivity

- **Sucursal online (Online branch):** This service was introduced in Argentina in 2009 for users looking to create their own website. It includes domain registration, site design by means of an *ad hoc* design application, modification of the site as often as the customer needs, product advertising campaigns on digital media, and the possibility to access e-payment tools through which the customer's products can be marketed online.

- **Respuesta Profesional (Professional Solution)**: Another of last year's new initiatives was "Respuesta Profesional", an essential service for corporate and self-employed customers with a catalogue that encompasses the Company's entire range of fixed and mobile services. The new catalogue is consistent with the philosophy of the "Respuesta Empresarios" (Business Solution) project, i.e. to become the customer's comprehensive supplier and manager of all his/her fixed and mobile IT and Communications.

## j. Advertising

- On a global scale, Telefónica has continued the deployment of its advertising service, enriching the capacities it offers advertisers, increasing formats and continuing the opt-in policies for protecting its customers' privacy and requirements above all.

- Accordingly, at the MWC 2009 (*Mobile World Congress*), Telefónica presented its advertising-based communications proposal called "TocAd", where mobile customers receive benefits for viewing advertising on their terminals. This service will be deployed in Spain in 2010.

- On a global scale, the implementation of Telefónica's mobile services for receiving advertising has continued and remains available in all its regions and in a significant number of countries.

## k. Innovation

- **"*mstore*"**: Telefónica introduced *mstore* in Spain, a universal applications store for all Movistar customers where they can download services, applications, content, as well as signing up to different services, from a mobile phone

or a PC. "*mstore*'s well-nourished catalogue, which is downloadable to a computer or mobile phone, includes the following categories: Games, Dictionaries, Entertainment, Finance, Health, GPS-Maps, Information, Pictures and Video, Social Networks, Travel and Books, Sport, Shopping, Tools and Education/Children. This new outlet forms part of a global project that is set to reach Telefónica's more than 200 million mobile customers across the world in the future and will be deployed on various platforms and in various formats.

- **TerraGiga**: In March, Terra launched TerraGiga, a virtual hard drive with up to 100 GB storage capacity. The product enables users to access all their files from anywhere on the web, with the help of a simple browser. This new online storage facility gives users the possibility to share, manage, post galleries, watch their videos and access all their files quickly and easily.

- **"Spinvox"**: Telefónica launched Spinvox in Ecuador, a service that renders customers' voice-mail messages into text.  This application improves communications, as it enables customers to access any voice-mail messages left by other users when they are unable to answer their calls. Spinvox is free and available on a 24/7 basis.

- **O2 TV**: Telefónica O2 Ireland launched an innovative television offering for mobile phones called O2 TV, which includes two services: O2 Lifestyle Pack, an offer of music, news and entertainment, and Sky Sport & News Pack, with live sports.

- **"IT Block"**: This is a free service launched by Telefónica O2 Ireland to counter mobile phone bullying. The service allows users to block messages with unwanted content.

- **"O2 Ideas room"**: In December, Telefónica O2 UK introduced this service to promote interaction among small and medium-sized enterprises. O2 Ideas room offers companies access to specialist information and value-added services free of charge, as well as a platform on which to set up forums and publish content online.

- **"O2 Money"**: Telefónica O2 UK entered the personal finance market in 2009 with its new O2 Money service, enabling users to use their mobile phone as a digital cash card. Another new development along these lines was O2 More, a service that allows customers to design and implement their own customised advertising.

**Click here for more information on Telefónica products and services.**

## 5.4.3.4 Billing
In 2009, Telefónica continued to improve the format of its bills to make them clearer and made a commitment to electronic billing and helped its customers control their spending.

### E-billing
Telefónica sees the electronic bill as a way of combining its commitment to clarity of information and the environment. At the close of 2009, more than 12 million customers received this type of bill, which accounts for 11.7% of the total number of bills issued.

Last year, the electronic bill was introduced in Peru. Also in Brazil, the Company carried out a pilot project that involved 750 employees so that this option could be offered to customers in 2010. At the present time, the *e-bill* is in place in Europe and in some countries of Latin America, always in compliance of current legislation: Argentina, Brazil, Colombia, El Salvador, Guatemala, Mexico, Nicaragua, Panama, Peru and Venezuela.

# 5.4 Customers

## Electronic bills in 2009 (%)

| Region | Value |
|--------|-------|
| Europe | 34.8 |
| Latin America | 9.2 |
| Spain | 4.5 |
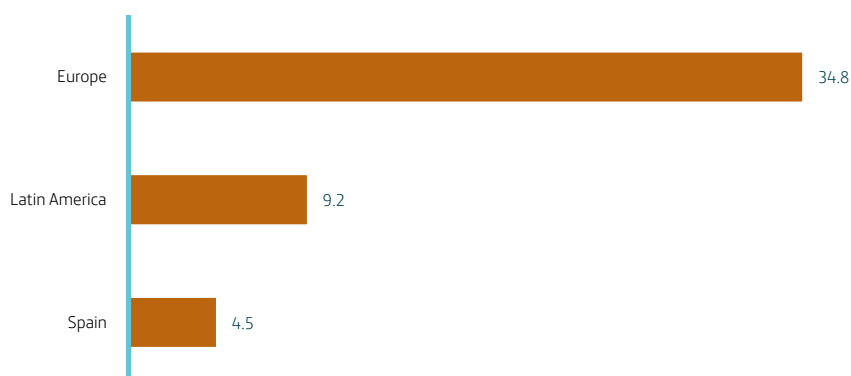
## New rates

Offering innovative rates that are competitive, flexible and more and more personalised at the same time as they are simple and clear for customers is a challenge for telecommunications companies. This challenge grew in 2009 as a result of the economic situation, which increased many users' concern for controlling their spending. Telefónica tried to respond to all these expectations with dozens of different proposals. These are only some of the ideas that were put in place:

- **"Family Solution"** (Spain): a convergent offer so that homes can benefit from the flat rate of calls between fixed and mobile Movistar telephones in exchange for a monthly fee.

- **"Free ADSL"** (Spain): 3 Mb broadband product that does not include any voice consumption, which means that users do not have to pay monthly fees for the basic telephone service. It costs €32.9 a month and has no timetable restrictions or download limits.

- **"O2 o"** (Germany): based on customers' suggestions, this is a prepay and contract rate with no commitment to permanence; there is only one price per minute across the network and a monthly spending limit. It offers discounts for loyalty and consumption. From its launch in May to the end of 2009, it obtained one million customers.

- **"Discount Rate"** (Czech Republic): prepay rate with access to discount prices for customers who topped up more than 300 Czech crowns in order to reward their loyalty.

- **"Discover your promo"** (Chile): campaign to offer a different promotion for each mobile telephone customer, i.e. in accordance with their profile regarding the number of top-ups or activations.

- **"Total Plan"** (Ecuador): post-pay rate that reduces the price per minute for conversations by half for private customers and corporate customers from Movistar to Movistar. It marked a milestone in the country by eliminating the limits for the registration of contacts that benefit from the rate.

- **"Plan Flex"** (El Salvador): one single rate for every destination, with exact second-based rates and the benefit of speaking for free after 2 minutes on the Movistar network.

## Customer benefits

In 2009, Telefónica multiplied duplication and triplication promotions of balances for its mobile telephone prepay customers (e.g. the Company presented 124 promotions in Ecuador, i.e. an average of one every 3 days).

In addition, Telefónica added proposals for rewarding loyalty of existing customers to its usual plans for attracting new users. This was pioneered in the United Kingdom. In said country, Telefónica O2 extended the exclusive benefits of its "O2 Priority List" for customers with a monthly payment rate, offering a wide range of rewards and offers for every customer. The Company's proposals include *"O2 Priority Ticketing"* (tickets for musical events at *The O2* and *O2 Academies* 48 hours in advance of general sale), *"Fair Deal"* (which offers existing customers the same treatment as new customers, as well as certain additional benefits) and *"O2 Treats"* (three minutes and text messages that can be exchanged every three months).

In the Czech Republic, Telefónica O2 launched its "O2 Extra" benefits programme for fixed and mobile telephone customers.

# 5.4 Customers

For its part and since 2010, Telefónica Spain gives its customers the most innovative handsets for free simply when they take out a contract for any of its mobile internet flat rate plans. This promotion acknowledges and rewards the trust it has received from its users over the years.

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**115,000 unemployed workers and 5600 businesses benefit from the Telefónica Spain discount**

In order to meet its customers' requirements in the context of economic deceleration, Telefónica Spain launched a programme of discounts in March 2009 for the unemployed, self-employed workers and newly created SMEs. Under the anti-crisis plan, the Company reduced its fixed-line and mobile bills by 50%, up to a limit of €20 per month per bill.

At the close of the year, the programme had benefited more than 115,000 customers and almost 5600 businesses (self-employed workers, small to medium sized enterprises) and Telefónica announced that it would be extended until 31 December 2010.

To provide customers wanting to sign up for the programme with a better service, Telefónica has a web page on the internet (www.telefonica.es/teayudamos) and a freefone service number: 900 380 390.

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## Control of spending

In 2009, Telefónica put in place new options on its website so that users could see and, consequently, control their consumption.

For example, its *Imagenio* customers (Telefónica's interactive digital TV) were able to access detailed information about their spending through www.movistar.es. In Brazil, Vivo included the online account on its website so that users could check their consumption and even generate graphs.

The system launched by Telefónica Peru for internet browsing (*Speedy Control Hours*) also allows for browsing hours to be transferred from one user to another. For its part, Telefónica O2 Ireland launched a pioneering tool on its market for corporate customers (Large Accounts): the "*O2 Analyser*", which allows them to see their bill and information broken down in real-time online, thus awarding them the particularly important possibility of controlling spending in the current economic situation.

It is also occasionally necessary to increase the information given to customers at points of sale to help them control their spending. For example, in Germany, to prevent the *bill shock* (the *shock* of astronomical bills with the new *Palm Pre*), which connects to the Internet automatically without notice, employees at Telefónica shops were given training to explain the risk and sell the terminal with an internet package. The Company also increased incentives based on the packages. If a bill shock still occurs despite all the above, Telefónica O2 assumes most of the costs.

Finally, another formula used in this case by Telefónica Spain in the area of prices and aimed at increasing customer satisfaction is to reduce certain costs associated with services but of which users are not usually aware. These are costs that could be referred to as 'small-writing' costs. Accordingly, in 2010, the Company has made these services free: calls to the technical service telephone; the change of ADSL connection speeds (reducing the capacity had a cost); keeping the telephone line when changing address and moving; changing the owner of the telephone number.

# 5.4 Customers

**Pricing innovation: spending under control and greater freedom**

The O2 ZERO tariff launched by Telefónica O2 Czech Republic in 2009 demonstrates the efforts that the Company is making to offer new products which are simpler and designed to help our customers control their spending.

O2 ZERO has no monthly payments or contractual obligations, and includes flat rate tariffs for SMS and calls. This is a clear plan which is easy to understand: users do not have to worry about sending multimedia or text messages, or calling at particular times, or using a particular network, as the prices are the same in all cases.

If the customer wishes to only spend a certain amount on their mobile phone, they can set a limit. When they approach this limit, they receive an SMS; however there is no restriction on calls or messages above the limit, as the limit can be changed at will whenever necessary.

O2 ZERO has been very well received by our customers: just one month after its launch it was already being used by around 10,000 people

## More information on the bills

In 2009, Telefónica extended the information provided on its bills to increase clarity:

- In Nicaragua, the Company added details such as the fixed charges, the account summary, past consumption, etc. In addition, thanks to the regional "Sume" project (developed in Panama and Nicaragua), it started to show the prices per minute of each time band of each line that was contracted.

- In Mexico, the Company included messages on changes to its commercial offer, new promotions and commercial offers on the bills of its post-pay customers, as well as information on legislation, such as the change in the VAT rate and the collection of the IEPS (Special Tax on Production and Services) applied to telecommunications services as from 1 January 2010. It also revised the scripts used by its call centre tele-operators to explain bills and commercial offers better.

- For its part, Telefónica Peru enclosed letters with the bills sent to fixed-telephone customers to explain how it bills and specifying any commercial changes that modify the services received by the user and, therefore, the bill.

- As the aim is to include more and more information on the bills, they often need to be redesigned and adapted to guarantee clarity and rapid reading. For example, Argentina implemented the NEF project (New Presentation on Bill) to improve the presentation of internet-related items. In Chile, Telefónica redesigned its business segment bill to make it simpler. And in Colombia, to offer clearer, more user-friendly communication, improve the presentation of the electronic and printed bill for mobile customers. For its part, in Spain, Telefónica launched the "Simplified Bill" project, which consists of reorganising the information so that residential fixed-telephone customers can be given a simplified format that also involves using less paper. With this move, it saved more than 18.6 million sheets of paper, equivalent to 104.3 tonnes.

- Changes were also made to the format of the fixed-telephone bill in Peru. Besides changing the size and colours to make it more user-friendly, the order of the items was changed and the breakdowns were improved to identify the item that was being billed.

## 5.4.3.5 Service quality
In 2009, Telefónica continued its commitment to innovative technologies for new networks and made efforts to optimise those already in place.

Customers identify quality with the availability of a telecommunications service, its proper functioning and resolution of complaints. In the new digital environment, user experience is also marked by the speed perceived when using the internet, since customers want "do more" in less time. This gives rise to the importance of infrastructures as a key factor behind service quality.

Accordingly, in 2009, a New Operative Model for Information Technologies (IT) was developed to enable the evolution required by today's information systems.

### Network development to improve user experience and increase efficiency
Despite the economic situation, Telefónica increased the cover of its 3G networks in 2009 x 15 percentage points. It increased its fixed lines with a capacity for more than 25 MB by more than 5 percentage points and multiplied the IP network by 2. The following are some of the most relevant events of last year:

**Fixed-line and mobile telephony**
* Telefónica and Vodafone shared 100 sites in operation.
* Telefónica Spain agreement to share infrastructures and sites with Generalitat de Cataluña.
* Telefónica Spain deployed EDGE technology on 50% of its 2G network and implemented a traffic optimisation platform.
* Telefónica O2 United Kingdom announced that it is to install 1500 antennas to extend its mobile cover.

**Broadband**
* Telefónica fostered mobile 4G using LTE technology and reached a speed of 100 MB in tests.
* Telefónica International Wholesale Services (TIWS) approached the process to extend and strengthen its global IP MPLS network in the 15 countries in which the Group does not operate.
* It completed the migration of Telefónica Spain's large customers to a single IP network.
* Telefónica Spain modernised its UMTS access network.
* The operator doubled the upload speed of its 6 and 10 MB ADSL in Spain.
* Mobile Internet at speeds of up to 21 Mbps with Telefónica Spain.
* Thanks to VDSL technology, Telefónica Spain extended its cover for offering advanced *Trio Futura* services to more than two million homes.
* Telefónica SP doubled the resolution capacity of its DNS servers; it increased its international outgoing internet capacity from 60 Gbits to 140 Gbits and increased the IP backbone in the state of São Paulo from 250 to 520 Gbits.
* Implementation of high-speed mobile broadband (3.5 G) in Germany (Munich), Central America, Colombia, Ecuador, Mexico, Czech Republic, Peru and Venezuela.

**Fibre optic**
* In Spain, Telefónica launched Trío Futura, its first pre-commercial service offer for fibre optic.
* Home broadband pilot test through fibre-optic (with a download speed of up to 40 MB) with Speedy customers in Argentina.

**Processes**
To assure the quality of its products and services, Telefónica based itself on the international ISO 9001 standard for yet another year. Other specific milestones were also reached in the countries in which the Company operates.

Telefónica O2 United Kingdom became the first telecommunications company in the country to obtain the BS 25999 certificate. This standard recognises businesses that demonstrate their capacity for continuing to operate in the event of unforeseeable or emergency situations, such as serious incidents or catastrophes.

Latin America witnessed the consolidation of the Commercial Operations Centre project (COC). The COC is an organisation, work method and associated systems put in place in an operator in a room with resources and work posts. It brings together individuals from different areas (installation, supply, billing, payment collection, back-office, systems, processes, quality and commercial segments). Its aim is to monitor and solve problems with the orders pending (new customers, customers who are leaving, modifications and transfers) and to monitor indicators and processes from an "end-to-end" viewpoint. The COCs of the five fixed-line operators of Latin America are currently in operation (Argentina, Brazil, Chile, Colombia and Peru), monitoring all the Basic Telephony Services (BTS), Speedy (ADSL) and TV.

# 5.4 Customers

Special mention must be made of the fact that Chile and Brazil now have a COC that focuses on fixed-telephone orders and breakdowns. Peru is to be the third country to implement the concept in the Company, followed by Colombia.

## Service Procurement

**Installing the service contract by the customer in the shortest possible time and without incidents is still a daily challenge for many operators.**

In 2009, to maximise service efficiency, Telefónica intensified its use of tools and systems through regional projects for fixed-telephone operators in Latin America:

- The aim of the PROSIGA project is to optimise the management tools and processes for technical and field services. PROSIGA is structured into six initiatives: Efficient Technician Management and Field Action Programme (GAUDI), Inventory Management (SAGRE), Integral Traceability of Orders and Claims, Optimisation of Customer Service (DHC), Flexibility of Administration of Sales and Requests and Customer Self-management.

  For example, GAUDI is a tool for dealing with service orders at customers' homes and simplifies the technicians' activities by storing information and automating the close of the action on a PDA-type terminal.

- SIGRES (Integrated System for Managing Networks and Services) which has been implemented in Argentina, Brazil, Chile, Colombia and Peru allows the tasks of installing and operating new broadband services to be managed and eliminates manual processes.

At the same time, the Group's operators developed initiatives to reduce their installation times, as defined by each company:

In Argentina, work was carried out along this line to create a new logistics process so that customers could receive their *Speedy* self-installation *kit* ( *(broadband)*), together with a support process to help them install it.

Telefónica Mobiles Ecuador increased the technological infrastructure of its Data Support Centre to reduce the term by 7 days. Chile also reduced its fixed services by an average of 5 days.

In 2009, Peru transformed the supply of fixed-telephone services. The new process confirms the term of service with the customer via SMA; the work is combined so that customers can have their service installed in one single visit; and, at the end of the process, the user is contacted to confirm that everything is correct.

Finally, Telefónica Spain developed several projects as part of its GPS Transformation Programme (Generate growth, Produce effectively and efficiently and improve customer Satisfaction):

- **Óptima Q**: the aim of this programme is to level off the quality of the supply and maintenance activities by increasing the effectiveness of Telefónica and its collaborator companies. The actions taken include the definition of inter-area service levels; the implementation of penalties and bonuses as an incentive for meeting deadlines; the improvement of technical service centre tools, etc. The projects includes several phases and continues in 2010.

- **I+M transformation** (installation and maintenance): creation of a new I+M model that involves collaborator companies and focuses on issues such as new and leaving customers to improve average times and productivity, etc.

# 5.4 Customers

> **Excellent service provision by Customer Technical Advisors**
>
> The Customer Technical Advisor (CTA) and Telefónica Spain's Mirror project have developed into best practise within the Group for improving service provision and maintenance.
>
> The CTA is responsible for providing services and complex work for our Large Customers, and for looking after unusual installations and for prioritising faults which have a critical impact on our customers' businesses.
>
> Our CTA are highly valued by our customers -being awarded 8.5 out of 10 by our users- but the Company is working to increase their efficiency by improving customer care in call centres. In particular, the Company aims for call centre operators to be able to resolve incidents on the first call (without having to escalate it) or send a technician immediately; to give warm and friendly treatment; and to contact the customer to confirm that there are no problems when any indication of an incident arises. This last measure is part of the Mirror project.
>
> Under the new Telefónica Spain Customer Experience programme for 2010, the role of the CTA is being expanded to all commercial spheres within the Company. In fact, we now have our first promotion of Base Customer Technical Advisors (BCTA). The BCTA's offer personalised service to our Medium and Large Company customers who have not been assigned a Technical Advisor.

## Service operation

**Besides investing in the network to increase its reliability and capacity, Telefónica took specific initiatives in numerous countries to reduce the breakdowns on the lines and increase network effectiveness.**

In Argentina, The "Reduction of Site Cuts in Movistar" project was developed and focused on avoiding breakdowns and incidents on the carrier network. The aim was to reduce the mass communications cuts affecting mobile customers caused by breakdowns and incidents on the network, such as fibre-optic cuts, communications cuts affecting radio links and faults in broadcasting equipment. The project was given second prize at the "Stars of Excellence" awards organised by IPACE (Professional Institute of Argentina for Quality and Excellence).

In Colombia, to improve service operation, Telefónica Telecom invested in the replacement of the network in places where quality indicators were low.

In Ecuador, the Company developed a Six Sigma project to reduce the alarms related to operating errors on GSM switchboards. Access faults in voice channels were also reduced from 1.5% to 0.99%.

Despite all the Company's efforts to provide a service of the highest possible quality, certain incidents worthy of particular mention occurred in 2009:

- In December, Telefónica O2 United Kingdom apologised to customers for the problems affecting the network in London. The Company explained that the incident was due to the "explosion" of demand for data services and smartphones. It also said that it was taking measures to improve service operation, including the installation of a further 200 mobile stations in the city.

- On 22 June, the National Telecommunications Agency (Anatel) of Brazil temporarily suspended sales of Telefónica's broadband internet service (Speedy) in the country until measures were taken to guarantee that the service could be provided on a regular basis. Anatel said that four complete stoppages of Speedy had been registered in less than one year, increasing the number of claims in recent months.

  Telefónica explained to the agency that the technical faults came from different causes and that some of them were caused by the heavy increase of traffic on the network. As far as claims were concerned, the Company argued that the service problems were related to the application of new operating rules for the Consumer Services that had come into effect in December of the previous year and that the company had already taken the appropriate measures to solve the incidents.

  Telefónica had expanded the network over the years and had taken the corresponding actions and made the investments required to improve the systems and the network after the first incident that affected Speedy in July 2008. When it saw that the measures were insufficient, the Company launched "Telefónica in Action", a complete action programme based on two objectives: to stabilise and extend the network's capacity and redefine and improve customer service.

# 5.4 Customers

As far as the network is concerned, the plan presented to Anatel included investments of 70 million reals over stages comprising 30, 90 and 180 days. When the first phases of the plan were completed, Anatel again allowed the sale of Speedy, which became accessible to the general public as from 27 August 2009. All the phases were completed before the corresponding deadlines and the plan ended at the beginning of December. All the measures that were carried out reduced the number of claims related to Telefónica in PROCON-SP and Anatel.

## Technical service

**The fulfilment of the terms set to solve the breakdowns shows a company's capacity for response. To move forward along these lines, Telefónica awards utmost importance to working side-by-side with its collaborator companies.**

Telefónica Spain developed several projects as part of its GPS Transformation Programme (Generate growth, Produce effectively and efficiently and improve customer Satisfaction):

- **Optima Q:** the aim of this programme is to level off the quality of the supply and maintenance activities by increasing the effectiveness of Telefónica and its collaborator companies. The actions taken include the definition of inter-area service levels; the implementation of penalties and bonuses as an incentive for meeting deadlines; the improvement of technical service centre tools, etc. The projects includes several phases and continues in 2010.

- **New model of technical centres**: this model seeks to speed up the solving of incidents and make it more efficient by means of various initiatives. These include emphasising the improvement of the telephone service to identify and solve the problem with the first call.

At the same time, Telefónica Spain completed the implementation of GAOM (Operation and Maintenance Activity Management), an integrated, convergent system for managing all the maintenance activities on the fixed-line and mobile networks. GAOM increases the efficiency of network operations and the levels of coordination of the plant maintenance personnel's activities, which has a positive effect on customer satisfaction.

In Argentina, the Company reduced the ADSL breakdown rate by 34% and the number of calls to the technical call centre by more than 10%. Thanks to more personalised management, consideration was given to the characteristics of the ADSL and the distance between the customer's home and the telephone switchboard to avoid breakdowns and problems involving slowness. Another line of action was that defined by the network preventive maintenance plan.

In Colombia, Telefónica Telecom put in place new processes to close the installation and repair cycle and to set the repairs schedule in order to guarantee fulfilment of the terms given to customers.

Telefónica El Salvador opened its first Technical Service Centre to provide a rapid service for incidents affecting customers' mobile terminals. The services provided by the centre include the following: reception of Terminals for diagnosis in 24 business hours; repair; replacement terminal; and Quick Service.

In Nicaragua, Telefónica launched its Express Workshop Service, a door-to-door technical service that includes the collection of the mobile, a replacement terminal and a guarantee of repair in a maximum term of 48 hours with delivery to the customer's home or office. If the terminal breaks down again in the next three months, the Company repays the cost and repairs it free of charge.

To improve its technical service, Mexico fostered the resolution of incidents affecting terminals at the Customer Service Centre itself so that they did not have to be taken to the workshop and in order to speed up the process. It also offered users another replacement terminal. If the terminal had to go to the workshop, before it was returned to the customer, Telefónica confirmed that it was working correctly. This service was extended to 100% of the repairs in 2009.

For its part, Telefónica Peru implemented the *Home Network Manager* tool to reduce claims for the loss of configuration affecting modems and avoid the need for technicians being sent to the home. The improvements put in place at the call centres also helped the technical service.

## 5.4.3.6 Customer care

The growing complexity of telecommunications products and services and the multiple combinations of rates and use options further increase the complexity of dealing with Telefónica's 265 million users.

Local service, treatment and the response capacity to customers in stores and call centres are aspects that Telefónica seeks to improve each year. Its customer service channels and services have evolved to meet the needs of more and more digital users. Accordingly, the options available on the internet were increased in 2009. Furthermore, the Company is aware of the importance of face-to-face services. Indeed, it opened new offices in 15 European countries.

# 5.4 Customers

## Call Center

Providing an effective, intimate and personalised service for several hundred million calls a year is not an easy task. Given the importance of doing it well, in 2009, the Telefónica Group again included this subject on a practical scale in all its operators' quality assurance plans and worked with its collaborator companies that attended calls on objectives such as the following:

- **Calls resolved more quickly**: in 2009, one of Telefónica's priorities was to increase the resolution of its users' queries and requirements during their first call (*First Call Resolution*, or FCR), avoiding the need for them to contact the *call centre* again.

  To improve this indicator, it focused on various aspects: technical aspects (tools for tele-operators, network to join the call centres together, etc.), Communications (agents' diction); and training (new knowledge and skills to help tele-operators solve the calls without the need for transferring the customer to other agents or for opening a claim procedure).

- **Process excellence:** Telefónica continued to extend the COPC methodology in its operations to improve service and quality and reduce costs and increase revenue. The certificate was applied in Movistar Argentina in 2008 and, on the basis of this experience, Telefónica created a regional team made up of the individuals who achieved the COPC in Argentina, dedicated to coordinating the initiatives for implementing the methodology in every country. At the present time, the project is being developed in several countries and the initial results are being successful.

- **Claims prevention:** to avoid dissatisfied customers, several of the Group's operators carried out important prevention work and called them to inform them of an error Telefónica had identified, for example, on their bill; they contacted them again when it was suspected that they were not satisfied or to confirm that their incident had been completely resolved.

- **More automation:** automatic voice recognition through IVR was used more intensively to speed up the service. In particular, it was used to automate responses to certain types of queries (e.g., in Ecuador it was used for requests such as changes, activations and reactivations of SMS packages and information on balances, among others) and to point the customer to the right agent using an options menu. To do so, natural language was frequently used so that customers did not have to listen to several options and wait until the right one appeared. The idea was for the customer to direct his/her a call from the beginning and, when stating his/her query or request, the IVR forwards it to the tele-operator or executive who can provide the right assistance. In the case of Mexico, the system correctly forwarded 80% of the requests thanks to the use of natural language.

  In 2009, the IVR was also used to ask customers about the service they had been given when the call ended in order to intensify the satisfaction-monitoring process.

- **Solutions for dissatisfaction:** in countries such as Spain, Peru and the United Kingdom, the Company has specific services to help customers who consider that their problem has still not been resolved after they have been attended by the call centre.

  Thus, In 2009, Telefónica Spain continued to expand its **CSI (Centro de Seguimiento de la Insatisfacción - Dissatisfaction Monitoring Centre)**, which was created in July 2008 to contact customers who, having been dealt with by a telephone operator, are still in some way dissatisfied, or who make repeated calls to the call centre.

  At the end of the year, the CSI team had 200 employees, compared to 73 in July 2008. In addition to traditional telephone assistance tools, the Centre also has a number of specific tools. This resulted in a total of 368,731 (relating to 321,262 customers) fixed line telephony issues being resolved in 2009, compared to 142,000 in 2008. The most common issues related to billing, faults and service provision.

  The CSI was set up as part of the 1004 telephone service operated by the Company on behalf of domestic customers and it works in collaboration with other areas such as Operations, Invoicing, Complaints and Information Systems amongst others. This collaboration takes place through the Quality Committee, which also enables the CSI to report areas for improvement and deficiencies which it identifies in the course of its work, and which it considers need to be addressed in order to contribute to transforming the Company. In 2009, it made over 200 proposals for changes and/or improvements to processes.

  For 2010, Telefónica Spain's objective is to continue to reinforce its CSI to reach 100% of its dissatisfied customers who call 1004; which will be the only point of access for the residential segment in Spain and, consequently, will deal with all the dissatisfied customers in a convergent manner (fixed-line and mobile).

# 5.4 Customers

The CSI Model has been exported to other Customer segments and to Telefónica Peru and Telefónica Mobiles Spain for the Domestic segment.

Accordingly, in Peru Infrared 2009, the **Integral Solutions Area (in Spanish, ASI)** implemented a back-office service that processed dissatisfied customer claims (residential and business) through the 104 call centre or through visits to the multi-centres.

In July, the ASI team (made up of 28 specialist advisers) started to answer the repeated calls related to orders pending for multi-products that were more than 10 days old. A few months later, it took on customers showing high levels of dissatisfaction with the service they received from the call centre. In 2009, the repeated calls and dissatisfactions of more than 80,000 customers were processed.

The target for 2010 is to change the management model to extend the scope of the ASI and reach more customers. Indeed, it will include the review of bills to prevent any possible claims. The aim is also to implement a Learning Model to identify opportunities for improvement in the internal processes that have a direct effect on customers and present them to the Quality Committee to guarantee their implementation.

For its part, Telefónica O2 United Kingdom has a **Complaints Team** to deal with complaints not resolved in the call centres. It investigates the complaints and contacts customers to solve them.

The team is made up of 55 employees: 13 of them are focused on legal issues, relations with regulatory bodies, the *Ombudsman* in the United Kingdom, etc. They are joined by the so-called "specialist teams", made up of 30 professionals who resolve incidents related to broadband, terminals and smartphones, etc. Finally, a group of 12 employees perform qualitative analyses and identify the causes behind the claims. This team manages the process called "My contribution", which makes it possible to automatically inform the business of the elements that affect customers.

- **Convergent service**: in line with business convergence, in 2009, Telefónica Spain's call centres for mobile and fixed telephones proposed convergent commercial offers to customers. And the operator continued to work to provide a telephone service that responded to mobile and fixed-telephone incidents and queries from the same number: one for private users and another for businesses.

  In the Czech Republic, the Company integrated the mobile and fixed CRM system to offer convergent services. This will enable sales management thanks to improved response times and a reduced number of after-sales claims. Furthermore, this convergent CRM made it possible to increase the level of resolution at call centres (FCR), improve user experience and achieve a more stable number of calls.

- **Personalisation**: in order to achieve a more personalised and efficient service, a further level of specialisation was preferred in certain operations. Accordingly, in Colombia, the general service was segmented depending on the origin of the call (Bogota and the rest of the country) and the customers' consumption levels.

  In Ireland, three types of posts were established at the call centre to improve customer service: the business manager, the consumer manager and the commercial manager. Telefónica Spain opened its first Personalised Management Centre for Small Enterprise Customers in January 2010 and it was for both fixed and mobile telephony. With this centre, Telefónica complements the service it already provides to SMEs. In Mexico, a platform was created for the independent professional segment in SMEs.

- **Emotional connection**: in 2009, Telefónica worked to bring its suppliers into line with its strategy, in which the customer is the most important element. Accordingly, it insisted on the need for fostering the emotional factor. As the first steps towards this, the scripts were eliminated in El Salvador so that the tele-operator could answer the calls in a more natural way. In Spain, the "We are Humans" programme was launched to foster more natural conversations, more flexible procedures and more personalised service, etc. among the areas that come into direct contact with the customer.

## Online channel

In 2009, Telefónica continued to work to become a completely online business so that, by 2012, 25% of its transactions with customers will be electronic (in 2008, the percentage was 3%); more than 95% of purchases will be made over the internet, 40% of them in auctions (more information in the chapter on the Supply Chain); relations with developers will be much more flexible thanks to Open Telefónica; and the online applications will be used en masse for knowledge management and exchange.

# 5.4 Customers

The key points of this evolution, which is part of the transformation process being carried out by the Company, include changes to the Information Technologies systems (IT).

As far as customers are concerned, the Group's websites stand not only as a flexible, low-cost point of sale, but also as a channel for providing a flexible service and a range of self-management services that is growing on a daily basis. In addition, Telefónica's objective is to have convergent channels that cover all the company's activity in both fixed and mobile telephony. Accordingly, work was carried out along these lines last year in countries like Spain, which developed the "Online Channel Promotion" initiative as part of the Company's GPS Transformation Programme. The first steps include the merger of its two websites -www.telefonica.es and www.telefonicaonline.com- into one single interface: www.movistar.es and the plan is to have a convergent channel that is multi-device, multi-language and accessible, etc. by 2010.

In addition, in Latin America, Telefónica is working on the Online Channel Project, which involves the definition and implementation of a single customer communication channel for all the business segments, all the Company's services and all the access channels.

The project is being considered in accordance with an outsourcing model with various suppliers. The aim is to guarantee sustained growth of the Online Channel over time (usability, sales and self-service) and to define a technical and services architecture that allows for the evolution of all the operators and the sharing of services, functionalities and best practices in a simple and rapid way.

**Self-management**
Progress in the area of self-management at Telefónica is such that, for example, in Colombia it accounted for 50% of the mobile customer service at the close of 2009, which implies more than one million transactions a month.

The self-service options include the evolution in different countries of the electronic bill, which was used by more than 28 million of the Group's customers at the close of 2009.

To enable self-management, the Company seeks to support its customers in different ways: with information on the website, with responses to the more common queries and through call centres, etc. Accordingly, in September 2008, Telefónica O2 United Kingdom launched a virtual assistant (Lucy) that provided online help for the self-service process, solving queries and enabling the best communication routes when a personalised service is necessary. Each day, Lucy has more than 1000 conversations with users. The most frequently asked question is: "how can I see my mobile phone bill online?

To provide customers with continuous assessment 24 hours a day 365 days a year, Telefónica Mobiles Nicaragua also presented its new self-management service in 2009: Chat Centre. Available on the website at www.movistar.com.ni, the chat makes it possible to solve doubts, process various procedures and deal with users' claims.

**New channels for speaking and listening**
In 2009, the Company added new forums in other countries to Talk2O2 (Telefónica O2 Ireland). in June, it launched the "Movistar Community Forum" (http://www.movistar.com.ar/foro/) in Argentina, an informal space on the internet for its customers to share ideas, opinions and information about the Company's products and services and improve their user experience.

Last year, Telefónica Spain created the www.foroimagenio.com , digital forum, where current and potential customers of its *Imagenio* pay-TV service can communicate with and be heard by the Company. This forum was launched as a pilot project but has since become well established: in February 2010 it had 4,240 users, and had received 26,576 messages since its launch in April 2009. Our customers have shown themselves to be highly satisfied with this initiative, which the Company is also using to identify areas for improvement. In 2010, Telefónica intends to continue consolidating foroimagenio.com and to open new forums for other products.

# 5.4 Customers

**Telefónica imagenio**
Foro oficial de Telefónica

Este foro es un punto de encuentro entre usuarios de Imagenio que quieran poner en común sus conocimientos, gustos, opiniones, etc., en cuanto a los contenidos de Imagenio, así como debatir acerca de cuestiones técnicas relativas a este servicio de TV digital. Y, además, se trata de un medio para que Telefónica pueda conoceros mejor a través de vuestras sugerencias.

Foro oficial de Imagenio

Nombre de Usuario | Nombre de U | ¿Recordarme?
Contraseña | | Iniciar Sesión

| Registrarse | Ayuda | Comunidad ▼ | Calendario | Temas de Hoy | Buscar |

**Bienvenido a Foro oficial de Imagenio.**

Si es tu primera visita, quizás deberías visitar la **Ayuda** para aprender un poco sobre el uso de los foros. Es posible que tengas que **registrarte** antes de poder iniciar temas o dejar tu respuesta a los temas de otros usuarios; haz clic en el enlace 'registrarte' para crear tu cuenta. Para empezar a ver mensajes, selecciona el foro que quieres visitar de la lista de abajo.

| Foro | Último mensaje | Temas | Mensajes |
|------|----------------|-------|----------|
| **Categoría general** | | | |
| **Bienvenida y presentación** (3 Viendo) ¿Acabas de llegar a este foro? Tómate un minuto para leer las normas del foro y para contarnos quién eres. | 🙂 **Nuevo en el foro y espero que...** por Elena-Telefonica   Hoy 21:23 | 342 | 1.044 |
| **Noticias** Sección oficial de Noticias relacionadas con los contenidos de Imagenio. | **A partir del 1 de marzo,...** por Elena-Telefonica   Hoy 08:01 | 59 | 237 |
| **Documentación y enlaces de interés** (1 Viendo) Recopilación de los documentos y enlaces más útiles. | **Grabar Imagenio** por BadWolf   03-Feb-2010 13:26 | 27 | 174 |
| **Contenidos Imagenio** | | | |

For its part, "Talk2O2" (http://forums.o2online.ie/) consolidated its position with 926,808 hits between September 2008 and February 2009. The forum is designed to offer customers the possibility of sharing their concerns with other users and dealing with issues directly with the Company. It was given the "Best New Product or Service 2009" award by the CCMA (Call Centre Management Association) in 2009. Besides offering customer service, Talk2O2 helps create a spirit of community in the forum itself. The project was created in 2008 and was the first forum of its kind in the Irish telecommunications sector.

In the United Kingdom, the "O2 Blog" (http://blog.o2.co.uk) continued to provide information about new products and services, news about the environment, participation in events, etc. with a view to setting up dialogue with customers and internet users in general.

In August 2009 in Brazil, Telefónica SP created its RP 2.0 Channel (www.telefonicaemacao.com.br). The initial objective of this was to receive messages from internet users, to create a communication channel for the company and to clarify any doubts about the 'Telefónica in Action' programme; this would make it possible to inform the public about network improvements and to once again be able to offer the Speedy broadband service.

However, this channel was soon being regularly used by customers for many different issues, and took on such importance that Telefónica SP created a team to deal with the messages. Once the 'Telefónica in Action' programme was completed, RP 2.0 was maintained.

Between August and December 2009, it received some 2,000 messages, half of which were related to customer service. Internet users used the channel to ask questions about new promotional plans and packages and to request line repairs. Around 300 complaints were related to the coverage of Speedy broadband. RP 2.0 also received 21 complimentary messages and 80 suggestions related to services.

The Group's aim is to foster this type of initiative and, accordingly, it has developed an innovation project called "Online Channels 2.0", which will allow it to create new forms of interaction between Telefónica and its customers, opening up spaces on the web and

5.4 Customers

communities that bring users together. These points of contact will allow customers to solve their queries and self-repair small incidents that can be solved easily from home with the information provided by other internet users.

Social networking sites and *Microblogs*, such as Twitter, can also be useful tools in achieving these objectives. Accordingly, in 2009, Telefónica fostered their use in different countries. For example, in February 2010 Vivo had more than 17,000 followers on Twitter.

The Company is also exploring other new *online* concepts which may be useful for its customers. This has given rise to the blob titled *"The O2 Ideas Room"*([www.o2.ie/ideasroom](www.o2.ie/ideasroom)) created by Telefónica O2 Ireland in 2009 to help keep its corporate customers and individuals interested in business matters up-to-date through contributions from specialists in marketing, sales, human resources and finance, etc.

**New virtual shops**
Telefónica wants to reach its more than 200 million mobile customers through virtual shops located on its websites and focused on applications and services. This objective has led to the new electronic plazas Mstore and Movistar Applications ([www.movistar.com..ar/emocion/aplicaciones/](www.movistar.com..ar/emocion/aplicaciones/)), created halfway through 2009 in Spain and Argentina, respectively.

The shops provide services and tools that can be downloaded from mobile phones and from PCs. They also provide the international community of developers with a channel and first-level showcase to reach end customers quickly, conveniently and directly.

Along these same lines, Telefónica also presented its *Aplicateca* in 2009, a professional applications platform for business where SMEs and self-employed workers will find a wide range of software-based services. It is an ecosystem of applications in which users pay a monthly amount only for those they need.

**Customers have their say**

In November, Telefónica O2 United Kingdom launched giffgaff (give and receive in Scottish English), a virtual mobile phone operator for the online world which aims to get users involved in order to meet their needs.

This company sells a SIM card for prepay and contracts, and offers a transparent pricing structure which can match the cheapest offers on the market, and is the cheapest of the four main mobile networks.

Under the motto *"people powered"*, giffgaff asks the general public to make comments through a blog and virtual communities, etc. For example, it bases its price structure on its ideas. In exchange, in its launch campaign the Company offered a V.I.G (*Very Important Giffgaffer*) SIM offering free mobile internet, mobile phone calls in the United Kingdom and text messages for a whole year. This campaign was based on a new marketing concept involving renting marketing tools; this was designed to promote giffgaff in an entertaining way. In addition, the creators of the five best videos using the tools supplied received a prize of 5,000 pounds.

**For further information: http//giffgaff.com**



**Greater value added**
Besides opening new sales channels, the Company sees the internet as a window for consolidating its customers' loyalty. For example, the customers of Telefónica O2 United Kingdom can receive offers related to their preferences thanks to the new *"O2 More"* service. Users who subscribe to the service at [www.o2.co.uk/o2more](www.o2.co.uk/o2more) receive a maximum of one message a day based on their preferences. The offers consist of discounting shops and restaurants, travel, new-service testing and information about coming sales or promotions, among others. *""O2 More"* has offers from brands that include Adidas, Amazon.com, Blockbuster and Thomas Cook, etc.

**Sale and service by mobile**
Thanks to the multimedia applications, the mobile phone can also be used as an excellent sales and self-management channel for enabling the resolution of customers' requirements at any time and in any place. Telefónica's first experiences in this area came in Spain in 2009 with "My Manager" and in Argentina with "Movistar Online Express".

# 5.4 Customers

These tools make it possible to view the bill, contract services, query promotions and contact with a specialised agents, etc.

## Shops

Telefónica continued to work on modernising its network of points of sale and face-to-face service in 2009. Its desire to be near its customers explains the high-level capillarity of this network, estimated at around 100,000 points (including own shops, stands in hypermarkets, domestic appliance establishments and electronics establishments that sell telephone services and products, etc.).

**A complete experience**

These stores have become spaces where the visitor, in addition to shopping, experiences the benefits of new technologies. For example, in Ecuador the implementation of Technological Experience Centres in the Sales and Service Centres (in Spanish, CAV) enabled more than 500,000 users to check out the functionalities of the mobile telephone before purchasing them.

This idea is used as a basis for the concept the Company is implementing in Argentina with its five-year remodelling programme. As part of this project, which represents a step further in the transformation process that began with the certification of centres as compliant with the ISO 9001 quality assurance standard, 5 centres were reformed in 2009 with an investment of more than 10 million pesos. 19 new centres were also opened in Colombia so that customers could interact with products and services. Together with other initiatives, these Customer Experience Centres turned into the leader of the Customer Satisfaction Index in mobile telephony thanks to: an innovative, dynamic and simple layout; spaces designed for customers to experience and live technology; and the training of the team so that it could move on from "directed" sales to "consultative" sales.

These characteristics also form part of the shop model in Spain, which had 380 points of sale of this kind in February 2010. In 2009, the new concept of the Telefónica Channel was adapted to a smaller establishment format so that it could be taken to smaller towns and the capillarity could be extended with a differential shop model.

This model was taken to more than 300 points of sale (including new openings and refurbishments) with a consistent layout and a management system with a greater customer focus. The new establishments, with a commercial area of between 50 m² and 70 m² are adapted to offer customers every Telefónica product.

Furthermore, the service model was made consistent with unique commercial tools, improvements to the point of sale management, new customer service practices, uniform clothing, unique communication language with the same commercial messages and the identical spirit and objective.

With this model, customer valuation improved in 2009 with regard to this space (which they considered tidier and more attractive) and to the service (the way customers are treated, advice and information provided).

This change to the distribution model also had an effect on the relations between Telefónica and its distributors, who stated that they felt more identified and comfortable with the brand.

# 5.4 Customers

**Telefónica's flagship store in Spain receives almost half a million visits in six months**

Telefónica's *flagship* store in Spain -located at Gran Vía 28, Madrid- celebrated its first birthday with a large number of visitors: there were almost half a million visits in the second half of 2009. In addition, it established itself at the forefront of new technology.

In a survey of its customers, 40% declared that their perception of the brand had improved after visiting the store. They were very positive about the efforts made by Telefónica to get to know them through the store, which hosts musical, cultural and leisure events. The average rating given to the flagship store was 8 out of 10.
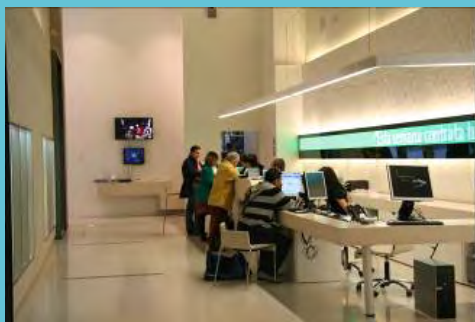
**More information:**

So that the complexity of the new products and services would not prevent customers from having a pleasant experience, the Company reinforced its employees' training.

In Ireland, a training programme was developed to insist on the main levers behind customer satisfaction in shops: reception, the definition of the customer profile to understand his/her requirements and the demonstration of the telephones. One example in the United Kingdom is the 'O2 Gurus', specialists who provide detailed information on products and carry out live product demos.

Telefónica Spain also tries to strengthen its sales personnel: it completed the deployment of a web application to make it possible for the more than 7000 points of sale that make up its indirect distribution channel to have more complete information when attending customers (services contracted, personalised sales proposals, information about current campaigns, etc.).

**Towards convergence**

In 2009, Telefónica reinforced convergence in its shops so that they could incorporate an integrated offer and everything required for digital life. This strategy is the result of the Customer Experience Centre that opened in Bogota with Telefónica Telecom and Telefónica Mobiles products. It was also the standard for the entire sales network in Spain.

The new brand model announced by Telefónica in 2009 reflects this convergence. As shown by the shops in Chile on 25 October as a pioneering idea, all the Company's products and services are marketed under the Movistar brand. For the official launch of the brand, the phrase "Now call me Movistar" was chosen:

**Quicker service**

To improve service times, changes were made in different countries: automation of queues; creation of specialised profiles or skills in certain sectors, etc.

**New flagship Telefónica store in Germany**

In August 2009, Telefónica O2 Germany opened its third flagship store in the country. The new store is in Hohe Strasse, one of the busiest shopping streets in Cologne, and has 220 square metres of space for sales and analyse.

The store has a unique diaphanous design which invites visitors to immerse themselves in the world of communications and to try products and devices.

One of the store's unique features is its interactive sales and advice counter - the first of its kind in Germany. Customers can use this large touch-sensitive surface to select information using their hands; they can also try games, compare products, take part in prize draws, etc.

The Company has now got 940 stores in Germany. Its flagship stores are in Berlin, Munich and now Cologne.

## 5.4.3.7 Customer complaints

Reducing and correctly managing claims is one of the key issues for Telefónica in 2009, a year in which it reached the figure of around 265 million customers. Despite its efforts, it registered 18.9 million incidents in comparison with the 11.8 million of 2008.

In order to reduce and improve claims management, many of the Group's operators created monitoring committees and defined different channels for working on a multi-discipline scale. These channels included the following:

• Identification of root causes to address the source of the complaints.
• Transformation of processes that need changes in view of the most recurring incidents.
• Improvement of the service provided at call centres to give customers effective solutions and avoid claims or solve their complaints effectively.
• Reduction of the response time to claims after they have been filed.
• Promotion of the second-instance resolution channels.

Prevention was the most frequently used method to deal with the most common claims, which had to do with bills. This meant a variety of measures according to each country: changes to the payment collection systems; clearer bills; more controls, alarms and monitoring to identify errors; calls to customers to inform them of any error identified or explain significant changes to their conditions before they receive the bill, etc. Importance was maintained on training. For example, an e-learning course was put in place in Germany to improve complaint management.

Thanks to the efforts, there were clear improvements in this area in certain countries: in Argentina, bill-related claims in fixed telephony were reduced by almost 40% in the fourth quarter in comparison with the first and second quarters. Chile successfully reduced fixed-telephony and mobile complaints by 47% for all kinds of concepts. And in Peru, an intense claim-prevention campaign reduced bill-related claims for fixed telephony by 39%.

According to the Telecommunications User Service Office in Spain, which depends on the Ministry of Industry, Tourism and Trade, Telefónica was the operator with the lowest percentage of complaints concerning fixed telephony, internet

access and data and voice packages in 2009. The figure is even more relevant if consideration is given to the fact that the Office received 23% more claims in said year than in 2008.

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**Argentina gets to the root cause of complaints about bills**

In 2009, Telefónica Argentina went to the root cause of billing complaints in order to prevent such complaints happening again. Accordingly, it created a multi-discipline team involving the areas of Billing, Marketing, Commercial Service, Back Office, Retention, Commercial Operations Centre, Quality Assurance and Technical Operations.

The team worked in accordance with the international Six Sigma methodology, which provides a rigorous focus based on data analysis, to reduce faults, times and costs.

Accordingly, it organised workshops, identified causes and focused on a sample of more than 1000 bills to find the root causes behind the claims. The second step was to develop a new measurement system to monitor performance on these root causes.

With this information, the Company put in place 15 improvement actions: training; new format for the paper bill; electronic bill; improvement to times for processing customers terminating their contracts, etc. Thanks to these measures, claims were reduced by more than 52% from March to December 2009.

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## Customer Watchdog Service

**'If our customers are dissatisfied with our products or services, we will offer them all the information they need to file a complaint.' Telefónica's Business Principles.**

In the 2009 financial year, Telefónica used the Customer Watchdog Services to manage complaints that had not been resolved the first time. Brazil's Ombudsman dealt with 146,749 incidents in comparison with 165,103 in 2008 and Spain's Customer Watchdog Service (in Spanish, SDC) processed 5161 cases in 2009, 63% more than in 2008.

**The Customer Watchdog Service in Spain**
The Customer Watchdog (SDC) in Spain dealt with 5161 cases in 2009, 63% more than in 2008, continuing the growth in its activity since it was launched; however, the rate of increase has slowed over recent months.

Telefónica is the only telecommunications operator in Spain to voluntarily create such a body; it is independent of the business areas and has powers to make binding decisions. The SDC reports regularly to Telefónica S.A.'s Board of Directors' Service Quality and Customer Service Committee.

In 2009, most of the cases it dealt with related to billing, with service maintenance being another recurring theme.

Of all the complaints received, the Customer Watchdog Service accepted 63%, and of the cases completed so far, 80% have had a favourable outcome for the customer (this figure being 75% in 2008).

**Second instance**
In order to use this channel, customers first have to go through the Company's normal customer service channels. If the problem has not been solved, they have the option of turning to the SDC, which is publicised on Telefónica's website, in Telefónica Shops and at the Dissatisfaction Monitoring Centre on 1004 (CSI), in the letters the company sends customers with an unfavourable resolution and at consumer bodies.

Each year, more users prefer the online channel for addressing the SDC: 23% of the claims came via this channel in 2009 in comparison with 18% in 2008. Thanks to an improvement in the system, customers can know when their claim has been received correctly.

The average resolution time for a case that is accepted was 44 days after reception, below the maximum term of 60 calendar days provided in the Regulations for these cases.

**Improvement processes**
Besides processing the claims, the SDC examines the causes to identify the point of improvement in the processes, which are then sent to the business areas and, on a regular basis, to the Quality Committee. In 2009, the Service's analysis focused on issues such as managing complaints, telesales and specific products, such as the Holiday Line.

# 5.4 Customers

Furthermore, the SDC worked on these fronts:

- It intensified meetings with public bodies on both a national scale (e.g. the General Department of the National Consumer Affairs Institute) and on a regional scale.
- It shared its experience in Spain with other countries in which the Group is present, such as Argentina, Mexico and Chile, to extend its best practices.
- It increased its participation in user forums and consumer bodies.

## The Telefónica SP Ombudsman

Telefónica SP created its *Ombudsman* in Brazil in 1994 to help customers to report incidents when they feel that the response from the Company's normal channels is not satisfactory.

In 2009, the service received 146,749 complaints, compared to 165,103 in 2008. An enormous amount of work was required by the Customer Ombudsman in order to resolve these issues, and to identify the most important ones and report them to the Company's management in order to improve procedures...

In 2009, the main areas of complaints were: Speedy (broadband) (36%); fixed telephony accounts (13%) and fixed telephony lines (11%). The remaining complaints related to over 58 issues. 81% of the complaints were resolved within 5 working days whilst the rest were so complicated that they needed more time, as a result of which the customers were contacted to inform them how long it would take to resolve the case.

Telefónica SP's customers can send their requests to the *Ombudsman* by telephone (0800 775 12 12) or by internet from Telefónica's website.

## 5.4 Customers

# 5.4.4 Further information about Telefónica customer indicators

The Company provides regular information to regulatory bodies:

## Spain

- CMT (Comisión del Mercado de las Telecomunicaciones - the Telecommunications Market Commission): www.cmt.es/cmt_ptl_ext/LanguageChange.do?language=en&nav=begin&nav=
- SETSI (Secretaría de Estado de Telecomunicaciones y para la Sociedad de la Información - the Secretary of State for Telecommunications and the Information Society): www.mityc.es/telecomunicaciones/en-US/Paginas/index.aspx

## Europe

- Czech Republic ht://www.cz.0.coma/file_convert/17987/Kvalita_ELKO_slued_even_mobil_2008_web.pd

## Latin America

- Argentina: CNC www.cnc.gov.ar/
- Brazil: Anatel www.anatel.gov.br/
- Chile: Subtel www.subtel.cl/
- Peru: Osiptel www.osiptel.gob.pe/
- Colombia: CRT www.crcom.gov.co/index.php?lang=en
- Ecuador: Conatel www.conatel.gov.ec/
- Nicaragua: Telcor www.telcor.gob.ni/
- Panama: ASEP www.asep.gob.pa/
- Uruguay: URSEC www.ursec.gub.uy/
- Mexico: Cofetel www.cofetel.gob.mx/
- El Salvador: SIGET www.siget.gob.sv/
- Venezuela: Conatal www.conatel.gob.ve/
- Guatemala: SIT www.sit.gob.gt/

# 5
## 5

# Use of Information and Communication Technologies

# 5.5.1 A transverse positioning

Telefónica is committed to developing an environment where children can use new technologies in a safe way. For this reason, we work in all our markets to provide parents and minors with the necessary tools and advice to ensure our products and services are used responsibly.

New information and communication technologies are extremely beneficial tools which have become an essential part of everyday life in the modern world. As such, they are used in day-to-day work and study, and also as sources of entertainment. They are an essential element in any modern education project, playing a key role in the intellectual development of children and teenagers.

Conscious of the significance of the internet and mobile telephony in today's world, Telefónica directs all its efforts to ensuring that these networks are accessed safely, responsibly and avoiding any misuse, particularly by the youngest members of society.

Telefónica is therefore fully committed to offering children an environment where they can use new technologies safely. To this end, we provide parents and children with the necessary tools and advice to ensure a responsible use of our products and services in every country where the Company operates.

With regard to our commitment to social responsibility, we devote constant efforts to promoting responsible use of IT among children, without causing detriment to the substantial benefits they can obtain from new technologies. To this end, we strive to provide all our customers with products that are adapted to their profile, in conjunction with training aimed at enabling them to use their full potential, while also preventing improper use.

Telefónica has established a strategy geared to the accomplishment of the goals set out above. This strategy is based on the following four pillars:

- Strategic alliances.
- Self-regulation.
- Products and services.
- Education.

## 5.5.1.1 Strategic alliances
Telefónica's extensive social network has allowed us to become a leading company in the area of child protection in the use of new technologies. The organisations regularly collaborating with Telefónica include the Ombudsman for Children's Affairs, the State Security Forces, Protégeles, Insafe, Save the Children Spain, Childnet, RED.ES., Aldeas Infantiles, FOSI, Barnardos, etc.

# 5.5 Use of Information and Communication Technologies.

Our prime commitment is to provide a safe environment where children make responsible use of new technologies. This has led us to work towards global solutions that will have a definitive effect, creating synergies with other companies in the industry. This is the context of our participation in projects such as Teachtoday, and in other areas such as the alliance between mobile operators to fight against images of sexual child abuse, national codes of conduct, etc.

## 5.5.1.2 Self regulation

Following our commitment to provide a safe ICT environment, we have adopted a proactive position in the market. A clear example of this can be seen in the efforts devoted to establishing self-imposed internal regulations and signing agreements with other industry players so that the services we offer our customers are trustworthy and reliable. Some examples of self-regulation are:

**Internal Regulations on the Provision of Adult Contents**
Telefónica has had a set of Internal Regulations on the Provision of Adult Contents in place since 2005. These rules are aimed at ensuring the treatment of adult content is consistent throughout all the companies in the Group, while applying access control procedures to prevent children from inadvertently accessing such contents. The companies in the Group carried out a number of initiatives in this field in 2009, such as the implementation of the OPT-IN service, which blocks access to adult content by default.

The Internal Regulations were extended to content suppliers in several countries in 2009 (Spain, Colombia, Ecuador, Panama and Peru), requiring them to label their contents, clearly indicating whether they are suitable for all ages or directed to an adult audience only. Access to adult contents is subject to control procedures that verify the viewer's age and assign a code for purchasing such contents. Payment is always made by credit card, which further reduces the possibility of child access to this material. The vast majority of these countries have mechanisms for access control to adult contents, such as Ecuador, where the viewer is identified through his or her personal identity number, and checked with the Civil Register database.

**Adult content blocking**

One of Telefónica's priority policies in Europe is the default blocking of all material classified as adult contents. All our customers in Europe currently have this option by default on their pre-paid mobile telephone cards. In post-payment contract cards, adult contents can be blocked at the user's request. OPT-IN has also been extended to post-payment schemes in countries like Germany and the UK, where customers must specifically apply to enable access. Authorisation is subject to verification of the customer's legal age.

At Terra Latin America, a web portal used by more than two million users, adult content is being gradually eliminated, with a strong emphasis on providing contents that are attractive to people of all ages, particularly children. This objective led in 2009 to an agreement with the Disney corporation, to offer animated cartoons and Club Penguin in all Latin American countries.

**National codes of conduct**
In 2008 an individual code of conduct was drawn up and implemented in each European country where the Company operates. This was the culmination of a framework agreement signed under the auspices of the European Commission by Telefónica and the major European mobile operators in 2007.

The signatories undertook to work towards a safe environment for children in the use of mobile telephony. The agreement specifically includes the following points: providing access control procedures for all content that could be detrimental to minors; fostering education and awareness of the responsible use of mobile telephony and collaboration with the State Security Forces with a view to reporting all unlawful content detected on the networks.

Spain was the first member of the European Commission to sign a national code of conduct in December of the same year. Spain's four largest operators (Telefónica, Vodafone, Orange and Yoigo) vowed to work together to put the provisions of the agreement into effect.

The Code Implementation Monitoring Committee has held two-monthly meetings since then to advance towards the fulfilment of all the objectives envisaged in the Spanish National Code of Conduct. During 2009 the Committee and Telefónica in particular explored new ways to continue improving and broadening the scope of the Code of Conduct.

**Alliance between mobile operators to combat child sex abuse content online.**
In 2008 Telefónica joined forces with other operators in the *Global System for Mobile Communication Alliance* (GSMA), established to counter the distribution and sale of images of child sex abuse online. This partnership is known as the Mobile Alliance to combat child sex abuse contents online.

## 5.5 Use of Information and Communication Technologies.

To achieve this goal, the operators hinder the circulation of these contents on the network to the maximum extent possible by blocking the URLs where any such images are detected. The three requirements to join the alliance are:

- Promoting a national *hotline* on the operator's website to report illegal contents.
- Blocking URLs with child pornography content. These lists must be provided by a nationally recognised entity, offering the necessary guarantees.
- Implementing a system for reporting and blocking illegal contents on the services offered by the operator.

In 2009 the necessary technical developments were put in place to implement procedures throughout the Company for blocking of such content. At present, all the European countries where Telefónica operates are applying such blocks. As for Latin America, gradual implementation is already under way, and is expected to be complete by the end of 2010. This initiative will reduce the possibility of being exposed to such sordid and illegal content, and will help to reduce their dissemination online.

### 5.5.1.3 Products and services

Statistical studies show that the youngest in the family are active users of new technologies and that their skills in such pursuits far excel those of their parents.

Aware of the challenge this represents for the education community, Telefónica strives to offer products and services that help them in this respect, fostering an adequate use of new technologies and providing instruments to prevent cases of child abuse by people with malicious intent.

**Specific products**

- **Mobile:** According to the report issued in 2009 entitled *La Generación Interactiva de España* (The Spanish interactive generation) by the Forum of Interactive Generations, 29% of Spanish children own a mobile phone before they reach the age of 10. This percentage rises to 94% by the age of 16. This is the prevailing pattern in every country, including Latin America, where the figures are very similar.

  The handsets on the market offer ever improved possibilities, with new features that may sometimes be excessive for the communication needs of children. Telefónica offers handsets and tools specifically designed to help parents ensure their children can enjoy the advantages of mobile telephony while preventing misuse. There is great diversity in the tools on offer in the different markets. In Spain and Ireland, for instance, specific handsets for children are available.

  *Play Pack*, a model available in Spain and intended for children between the ages of 8 and 14, comes with pre-installed Premium SMS sending and call restrictions, educational contents, reverse-charge service, tracking service, etc.

  Family Management is a service that helps families control spending on all mobile phones in the home. Its features include a cost threshold, billing of calls to the main line, automatic top-ups, mobile babysitter, etc.

  Firefly, a service available in Ireland, *Firefly* is a tool for training children in the use of their mobile phone. As well as helping to control spending, it includes an application that enables parents to monitor the child's use of the phone. Parents also have the possibility to block access to the internet, to the Bebo social network and the handset's camera.

  Lastly, it is worth mentioning the Irish initiative launched in 2009 to counter the reception of offensive and threatening messages: the *"Block it"* service allows users to block any SMS or MMS received from any operator in Ireland at no charge.

- **Internet:** The internet serves a wide variety of purposes: work, study, leisure, communication, exchange of information and knowledge, etc. The spectrum of possibilities is as wide as the reach of the imagination.

  Unfortunately it so happens that it is not always used for honest, legal purposes. Certain individuals and organisations use the web to spread content that contravenes the law or, even if not strictly illegal, is harmful, offensive, in bad taste and, creates a nuisance. Other content is legal but simply unsuitable for children and teenagers.

# 5.5 Use of Information and Communication Technologies.

To make sure that browsing the internet is as satisfactory an experience as possible, Telefónica places content filters at its customer's disposal. These can be easily activated by parents, and make it possible to select the content categories we do not wish our children to access.

Canguro Net is one such service. A simple call to 1004 is enough to activate Canguro Net, a content filter based on categories that enables limiting advertising pop-ups, connection time and access to chatrooms.

Users in Latin America can sign up to a Security Centre, which in addition to keeping transactions and information away from the reach of cybercriminals, also protects children by providing parents with tools to control the time they spend online and the content they are allowed to access. The main features of the Parental Control tool are: filter for online content, password protection and browsing time control.

- **Television:** Telefónica offers digital/satellite television with no open-access adult content. All operations requiring payment, such as access to films and series featured in the videoclub, need a parental PIN.

- **PixBox and Sonora:** Terra, Telefónica's web portal, is intent on promoting positive content that encourages the user's development and an altogether richer online experience. Following this philosophy, we have created an online content store where music, TV series and films can be bought legally. In Spain, these services are known as PixBox, while the name given to them in Latin America is Sonora.

## 5.5.1.4 Education

**Social awareness actions**

Telefónica's deep-rooted commitment to ensuring children make positive use of the internet and mobile phones prompts us to devote great efforts to providing parents, guardians and educators with the necessary resources to train children in the responsible use of new technologies, and to help them identify the risks that may be involved in making inappropriate use of these instruments.

In most countries where the Company operates, we have set up *microsites* that offer specific information on how to make good use of the web and also educational tools aimed at parents to help them respond to difficult situations arising from misguided use of the networks. These include advice on what to do in different cases such as *cyberbullying*, unwanted calls, stolen handsets, etc.

We also have an email address, consejosresponsables@telefonica.es, where users can send their queries or concerns on such matters. Queries are answered by staff specialised in ensuring the proper use of ICTs by children.

In addition to all the above, Telefónica also offers training activities for children and teenagers, as well as for parents and educators, geared to furnishing them with necessary skills to use ICTs to their full potential and avoid falling prey to abuse of different kinds, or even to prevent them from misusing these outstandingly powerful instruments of information and communication.

In Spain, we have been delivering workshops in schools in collaboration with the NGO Protégeles since 2006, in which we instruct children on the different uses of mobile phones, from their most basic functions to the more advanced applications. The sessions also include information on bad practices to be avoided, and we even discuss the legal risks of certain actions, such as spreading defamatory pictures or sending threatening messages to schoolmates. A total of 53 schools in different Spanish regions were visited in 2009, with almost 10,000 children benefitting from these educational programmes.

### *Cyberbullying*

The use of new technologies in school bullying is sadly on the increase. Bullies torment their victims by sending them degrading and libellous messages over the internet and the mobile network. They create fake profiles on social networks, exclude the targets of their abuse from their groups of friends, build photomontages and generally engage in a variety of activities to humiliate and isolate their victims.

# 5.5 Use of Information and Communication Technologies.

Telefónica O2 Czech Republic has developed a three-year programme to combat school bullying. The initiative stresses the importance of communication with parents, children and schools. In addition to this, a specific website has been set up (www.minimalizacesikany.cz), with information on how new technologies are used as a bullying instrument. The goal is to make children, parents and members of the education community aware of this problem and to show them how it can be avoided.

In Ireland, Telefónica has published a guide in collaboration with the NGO Barnardos, with advice on preventing cyberbullying. The guide details the steps to be taken in the event of being encountered with such activities

### Teachtoday
*Teachtoday* is an initiative developed by the industry where competing companies including mobile telephone operators, ISPs, social networks, etc. work together to offer teachers the necessary skills and knowledge to ensure their students make adequate use of new technologies.

The information is presented in topic-based categories on the website www.teachtoday.eu. The languages available are German, Czech, Spanish, French, English and Italian.

The information on ICTs includes practical explanations of what they are and how they work, how to protect their own privacy and that of their students, practical advice and lesson plans to use in class, information on other European countries in relation to this matter, and an extensive list of other topics in relation to new technologies, children and teachers.

Representatives from the educational community took part in the design of the contents to ensure that teachers' expectations would be met. These representatives included members of teachers' associations and educators in direct contact with students.

The contents were reviewed in 2009, which prompted the addition of new topics to enrich the information, new lesson plans, more advice for teachers and students, practical guides, information on the latest technologies, etc.

### Internet en Familia (Internet in the family)
"Internet en Familia" is a joint initiative of Telefónica and Fundación Cibervoluntarios that seeks to promote a safe, responsible use of the internet and new technologies within the family. The programme sets out to achieve very specific goals:

- To create on-site guidance and information centres on safe use of ICTs for children, teenagers, parents and teachers.
- To deliver information sessions at schools: courses, presentations and workshops.
- To create a web 2.0 site with content, information and useful services and create a teaching materials database concerning network security.
- To create a database of educational materials on network security for all the family.
- To train voluntary technology experts, including education centre personnel, members of parents' associations, and representatives of the business community through the corporate voluntary work programmes of the different companies.
- Creation of a website (www.carnejovenmadrid.com) to obtain teenagers' feedback on their use of the internet and related needs and use it as input in future plans.

A pilot project was carried out as part of this programme in 2009 in the town of Las Rozas near Madrid. The town council was the first to join the initiative. The project consisted of 15 presentations for students and 2 for parents, delivered between the months of March and June. A total of 415 people benefited directly from the project, and all those who attended were provided with useful information and educational material.

The talks are supplemented with a website (www.internetenfamilia.org) and an information desk at all the interested local authorities, where a voluntary ICT expert will answer any queries on site or by telephone regarding the proper use of technologies.

It is also worth mentioning the collaboration agreement signed in early 2010 between Telefónica and the president of the Autonomous Community of Madrid, Esperanza Aguirre, with a view to joining forces in delivering the educational presentations in all the schools in the region as part of the project.

# 5.5 Use of Information and Communication Technologies.

**The Autelsi awards are a recognition of innovation as a key factor for competitiveness**

The Autelsi awards ceremony for the year 2009 took place in Madrid in February 2010. On this occasion, the "Internet en Familia" programme received the award for the Best Social and Environmental Project, in recognition of its value in fostering safe, responsible use of the internet and new technologies in the family. These educational activities, which constitute one of the fundamental pillars of the programme, are the product of a public-private alliance between Telefónica and the regional government. The winners of the awards were Salvador Victoria Bolívar, Deputy-councillor at the Deputy-president's office and Secretary General of the Autonomous Community of Madrid, and Bernardino Cortijo, Director of Corporate Security at Telefónica.



**Interactive Generations Forum**

In 2008, Telefónica, The University of Navarre and the Inter-American Organisation for Higher Education, constituted the Interactive Generations Forum. The Forum is an initiative open to any public or private institutions willing to join, seeking to promote a safe, responsible use of new technologies by children and teenagers, i.e. the new *Interactive Generation*. In doing so, it engages in the following activities:

- Expert research into the characterising traits of the *Interactive Generation.*
- Educational courses for different audiences and production of educational materials for use by the *Interactive Generation.*
- Dissemination of the results of its research and also that of third parties, with the aim of spreading knowledge of the needs and opportunities of the new *Interactive Generation.*
- Advice in defining measures for protecting children when using ICTs.
- Recognition of best practices in this area.

The Forum currently operates in 11 Latin American countries: Argentina, Brazil, Chile, Colombia, Ecuador, Spain, Guatemala, Mexico, Peru, Uruguay and Venezuela.

A new research study was carried out in Spain in 2009, entitled *The Interactive Generation in Spain*. A survey of over 13,000 children was performed in 120 schools over a period of three months. The results of the study were presented at the Casa de América in November 2009, with the attendance of a number of relevant industry representatives including Iñaki Urdangarín, Chairman of the Interactive Generations Forum and Chairman of Telefónica USA, and Sebastián Muriel, Director General of Red.es.

According to the study, today's generation is *"autonomous and self-taught, mobile, multi-task, creative and precocious in the use of new technologies, making maximum use of screens to communicate, learn, share, have fun and, to a lesser extent, consume. They live in cyber-homes, i.el. fully equipped and connected dwellings"*

The Forum's educational activities were carried out as part of Formándonos Juntos (Learning Together), an initiative that aims to foster responsible and correct use of ICTs by establishing an educational community with an active role in the exchange of information and training students, parents and teachers in the use of these technologies.

## 5.5 Use of Information and Communication Technologies.

This programme is divided into two stages: first, training is provided for teachers and Telefónica volunteers, and then, these teachers, monitored and coordinated by the volunteers, deliver educational activities in schools.

Almost 35,000 people took part in these activities in 2009, including children, parents, teachers and volunteer trainers in Argentina, Brazil, Chile, Colombia, Mexico and Peru.

**Click here** for more information on the Interactive Generations Forum.

# 5.5.2 Responsible service

### 5.2.1.1 Online abuse
As the information society develops, new forms of unlawful activity involving IT emerge, which the industry has the responsibility to combat.

All companies that provide services over the internet or that have corporate networks suffer attacks or intrusion attempts against their systems. These attacks, also known as cybercrimes, can have a number of negative effects if they are successful, such as:

- Theft and/or disclosure of customer data.
- Fraud against the Company and/or its customers through use of unlawfully obtained data.
- Compromised customer confidence as a result of security breaches, such as:

  - Destruction or impairment of customer services.
  - Corruption or destruction of the data stored in the systems.
  - Control of the platforms in order to engage in other criminal activity.

All the above could compromise customer trust in the Company and, consequently, this could have a negative effect on the value of the Company. Telefónica works actively from different angles to prevent such damage from materialising. These efforts strengthen customer trust in the security of all our services.

### 5.5.2.2 Protection of data and privacy
All the companies in the Telefónica Group invested remarkable efforts in 2009 in the deployment and implementation of the Corporate Policy Project on Personal Data Protection, which was approved in 2008. The goal is to attain a suitable degree of protection of personal data that is uniform across all the companies in the corporate group and all the countries where we operate.

The Group's data protection policy sets forth a set of binding minimum rules that ensure a consistent level of security is maintained with respect to personal data. These rules apply in all Group companies, including those based in countries with no legislation on this matter. Implementing the regulations has involved a great deal of complex, detailed work as procedures were adjusted and checked. The process was carried out in the following stages:

1. Identification of files in the different companies.
2. Implementation of MADRE control systems.
3. Application of security measures.

These stages were completed before internal personal data protection charters were drawn up in each of the individual companies in the Group. All the internal charters adhere to the guidelines of the Corporate Regulations on Personal Data Protection, thus ensuring that principles and processes are consistent throughout the Group and that data security is guaranteed.

A series of other initiatives were pursued in 2009 aimed at ensuring compliance with the Corporate Regulations on Personal Data Protection, focusing on Company employees and customers. These included the following:

- Online and in-situ training on data protection for Company employees.
- Publication of the rules on privacy, information security and data protection through Company intranets and circulars to ensure all staff are aware of them.
- Requiring Company employees to sign agreements whereby they undertake to observe corporate regulations.
- Modifying the general terms and conditions of Company contracts to ensure that customers are aware of their rights and duties in relation to privacy and data protection.

Simultaneously to all the above, Telefónica started making preparations for a new Privacy Project. This aims to build trust in the information society by implementing procedures for controlling digital identity, child protection, responsible use of new technologies and online privacy.

Lastly, in 2009 Telefónica also established compulsory contractual mechanisms to ensure the Group's outsourcers and suppliers comply with the data protection regulations.

**Suppliers' duties**
Contracts between any of the companies in the Telefónica Group and an external supplier must include data protection clauses requiring the supplier to:

1. Use any personal data received exclusively for the purposes of discharging their obligations under the contract.
2. Ensure that any of their employees who have access to personal data obtained from any company in the Telefónica Group are aware of their employer's obligations in relation to data protection.
3. Return/destroy any personal data to which they have had access for the purposes of the contract immediately upon completion of the service provided under the contract that prompted the transfer of the data.
4. Accept as many inspections of the files containing personal data communicated for the purposes of the contract as the Telefónica Group company responsible for such files deems necessary.

## 5.5.2.3 Defence of intellectual property

Telefónica is in a privileged position to understand the issue of the protection of intellectual property and the needs of content users. Due to the nature of our activity, we have first-hand knowledge of the interests of millions of customers around the world, and at the same time we have the business perspective of a supplier of content that is subject to intellectual property rights.

Based on the insight gained in this dual role, we encourage the authorities to establish a legal framework that is simple and adapted to the needs of consumers, allowing access to digital content.

Telefónica believes dialogue between all the interested parties is necessary to create viable business models that respond to the needs of users and authors alike. Terra's legal-download platforms are clear examples of these new business models: PixBox and Sonora.

It is worth mentioning that Telefónica's innovative business models strictly adhere to the applicable legislation in every country where the Company operates.

## 5.5.2.4 Online security

Telefónica is fully committed to providing a secure, trustworthy environments for its customers. To ensure that this is so, we are currently working on a number of initiatives aimed at strengthening "digital trust" among service users.

The Security Policy established by Telefónica's Security Committee has ushered in a new approach to the technical tests carried out on the Company's data communications networks and services. This new way of going about testing, which is better suited to its purpose, is based on two corporate security services: SIGA and e-SCUDO.

**The SIGA service**
In recent years the SIGA corporate security service has revolutionised internal processes for monitoring online hazards with a potential impact on customers and corporate assets:

- Attacks against the Company's image:
    - Fake websites that discredit the Company.
    - Dissemination of erroneous, mistaken or false information with the intent of causing damage to the image of the Company.
- Identification of threats to the customer and the business consisting of:
    - *Phishing*.
    - Hoaxes and fraud schemes.
- Brand protection:
    - Ensuring proper use of the brand.
    - Identifying fraudulent users on the web.

# 5.5 Use of Information and Communication Technologies.

- Control of online sales channels and fraud against customers:
    - Identifying websites that are not part of Telefónica's online channel.
    - Identifying deceptive uses of the identities of genuine suppliers on the web.
    - Identifying websites that profess to act on behalf of Telefónica in order to commit fraud against customers.

In 2009 the SIGA corporate security service identified new threats against the Company, its services and customers, which have been remedied through use of internal protection procedures.

The ultimate purpose of corporate security services is to protect customers so that their trust in Telefónica's products and services will be reinforced in all the countries where the Company operates.

### Anti-spam project

In 2009 Telefónica Spain implemented its Anti-spam project. which is aimed at curbing spam generation in the computer systems of Home ADSL customers. The initiative identifies spam which contains viruses, worms and other malware which seeks to infect our customers' computers.

All the operating procedures in the project were established last year. When outgoing spam mail is detected, the customer is contacted and informed that his or her system may be compromised by a virus, worm or trojan that is producing the spam. Finally, the customer is provided with information on how best to "clean" his or her PC and eliminate the problem. The project has produced the following benefits:

- Problems related to the spread of viruses over the internet have disappeared completely.
- The number of phishing cases detected in Telefónica's networks has been controlled and stabilised.
- Outgoing spam from Telefónica's network in Spain was reduced in 2009.

Thanks to this, in 2009 we secured one of the lowest positions in the ranking of spam generators in the world

Last year Telefónica also continued participating - as we have been doing since 2007 - in the Abuses Forum, a world-first initiative that brings together all the major Spanish operators with a view to building trust among internet service providers so that unwanted mail may be eliminated. Technically, these relations forged on mutual trust translate into the use of the SPF protocol (Sender Policy Framework), which is used to verify that a given sender is genuine and to filter out fraudulent addresses used by spam producers. The possibility of implementing this protocol in all countries where Telefónica offers its services is currently being studied, as this depends on the availability of appropriate technology and infrastructure.

# 5

# 6

# Relations with the Community, Governments and Regulators

## 5.6.1 Fundación Telefónica

The activities of the Telefónica Group, a leader in the telecommunications sector, contribute to the economic, social and cultural development of the countries in which it is present. Nevertheless, beyond its strictly corporate ends, the Telefónica Group is committed to improving the quality of life and promoting equal opportunities, especially amongst the most disadvantaged. This is why, for the past twelve years, it has been using its Foundation - which focuses on giving the largest number of people possible access to knowledge - to carry out significant social and cultural activities.

There are currently Telefónica Foundations in Argentina, Brazil, Chile, Colombia, Mexico, Peru, Spain and Venezuela, which were joined in late 2009 by Fundación Telefónica Ecuador. Each of these nine Foundations has been set up in full accordance with the applicable legislation of the country in question.

Furthermore, areas such as the Social Programmes for Children and Telefónica Volunteers extend the work of the Foundation to another five Latin American countries (El Salvador, Guatemala, Nicaragua, Panama and Uruguay). Since 2009, Fundación Telefónica collaborates in the social activities undertaken by the Telefónica Group's local operators in the Czech Republic, Germany, Ireland, Slovakia, and the United Kingdom.

The Foundation has five large transnational areas of action: Educational Programmes, Social Programmes for Children, Telefónica Volunteers, Debate & Knowledge, and Art & Technology.

In 2009 the Foundation invested €70.5m[12] in social and cultural activities. With these financial resources the development of a total of 5,591 initiatives was promoted; among these, those managed by means of the direct action of the Foundation itself as well as those carried out in collaboration with more than 850 renowned educational, social and cultural entities of a public and private nature. The work carried out by Fundación Telefónica benefitted a total of 56.3m people. 98 per cent of them had a direct relationship to the Foundation because they accessed content, services and information through the internet. It is worth highlighting that the main target of Fundación Telefónica's activities are

[12] Amounted audited as of May 2010.

# 5.6 Relations with the Community, Governments and Regulators

children and young people, infant, primary and secondary education students and young people with limited economic resources or at risk of social exclusion.

- **Educational Programmes Area**: Fundación Telefónica's main educational programme is EducaRed, which aims to facilitate the educational use of both the internet and new technology and networks in education in order to boost a process of educational renewal that benefits teachers, pupils, parents, schools and other educational sector agents. The programme, which is being developed in Argentina, Brazil, Chile, Colombia, Mexico, Peru, Spain and Venezuela, offers the latest innovations, specialised content and tools designed for online teaching and group work through the www.fundacion.telefonica.com/en/educared/ portal on the internet. In addition, it has an extensive agenda of educational activities, forums and debates with the aim of increasing the involvement of the teaching community on educational issues. Among the many initiatives carried out in 2009, the celebration of the 5th International EducaRed Congress and the launching of the global EducaRed 2.0 portal - which received more than 72.6m visits just in the past year alone - stand out.

- **Social Programmes for Children**: Proniño, a social development programme aimed at contributing to gradually eradicate child labour in 13 Latin American countries by means of sustainable, continued and quality schooling of thousands of boys, girls and teenagers, stands out in this area. Through Proniño, minors at risk of leaving school are given support, teachers and schools are backed, improvements in the teaching process are promoted, and the creation of knowledge and the popularisation of research in this field are sponsored in order to create initiatives that help prevent children from leaving school at an early age and being exploited. During 2009 the programme directly benefitted 163,900 boys, girls and teenagers, which is a 52% increase in the number of students receiving grants in relation to the previous year. Moreover, the experience gained from the EducaRed programme has continued to be used to provide teachers, students and families the technology tools needed to guarantee access to learning processes and a quality education. Therefore, among other initiatives, 201 new Fundación Telefónica Classrooms have been installed in Proniño educational centres that benefit other 144,760 students who are not direct beneficiaries of the programme.

- **Telefónica Volunteers**: After nine years of work the Telefónica Volunteers department has been a priceless tool for channeling much of the Telefónica Group's social commitment, as well as a strategic value of its Corporate Social Responsibility. With more than 25,450 enrolled employees, Telefónica Volunteers has become a referent in worldwide Corporate Volunteering. During the past year, the efforts to integrate Telefónica Europe employees in the Group's social action environment have been redoubled and volunteer initiatives common to Spain, Europe and Latin America such as "Solidarity Holidays" or "Friend Schools" have become consolidated. Regarding this subject, Telefónica volunteers took part in 864 different voluntary service projects - 92% of which had a hands-on nature - putting in a total of 126,122 voluntary work hours. All these initiatives helped around 386,000 people, particularly children, young people and adults with limited economic resources or at risk of social exclusion, primary- and secondary-education students, elderly and sick or disabled people and victims of natural disasters.

- **Debate and Knowledge**: In 2005 Fundación Telefónica created the Debate & Knowledge area with the aim of decisively contributing to the process of societal change brought about ICTs which has given rise to the Information Society. This area aims at being a point of reference in this process through the promotion of advanced research into the relationships between Technology, Society and the Future, their analysis with the help of experts and researchers, the promotion of open debates with society and their widespread diffusion. In 2009 6 research projects and specific studies were conducted by renowned national and international experts or teams of researchers, 16 new titles in the Fundación Telefónica/Ariel Collection were published and a wide-ranging programme of popularisation and face-to-face events in different formats was offered: presentations of published work, day conferences, workshops, seminars, etc. The Tic Club, a contest of comedy routines revolving around the new technologies that seeks to encourage users to explain in a funny way - using videos made by them - what are the new technologies and how they influence their lives, stands out, just to mention one of these events.

- **Art and Technology**: The Art & Technology area promotes the connections between contemporary art, technological innovation and artistic creation, supporting in particular projects of this kind that are undertaken in Latin America. In addition, Fundación Telefónica manages and keeps the Telefónica Group's Artistic, Cultural and Historical-Technological Heritage, one of the most important art and technology corporate collections in Europe. During 2009 the Foundation continued to bring art, culture and the newest artistic creation expressions to an increasingly larger public, turning its cultural venues into places of reference. It is worth highlighting that 647,293 visitors attended the 30 temporary and travelling exhibitions organised in collaboration with other institutions. On the other hand, the Foundation has continued supporting research, production and training in a artistic community specialised in art and new technologies through initiatives such as the announcement of the International Art and Artificial Life Prize VIDA 12.0 in Spain or the MAMBA-Fundación Telefónica Award in Argentina such that more and more Spanish and Latin American artists are able to bring their creations to the contemporary multimedia art table.

## Fundación Telefónica beneficiaries in 2009

The work carried out by Fundación Telefónica benefitted a total of 56.3m people in 2009. 98 per cent of them had a direct relationship to the Foundation because they accessed content, services and information through the internet. It is worth highlighting that the main target of Fundación Telefónica's activities are children and young people, child-, primary- and secondary-education students and young people with limited economic resources or at risk of social exclusion.

**Distribution of the total number of fundación telefónica participants / direct beneficiaries in 2009**

| Areas of action | Participants / direct beneficiaries | Type of participant / direct beneficiary |
|---|---|---|
| Educational Programmes | 53,307,036 | Single internet portal visitors, people participating in training initiatives, people participating in congresses and competitions, etc. |
| Social Programmes for Children | 326,258 | Boys, girls and teenagers recipients of grants and teachers, educators and social agents participating in training initiatives. |
| Telefónica Volunteers | 251,173 | People belonging to different groups. |
| Debate & Knowledge | 567,152 | Readers of the books published, people attending organised public events, single internet portal visitors, etc. |
| Art & Technology | 1,726,375 | People attending temporary and travelling exhibitions and other cultural initiatives, people participating in training projects, single internet portal visitors, etc. |
| Other social projects | 215,955 | People belonging to different groups. |
| **TOTAL** | **56,393,949** | |

**Click here for more information on the Fundación Telefónica.**

# 5.6.2 Social activities in Telefónica Europe

In 2009 Telefónica Europe allocated almost €4m to social activity initiatives mostly focused on youth and education; new projects are added every year.

Another social aspect that is thriving dramatically is the number of Corporate Volunteers, which has jumped from near 1,000 people in 2008 to almost 5,500 in 2009, the Czech Republic standing out with more than 2,000 volunteers. Thus, this broad participation is being consolidated with the creation of the Corporate Volunteering area in Telefónica Europe, these employees being integrated in the Group's social activity environment; there is, thereby, a single definition of Telefónica Volunteer for all countries.

- In the UK, the Company gave continuity to initiatives such as the "*It's Your Community*" programme, the contribution coming close to €2m since its inception in 2007. Through this initiative, 2,353 projects have been encouraged throughout the country aimed at protecting and improving the local surroundings of the participants.

- In Ireland, the number of corporate volunteers in 2009 reached 505, 176 of which perform work in collaboration with the Irish Autism Action (IAA) association. Likewise, Telefónica O2 Ireland donated more than €300,000, an amount collected thanks to its employees, corporate donations and activities conducted with its customers.

- In Germany, the Company has devoted its efforts to educational activities to promote the good and responsible use of ICTs, it having trained 1,000 students and 46 teachers in 2009. Also in Germany, the Company has been able to mobilise 632 employees in Corporate Volunteering activities, a great success considering that there were only 73 volunteers in 2008. These volunteers have mainly taken part in the "Committed with the future" initiative, aimed at collaborating in volunteer activities selected by the volunteers themselves.

It is also worth highlighting that Telefónica Europe participated for the second straight year in the "Solidarity Holidays" project, which is related to Proniño, the programme that is being implemented in Latin America by Fundación Telefónica. In this occasion, 29 volunteers from the Czech Republic, Germany, Ireland, Slovakia and the UK travelled during four weeks to different Latin American countries as part of several solidarity projects. In particular, the volunteers carried out a range of activities whose purpose was to instil the habit of reading and writing into children by means of games and to promote the refurbishing of schools, the use of new technologies, etc. The volunteers' countries of destination were Argentina, Brazil, Ecuador, El Salvador, Mexico, Panama and Peru.

# 5.6.3 LBG Methodology

Telefónica uses the international LBG (*London Benchmarking Group*) methodology in order to better measure and evaluate the social and cultural activities it carries out.

LBG is a model that was developed in 1994 by six UK companies with the aim of improving the management, understanding and measurement of its social investment. It is used at present by more than 200 leading companies worldwide. Since the adoption of the methodology, Telefónica actively collaborates in the establishment of LBG Spain with the aim of making the measurement of social activities more professional.

The model envisages four types of initiatives according to the level of motivation:

- One-off contribution: the one-off support of a wide range of social causes as an answer to the needs and requests of charitable and social action organisations; it can take place through collaborations by the company, its employees, its customers and its suppliers.

- Social investment: the long-term strategic commitment to collaborating with communities so as to support the range of social initiatives chosen by the company that are aligned with its corporate interests and the improvement of its reputation.

- Business-aligned initiatives: those initiatives of social interest aimed at directly boosting the company's business by promoting its corporate identity and brand image.

- Compulsory contributions: those contributions or activities in communities carried out as a result of legal, regulatory or contractual requirements. They are not included for member comparison purposes (LBG benchmarking).

Once classed, every initiative can be individually analysed within the LBG matrix (contribution/achievement/impact) framework in order to attempt to quantify both the immediate achievements of the contribution and the impact it has on the community and the business.

# 5.6 Relations with the Community, Governments and Regulators

## Expenditure on social activities

The distribution of the expenditure on social and cultural activities in 2009 is shown below by region and activity category, which amounted to more than €108.4m. This classification is based on the LBG methodology.

- The three geographical regions where Telefónica operates are Spain, Europe and Latin America. The largest share of expenditure went to Spain.

### Social and cultural action of the Telefónica Group in 2009 by geographical regions

29%
4%
67%

■ Latin America ■ Europe ■ Spain
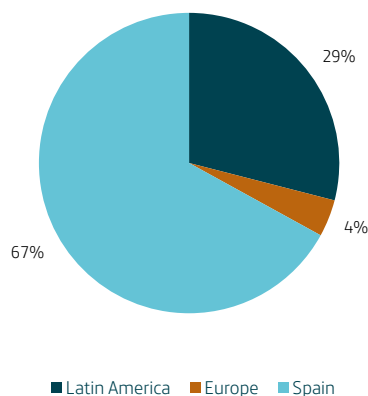
- By category, the Telefónica Group allocated the largest share of the investment - 63% of the whole - to education and youth.

### Social and cultural action of the Telefónica Group in 2009 by categories

0% 0%
9%
1%
9%
17%
63%

■ Social-economic development
■ Art and culture
■ Education and youth
■ Social welfare
■ Health
■ Environment
■ Others
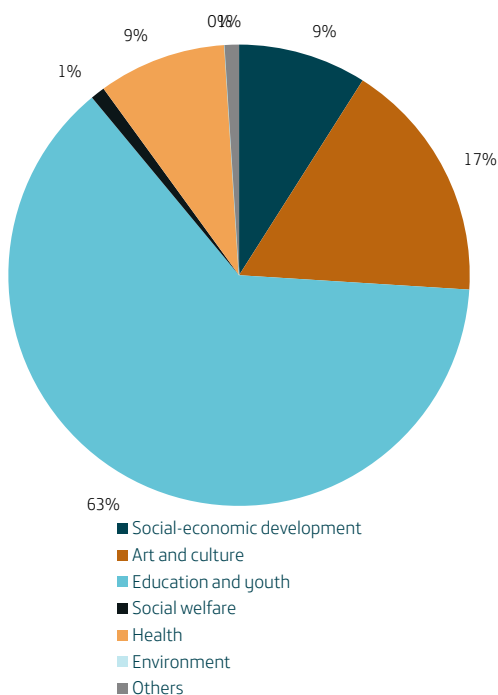
# 5.6.4 Telefónica's disability assistance association (ATAM)

ATAM is a social project shared between Telefónica and its employees that came about as a result of an agreement between the Company and its unions. 2009 was the year of its 35th anniversary. The ATAM project has been built on the basis of the solidarity with those that suffer the consequences of disabilities.

It is characterised by being a project whose contribution thereto is shared between Telefónica and its employees. The latter contribute 2% of their salaries and the Company almost double that amount (4% of employees' wages). Not only active employees take part in the project; many retirees and employees in early retirement still maintain this commitment. The project currently has 57,366 partners and 26 companies from the Telefónica Group. All of them contributed €13.97m to the project during 2009.

ATAM is a non-profit organisation that was defined as being in the Public Interest by the Council of Ministers in 1977. It covers the entire life trajectory of a person and its action extends throughout Spain. During 2009, the year of its 35th anniversary, it reached out to more than 22,000 disable people.

ATAM's activity focuses on different programmes through which the association intends to tackle the problems a person with a disability encounters and to provide solutions to overcome it, insofar as it is possible, from different perspectives: financial, social, work-related.

## 5.6.4.1 Activities

### Individual financial aid programme

ATAM has a system of individual aid aimed at lowering the financial cost that a disability entails for a person and his/her family. This aid is supplementary and subsidiary to the benefits and aid provided by public systems.

ATAM's Regulatory Aid Book includes the financial aid granted by the association, which is structured in two programmes: People younger than 60 years: Aid for disabled people of child, school and working age and the over 60s: Assistance to dependent elderly people. In 2009, ATAM granted financial aid in 3,181 instances for a total amount of €6.175.555.

### Integration into the workplace and employment

**Merc@dis**
ATAM supports the professional promotion of disable people by developing management-enabling mechanisms that allow them to be integrated in a continued manner throughout their working life. The goal is the integration into the regular workplace of this people whenever possible.

As a result of collaboration agreement with Fundación Telefónica, ATAM holds the Technical Management of the Merc@dis portal for the promotion of the employment of disable people. ATAM carries out specific tasks of content refresh, promotion and spreading of the use of the portal, identification of possible improvements, and report drafting. 574 job offers were managed through this portal in 2009.


Merc@dis
Mercado de empleo para personas con discapacidad

**Redes empresariales (Networks of companies)**
ATAM has a business structure for the promotion of employment and the creation of jobs for disable people. These are companies fully owned by the association. They are administratively classed as special employment centres and hire disabled people but they operate commercially in the ordinary market in the same conditions as any other sector company. This allows them to carry out their activities based on the competition, integration and normalisation principles. In short, ATAM intends to develop its business project to the utmost by providing more and better job opportunities for disabled people that are adapted to the specific support needs of its employees.

# 5.6 Relations with the Community, Governments and Regulators

The companies that comprise this structure are:

- **Servicios Sociales de Telecomunicaciones (SERVITELCO):** it provides telephone assistance and telesales services. By the end of 2009, it had a staff of 203 people; 84% of them are disabled people.

*servitelco,*

- **Servicios Sociales de Lavandería (LAVECO):** it provides industrial laundering and cleaning services. By the end of 2009, it had a staff of 41 people; 83% of them are disabled people.

laveco
LAVANDERÍA INDUSTRIAL

- **Servicios Sociales de Manipulados Industriales (MONDECO):** it provides electric differential and mechanical component assembly services and additionally building maintenance and cleaning services. By the end of 2009, it had a staff of 78 people; 96% of them are disabled people. In 2009, the Torrent Manager Club awarded MONDECO the "*Best Social Responsibility Company*" award at the local level in Torrent (Valencia). The award was presented by the Mayoress of Torrent. This award acknowledges the work that MONDECO, ATAM and the Telefónica Group have been doing for the integration of disabled people into the workplace.

mondeco
Servicios Auxiliares

### Pre-labour activities

ATAM carries out activities to provide people that, despite being adults, have completed their education and cannot access the regular labour market or a special employment centre an occupation; these are the so-called pre-labour activities.

This includes occupational centres, whose mission is to give disabled people not only a therapeutic occupation and professional skills but also the social skills needed to become integrated into the workplace.

**Occupational centres**

| Town | Assisted by | No of users 2009 |
|---|---|---|
| Pozuelo de Alarcón (Madrid) | The Family and Social Affairs Department of the Community of Madrid | 90 |
| Valldoreix (Barcelona) | The Catalonian Social Work and Services Institute of the Government of Catalonia | 41 |
| Torrente (Valencia) | The Social Welfare Department of the Community of Valencia | 76 |
| Mairena de Aljarafe (Sevilla) | The Equality and Social Welfare Department of the Government of Andalusia | 45 |
| El Tablero (Santa Cruz de Tenerife) | The Public Health Care Institute of the Council of Tenerife | 14 |

### Collaboration with other institutions

- **RETADIS (The Territorial Network of Computers Adapted for Disabled People)**
  RETADIS is an activity included in the Ministry of Industry's Avanza Plan, in which ATAM participates, together with Fundación Telefónica, through a collaboration agreement. The project has allowed a network of computers adapted for use by disabled people to be set up in the 17 Spanish Autonomous Communities and the 2 autonomous cities of Ceuta and Melilla.

ATAM collaborates in the dynamisation and diffusion of the activities performed by the centres that make up the network as well as in the drafting of the periodic news bulletins on the activities carried out with these centres. In 2009 more than 12,000 users were attended to and 7 entities joined the project, so there are now 26 entities taking part in RETADIS.



- **Pro Project**
  In 2009 ATAM began collaborating with the Antena 3 Foundation in a training programme: an audiovisual school for disabled people. The aim of this project is to train disabled people as television production assistants. The first course, which started in January 2010, is 502 hours long and is being taught at the Carlos III University. It has 20 places subsidised by means of grant programme. ATAM will help students find to jobs related to said professional qualification by giving them the right information and advice and acting as an intermediary with companies in the audiovisual sector to set up interviews between them and the candidates. The project is aimed at encouraging the hiring of disabled people and their accessibility to the job market.



- **Telefónica's Corporate Volunteering Programme**
  ATAM collaborates with Fundación Telefónica in developing the disability-related activities of the Telefónica Volunteers programme. It actively manages and promotes the participation of volunteer employees in the activities of the different entities belonging to the disability sector. To this end, the Association carries out different intermediating and scheduling tasks. Furthermore, it coordinates and manages the online training programme for promoting Telefónica's Corporate Volunteering in disability-related projects. 5 courses were managed in 2009 in which a total of 133 students were enrolled; 82 completed their training.

- **Green TIC Congress**
  In 2009, ATAM took part in the "Green TIC" Congress, organised by the Multisectoral Association of Spanish Electronics and Communications Companies (ASIMELEC). The Congress's goal was to analyse and relate experiences in relation to the ICT sector's contributions to economic, environmental and social sustainability. ATAM contributed to the understanding of the social aspect with a presentation, "*A practical example of the social function of ICTs*". In said talk, Víctor Raúl Mendoza de la Rosa, ATAM's Information Systems Director, set out the way in which new technologies contribute to optimise resources and promote social innovation through SERVITELCO's hands-on experience. The presentation reflected how the application of new technologies at SERVITELCO has contributed not only to generate jobs for disabled people but also to create stable jobs.

- **Social Innovation Forum**
  Also in 2009, ATAM met with many third sector entities dedicated to the social inclusion of disabled people in order to consolidate a permanent forum for the exchange of experiences to improve both the management of the services provided to these people and the services themselves. The goal of this meeting was to join forces in order to adapt to technological changes and the social and economic reality.

- **Educational and care centres**
  The Association provides other types of activities for disabled people that cannot perform professional tasks because of their age or their capabilities. These activities are managed jointly with the Public Administrations of the Autonomous Communities where the services are based.

| Centre | Town | Assisted by | No of users 2009 |
|---|---|---|---|
| Special education school | Pozuelo de Alarcón (Madrid) | The Education Department of the Community of Madrid | 54 |
| Day care centre | Pozuelo de Alarcón (Madrid) | The Family and Social Affairs Department of the Community of Madrid | 53 |
| Residential homes | Pozuelo de Alarcón (Madrid) | The Family and Social Affairs Department of the Community of Madrid | 43 |

As for the Functional Plans of the centres themselves (school, day care centre, residential homes and occupational centres), the work to renew their facilities within their Feasibility Plans has continued in a way that ensures the sustainability thereof. This Plan is still committed to keeping these services linked to public care networks and being a tool at the service of the National Dependent Care System. It will also allow to increase the number of places and, consequently, there will be more disabled people benefitted.

## 5.6.4.2 Organisation

### Social Care Network

The Association provides personal solutions according the needs of each individual at the family level in disability and dependency situations. It covers all life stages, all disabilities (physical, mental and sensory) and the entire Spanish territory.

ATAM has a network of 20 offices scattered throughout Spain where personal advisors (social workers and psychologists) identify the solution most suited to the needs of disabled people. These advisors are experts in public and private resources at the local level and "accompany and guide" disabled people in the search for resources and solutions. In addition, they help to manage financial aid requests and payments.



Red de atención al socio ATAM

## Clinical Team

In addition to collaborating closely with other public and private entities with similar goals, the Association has a multidisciplinary team of professionals with over 35 years of experience in the evaluation, planning and guidance of interventions on disabled and dependent elderly people.

ATAM's Clinical Team evaluates, plans and guides intervention on people, encouraging the prevention of disability insofar as it is possible. A total of 1,823 consultations regarding different specialties (neurology, psychology, psychiatry, rehab and ophthalmology) were carried out during 2009.

## Workplace Integration Service

ATAM's Workplace Integration Service (SILA) carries out intermediation tasks in the selection of candidates, the training and follow-up process, information and guidance to companies as regards ergonomics and workspace adaptation and technical advice in connection with current disability-related legislation. ATAM provides its services to both disabled people and companies interested in employing disabled people in their organisations.

In 2009, 2,102 people were attended by the Workplace Integration Service and 432 job offers resulted in 115 individuals joining the labour market.

# 5.6.5 Social and cultural sponsorships

During 2009, the Company earmarked more than €24m to social, cultural and base sport sponsorships. It is worth highlighting that, even though its investment has been lower than in the previous financial year, Telefónica has tried to maintain those sponsorships that are a priority for it in order to benefit those initiatives that have a greater repercussion for society.

The social inclusion of different groups, the popularisation of culture and the promotion of education and sport are the basic pillars of the sponsorships in the 25 countries where the Company is present. The only purpose of these sponsorships is to express Telefónica's commitment to the specific needs of every region. The following are some examples of regional adaptation in 2009:

- In Spain, the "The trip into culture" has taken place, an exclusive programme that brings art, literature, science and monasteries closer to people by discovering the hidden side of the big Spanish institutions: the El Prado National Museum, the Grand Theatre of El Liceu, the Spanish National Library, the National Natural Sciences Museum, the Bilbao Guggenheim Museum, the Reina Sofía Palace of the Arts, the Royal Theatre, The Santa María la Real de las Huelgas Monastery, the Tordesillas Santa Clara Royal Monastery, and the Yuste Monastery.

- In Brazil, the Company took music to the streets with its "Telefónica Trio Tons" or "Telefónica Open Jazz" concerts, a unique chance to enjoy culture out in the open.

Telefónica maintains the commitment to achieve, once again, that technology is closer to and more affordable for everybody. This is why it sponsors technological events such as the Brazilian, Colombian, Mexican and Spanish "Campus Parties". Today, these annual meetings are referents at the world level. For seven days, thousands of participants from all over the world with their computers gather to share interests, exchange experiences and carry out all kinds of activities related to communications and new technologies.

In the field of education, Telefónica collaborates with 13 Spanish universities through its 16 "Telefónica Chairs". These Professorships are joint collaboration projects between the universities and the Company focused on a specific subject related to the field of Information Society and the social impact of the Information and Communication Technologies (ICTs).

Lastly, Telefónica's support of amateur sports and of sport as a means of social inclusion becomes evident in sponsorships such as the "Megacracks Movistar Tour". This is an initiative that has trained over 38,300 boys and girls, has travelled 6,800 km and has integrated more than 800 disabled minors from November 2007 to December 2009. Furthermore, with its grants, Telefónica collaborates in the Olympic and Special Olympic Sport Aid Plan - the promoter of which is the Olympic Sport Association (ADO) - which enables carefully chosen sportsmen and sportswomen to represent Spain at the Olympic Games.

## 5.6.5.1 Campus Party

Information and Communication Technologies have become essential tools for social and economic inclusion. This is why the Company works every day to design ground-breaking initiatives that enable society to reap their benefits. Along these lines, under Telefónica's leadership, Campus Party Brazil was launched in 2008 as the first step to extend Campus Party to the entire region.

Campus Party was started in Spain in 1997. Since then and under the "Internet is not a computer network but a people network" slogan, thousands of participants from all over the world with their computers gather for seven days to share interests, exchange experiences and carry out all kinds of activities related to computers, communications and new technologies.

Telefónica has been the main private driving force behind the event from the start. In 2009, thanks to the Company, Campus Parties were held in Brazil, Colombia, Mexico and Spain.

The continuous effort made to improve the quality of the event stands out since the first Campus Parties. In Latin America this effort has revolved around making the best use of the potential of internet leaders to promote the Information Society in the region. The growing significance of the digital inclusion area, in which Telefónica plays a very active role, also stands out. It has become an exceptional platform for debate and a place for bringing the world of ICTs closer to socially excluded groups.

# 5.6 Relations with the Community, Governments and Regulators

## Campus Party Brazil

The second edition of Campus Party Brazil, the biggest digital culture meeting in the world, took place in 2009, in which more than 6,000 *campuseros* took part, with over 50,000 visitors. Campus Party São Paulo had 11 subject areas, video, design, photography, blogs, development, games, robotics, simulation and free software standing out amongst them.

Telefónica connected the entire site with a speed rate of 10 Gbps, doubling that of first edition. This data transfer rate is equivalent to 10 thousand times one 1 Mbps connection, the most common in Brazilian homes. The infrastructure was based on a single fibre optics connection linking the Exhibition Centre to the exit router. The technology used for this connection was wavelength division multiplexing (WDM).

Today, Brazil is one the countries with more internet users and members of social networks such as Orkut and MSN. The selection of São Paulo for the event was due to the fact that its territory is the largest broadband nexus in the country and Latin America, where Telefónica has more than 2.5m internet accesses in 407 towns.

Tim Berners-Lee, the creator of the World Wide Web, attended the second Campus Party Brazil edition, thus repeating the experience of 2008 at the Campus Party held in Valencia, Spain. As a highlight, Berners-Lee gave attendees a talk on the Semantic Web, the so-called web of the future or Web 3.0.

## Campus Party Colombia

Reasserting its commitment to being a driver of development in those countries it operates in as well as to their progress and in spite 2009 being a particularly hard year for the local and world economies, Telefónica Telecom invested over $1.5m so that Colombian campuseros and other technology geeks could again enjoy the biggest talent, ingenuity and innovation show in the country.

With an attendance of 3,671 *campuseros* (50% more than in 2008) and almost 90,000 visitors, the event, which took place from the 6th to the 12th of July in Corferias, strengthened its position as the most important technology forum in Colombia. *Campuseros* enjoyed 6.6 GB of connectivity, provided by Telefónica Telecom (more than double that of the first edition), again the largest bandwidth available for any such event in the country. Within the framework of the event, there were almost 350 hours of presentations at conferences and workshops in addition to the presence of renowned figures in the world of internet such as former hacker Kevin Mitnick, the co-founder and a member of the board of directors of Creative Commons, Michael Carroll, and, again, Jon "Maddog" Hall, the CEO of Linux International, who were proof of the relevance of the event in the technology world.

More than 40 companies sponsored this second edition, which proves the quality and significance of the event for the country's development not only owing to the presentation of the latest technological trends but also because Campus Party's standing as the meeting place par excellence for those who will shape the future of technology in Colombia is becoming increasingly consolidated year after year.

In this setting, Telefónica Telecom introduced its Digital Home concept, with the wireless gateway as the axis for the management of and communication between home peripherals and their interaction with environments such as the office, productivity, entertainment and security. As other devices designed by Telefónica, this device will allow to effectively enjoy the promise of an increasingly simpler life at home thanks to the enabling role of technology in the house.

The commitment assumed by Telefónica from Campus Party to bring technologies nearer to people and reduce the digital divide is evident and grows every year. Under the leadership of the Bogota City Council, 8,600 people were "digitally baptised" in the Digital Inclusion Area intended to this end; with the support of the Ministry of Communications, 680 SMEs were trained in the use of ICTs during 60 work sessions; and the Ministry of Education took an active part through the Innovation and Education Forum, to which around 120 Colombian teachers were invited. Likewise, Fundación Telefónica, through the Debate & Knowledge area, launched the book "*The Role of ICTs in Development*" in Latin America and organised the forum "The *Role of the Internet to Leave the Economic Downturn Behind*", which provided highly relevant data to the discussion that has been taking place in the country on the matter.

As in the previous edition, Campus Party had widespread coverage in the mass media. More than 350 news items appeared on the radio, TV, written press and the internet, which is a clear proof of the interest generated by the event.

## Campus Party Mexico

From the 12th to the 16th of November of 2009, Telefónica Mexico organised in Mexico City the largest and most important technology, digital culture and online entertainment event: Campus Party, a place where the general public

interested in the internet and the new Information and Communication Technologies shared interests and experiences and developed all kinds of projects related with the new technologies.

During the 5 days the event lasted, thousands of young people witnessed the advances of this technology throughout the world and the audience had a unique experience getting to know the latest innovations from digital creativity to robotics by the way of software development, modding and computer games.

Through internal communication, the Company got its employees to not only visit Campus Party but also to feel part of this technology party. Moreover, some collaborators took part, within the Telefónica Volunteers programme, in the digital baptism session organised for 1,200 boys, girls and teenagers that benefit from Fundación Telefónica's Proniño programme, which undoubtedly was a great experience.

## Campus Party Spain

Telefónica invites Campus Party attendees to participate in two pioneering proposals: Campus Verde and Campus Futura.

As part of **Campus Verde**, Telefónica offers all *campuseros* the possibility of requesting paperless bills as well as taking part in the draw of five netbooks. New electronic billing registrations between January and June of 2009 eliminated the need to print 19 million sheets of paper, cut down 1,560 trees and emit 31 tonnes of CO2. Thus, the Company contributes to increase its energy efficiency and fight against climate change.

During the first half of last year, more than 98,700 Telefónica customers in Spain opted for the paperless billing option, which brings the number of users under this mode to more than 1.5m, who can access their bills whenever they want, without storage worries and with the same legal status as paper bills.

As part of its strategy to fight global warming, Telefónica provides a series of services that allow saving resources and reducing emissions. All those interested can find more about them through the different videos showing the advantages of the new technologies in this regard: the ICT sector can potentially bring about a 15% reduction in world CO2 emissions expected by 2020. It is estimated that this energy efficiency can generate saving of up to €600,000m.

Telefónica also uses Campus Verde to introduce "Telefónica Forest" to the public, an initiative to contribute to the United Nations' The Plant for the Planet campaign, whose mission is to plant trees as an urgent measure to prevent the effects of climate change and make society aware of the need to take care of the environment. Thus, the Espacio Movistar Label contributes 1% of the profits from the downloading of music of its new artists to the creation of this forest.

These initiatives fall under the responsibility of Telefónica's Climate Change Office, a transverse management body that encourages the adoption of preventive measures as regards energy saving and efficiency and the promotion of the use of telecom services as part of the solution to fight climate change. Its efforts, aimed at all countries where the Group operates in, will allow it to fulfil its commitment to reduce grid power consumption by 30% and power consumption at its offices by 10% by 2015.

In the Campus Party room dedicated to environmental conservation, Telefónica also shows how old mobile phones are recycled. As far as waste management is concerned, the Company promotes practising the three Rs: *Reduce, Re-use and Recycle*. For several years now unwanted mobile devices and accessories have been collected in containers installed in distribution points and stores throughout Spain. This is part of an agreement with Fundación Tragamóvil, which is part of ASIMELEC. In the past three years, 1,497 tonnes of waste have been collected by using these containers, waste which is then guaranteed to be appropriately treated in an environmentally friendly way.

On the other hand, Telefónica I+D shows some of its newest products in the **Campus Futura** area. Campus Party visitors can freely experiment and interact with self-managing exhibits without time constraints.

In addition to being the provider of the Campus Party infrastructure, Telefónica - which supports this technology event since its beginnings back in 1997 - participates as an active sponsor with a wide range of contents and activities for participants, amongst which *Surface Computing*, Imagenio 3D, *Shake&Throw*, HD Videoconferencing and *widgets* stand out and are housed in the Campus Futura area.

Telefónica I+D is a leader in the development of applications based on Natural User Interfaces (NUIs) in order to offer its customers new products and services that provide a unique user experience that is more natural, simple and close. Within the framework of this activity, Telefónica I+D has pioneered in Spain the development and deployment of applications for Microsoft's *Surface* tabletop, a new multi-touch technology that is setting the computer world on fire, particularly the way in which people interact with computers. During the demonstration on *Surface Computing*,

campuseros can intuitively execute an endless range of commands on the *Surface* tabletop by using touch, natural gestures and physical objects in order to experience the many advantages of this technology over computers: it can be used by several people at the same time, it allows to press several icons simultaneously and watch the screen from any angle.

Furthermore, in the Campus Futura area visitors can find about Imagenio 3D, a TV service over ADSL for displaying 3D content at home and without the need to use polarised glasses or any other accessory. It is an on-demand video service with which the user can access multimedia content in a customised manner, choosing at any time the show he or she wants to watch without being restricted by a TV schedule and having the capacity to stop and start the show at will. On top of this, it can display content in a high-quality, autostereoscopic manner.

Telefónica I+D has developed an advanced high-definition videoconferencing system for home consumers. This open solution, which is based on specific algorithms, optimises video processing and coding. This has allowed to produce a low-cost videoconferencing system that gives users a significantly enhanced feeling of presence and reality.

*Campuseros* are now aware of the possibilities of new Interfaces based on motion detection by means of accelerometers thanks to Telefónica's *Shake&Throw* demonstration, which allows the user, for example, to send photos from a mobile phone to a TV by simply thrusting the arm towards the television to transfer the content of the images.

Widgets are a group of applications that provide easy and direct access to internet services and that the user can run from his/her TV, mobile phone or computer. These small applications bring information such as weather forecasts, stock portfolio updates, current account activity, prepaid card top-up, movie listings, latest news, music downloads, etc. They are much easier to use than web browsers.

The Company also organised several talks and meetings with technology experts to perform an analysis ranging from the current mobile application boom to the future of new forms of communication and content distribution over the internet. Likewise, during Telefónica's "The Core of the Future" session, several creators showed their future concepts.

# 5.6.6 Impact of the social activity of Information and Communication Technologies (ICT)

One more year, Telefónica continued promoting the Information Society in each and every country where it is established.

Telefónica is an ardent supporter of the development of new technologies, which in turn results in their widespread adoption. This is why the Company focuses its activity on both the fulfilment of new internet, mobile telephony and broadband connection needs and the promotion of their use by means of the creation of new services. A clear example of this is the case of Spanish micro-enterprises, which, thanks to the leap forward in solutions offered to them by ICTs, have been able to enjoy more advanced services that improved and will improve even more so their competitiveness in the short term. In addition, Telefónica also directs its efforts toward the proper use of the services by citizens, something which is increasingly necessary as said services become more widely used.

## 5.6.6.1 Fundación Telefónica's Debate & Knowledge Area

The Company wholeheartedly supported one more year the development of the Information Society. In 2009 Fundación Telefónica invested €3.8m in its Debate & Knowledge Area. The different initiatives set in motion have always taken place along three strategic lines.

**The creation of knowledge through research and studies**

- Six specific research projects and studies led by prestigious Spanish and international experts or research teams were conducted:

  - "The economic value of Spanish: a multinational undertaking."
  - "Economic and social development and mobile communications in Latin America."
  - "Innovation in Latin America."
  - "Mobile telephony and access to banking services in Latin America."
  - Facebook and Post-University. "Social operating systems and the collective construction of knowledge."
  - "ICTs and productivity".

**The publication of the research and studies conducted**

- Founded in 2006, the Fundación Telefónica/Ariel Collection compiles research, specialist workshop and debate papers on current and social impact topics promoted by Fundación Telefónica, mainly those related with ICTs and their effects on the economy, culture and society in general. With the 16 new titles published in 2009 - with a print run of almost 23,000 copies, the collection now features 38 publications. They can all be purchased at the Fundación Telefónica website.

  **Books**

  - The economic value of Spanish: a multinational undertaking
  - The economics of the teaching of Spanish as a foreign language
  - The figures of Spanish

  **Papers**

  - Mobile telephony and financial development in Latin America
  - Foreigners in technology and culture
  - The integration of the internet in Spanish school education. Current situation and perspectives for the future
  - The quality of Spanish on the internet New uses of language in digital media
  - Globalisation and Social Justice
  - The role of ICTs in development
  - Digital journalism in times of recession

# 5.6 Relations with the Community, Governments and Regulators

- ICTs in the future administration of justice
- The Interactive Generation in Spain
- The Interactive Generation in Latin America. Children and teenagers in front of the screens (Portuguese version)

**Reports**

- The Information Society in Spain 2009

**Other books published outside the Collection**

- Looking at education

**TELOS Magazine:**

- No. 78. The digital education challenge
- No. 79. The future of communication: SCR, companies, values
- No. 80. The future of internet and social communication
- No. 81. 25 years of the future. Special anniversary edition

- November 2009 saw the 25th anniversary of the magazine TELOS. *Communication and Innovation Papers*, a publication that was born as a platform of research and reflection regarding Social Communication. The main event within these anniversary celebrations was the day conference "25 Years of Communication and Innovation", which brought together renowned experts in the fields of communications, technology and society who took part in a number of speaker sessions, debates and round-table discussions. At the same time an exhibition was opened showing works from the TELOS Collection. To mark this anniversary, a special number of the magazine was published: "25 years of the future - Special anniversary edition."

**Face-to-face events**

- Every year, the Debate & Knowledge area offers a wide-ranging programme of popularisation events and face-to-face acts in a number of formats: presentations of published work, day conferences, workshops, seminars, etc. It is worth highlighting that in 2009 over 125 speakers took part in these events, and the books published by Fundación Telefónica were the focus of 26 public acts in Spain and Latin America.

- The open debate cycle "Ten concepts that are changing the future" was inaugurated last year, the goal of which is to analyse once a month key topics about the future of the new online society. Four of the ten proposed debates were held in 2009: "Power to those online", "Networks and emerging properties", "The three Cs: conserve, collaborate and contribute", and "The reinvented company", which were attended by Spanish and international experts such as: Rahaf Harfoush, Albert László Barabási, David Weinberger and Clay Shirky. The new aspect of this cycle of debates is not only the opportunity to follow them online at the Debate & Knowledge website but also to participate in them through Twitter at @fundacionTef.

- In September 2009, Fundación Telefónica announced the first edition of *The Tic Club*, a contest of comic routines revolving around the new technologies that seeks to encourage users to explain in a funny way - using videos made by them - what are the new technologies and how they influence their lives. 1,000 people signed up for the first edition of this international contest, who uploaded a total of 40 videos lasting between 3 and 5 minutes to the website www.fundacion.telefonica.com/en/debateyconocimiento/the_tic_club/index.htm

**The Debate & Knowledge portal provides extremely reliable information on the new technologies and their influence on society**

- The contents of this portal are structured around different sections, including: Telefónica's long-standing Information Society portal, which contains detailed information concerning the development of this field in Spain and includes *The Information Society Bulletin*: *Technology and Innovation*; all publications belonging to the Fundación Telefónica/Ariel collection; the online version of TELOS Magazine, multimedia access to the content of all organised events, which last year alone were followed by over 6,500 people; up-to-the-minute news feeds; and blogs.

- It should be mentioned that to mark the 10th anniversary of the publication of the report *The Information Society in Spain*, in 2009 the software application entitled "10 years of the Information Society - Chronology", featuring a timeline which shows the latest technological developments that have taken place in the past decade with respect to the Information Society, was launched in the portal.

- In addition, the official Debate & Knowledge YouTube channel, which offers audiovisual content on new technologies and services of general interest concerning ICTs, registered significantly high usage in 2009: since its launch, its videos have been downloaded over 45,000 times. Furthermore, Debate & Knowledge was also launched on social networks last year: a Facebook page - which had close to 1,000 friends by the end of the year - a Twitter channel, and a Flickr account were created.

## 5.6.6.2 Network of Telefónica Chairs

The Network of Telefónica Chairs is a tool that enables and promotes communication and joint collaboration between some of the best Universities in Spain and Telefónica so as to contribute to the development of the Information Society.

### The impact of technology on society

The common focus of the work carried out by each of the Chairs is to analyse the current situation and identify the trends of the impact of technology on society. The goal is to study how technology is a part of and affects daily life and society in general.

### Multi-disciplinary focus

The Network of Chairs tackles this work in a multidisciplinary manner. Each of the Chairs is specialised in one field on which its activities are focused and contributes to the Network of Chairs being a *think tank* of reference in the study of the impact of technology on society. Thus, for example, some of the relevant issues on which Information and Communication Technologies (ICTs) have a big impact are:

- Climate Change and the Environment.
- Education.
- Public Health.
- The productivity of companies and professionals.
- Disabled people.

# 5.6 Relations with the Community, Governments and Regulators

| University | Name of the Telefónica Chair | Thematic line Developed |
|---|---|---|
| 1. UPM - Polytechnic University of Madrid | New Generation Internet | Security |
| 2. UPM - Polytechnic University of Madrid | Sustainability in Mobile Communications | Sustainability |
| 3. UC3M - Carlos III University of Madrid | Social Applications of Decision Aid | Horizontal |
| 4. UC3M - Carlos III University of Madrid | Future Internet for Productivity | Productivity |
| 5. UC3M - Carlos III University of Madrid | Telecommunications economics | Productivity |
| 6. UPC - Polytechnic University of Catalonia | Analysis of the Evolution and Future Trends of the Information Society | Horizontal |
| 7. Universitat Pompeu Fabra | Social Media | Horizontal |
| 8. Polytechnic University of Valencia | New Technologies for the Environment and Social Inclusion | Environment el Inclusion |
| 9. Deusto University | New Technologies for Education | Education |
| 10. University of Zaragoza | Security and Productivity in the Information Society | Productivity and Security |
| 11. University of Navarra | Information Processing, Storage and Communication Technologies in Public Health Applications | Healthcare |
| 12. University of La Laguna | Telemedicine: | Healthcare |
| 13. University of Las Palmas de Gran Canaria | Accessible Technologies | Inclusion |
| 14. University of Oviedo | Information and Communication Technologies Applied to the Environment | Environment |
| 15. University of Extremadura | The Application of Information and Communication Technologies in the University Environment | Education |
| 16. University of Seville | Intelligence on the network | The environment, Education and Health |
| 17. University of Gerona | Scientific Culture and Digital Communication | Education |
| 18. National Distance Education University (UNED) | Corporate responsibility and Sustainability | Corporate responsibility and Sustainability |
| 19. Rey Juan Carlos University | Intelligence Services and Democractic Systems | Security |
| 20. University of Salamanca | Integral security | Security |

## Members of the Network of Chairs

Each of the Chairs has a work team managed by people of great prestige that belong to the world of university. The activities carried out by these teams are varied and range from e.g. the analysis of the impact of ICTs on education or the productivity of companies to the training of demonstrators that validate the use of ICTs to improve the life of disabled people.

## Popularisation and dissemination of the results

An essential goal of the Network of Chairs is to inform all interested people and society in general of the results of the activities carried out. This is why each of the Chairs deems the result popularisation and dissemination activity particularly relevant and uses, amongst others, the following tools and instruments:

- The Network of Telefónica Chairs Blog: www.catedras.telefonica.es
- YouTube Channel: www.youtube.com/CatedrasTelefonica
- Twitter Channel: http://twitter.com/CatedrasTEF
- Facebook Page and Profile: http://www.facebook.com/catedrastelefonica

Some of the chairs have their own channels to spread those activities currently under way and the results obtained; for example, the Chair of the University of Las Palmas de Gran Canaria has channels in the Facebook social network:

# 5.6 Relations with the Community, Governments and Regulators

- 112 Accessible Project and IESCampus Project Facebook groups

The Chair of the Polytechnic University of Valencia has its own TV show, "Broadband Encounters" on the University's TV channel. Thus, for example, some of the already broadcast shows are:

- ICTs applied to fire detection
- ICTs applied to social inclusion

Additionally, some of the Chairs have an open-door information day every year where relevant figures of the university and business worlds convey their vision of the current state and the trends on the impact of technology on society. For example:

- The Polytechnic University of Madrid's Telefónica Chair's Conference on the New Generation Internet.

The Network of Telefónica Chairs can be accessed by clicking the following link:
www.catedras.telefonica.es

## Examples of some of the projects developed by the Network of Telefónica Chairs in 2009

**The University of Extremadura's Telefónica Chair's LULA Project**
During 2009, the Telefónica Chair of the University of Extremadura (UEX), "The Application of ICTs in the University Environment", developed the LULA project. The goal of LULA ("Linux for Latin American Universities") is the creation of an Ubuntu-based Linux distribution - in which professors from several universities have collaborated - with the aim to promote the exchange of teaching materials, enable students to access them and promote the integration of free software in educational environments.

The LULA project originally started with the support of the seven universities that comprise the Latin American Virtual Campus (CAVILA), and has also had the voluntary participation of teaching staff from other universities. The universities that have collaborated in this experience are the following:

- The University of Extremadura (Spain)
- The Federal University of Santa María (Brazil)
- The University of Guadalajara (Mexico)
- The National University of Córdoba (Argentina)
- The National University of Entre Ríos (Argentina)
- The University of Porto (Portugal)
- The University of Santiago de Chile (Chile)

The implementation of LULA in labs of the aforementioned universities has already started, and there are more and more users that decide to install it on their personal computers. The final version of the distribution, fully operational and stable, can be downloaded for free from http://lula.unex.es.

Collaborators from new Latin American universities will participate in the development of the next version of the LULA project. The latest news related to the project can be followed at the LULA portal, the UEX's Telefónica Chair blog and Twitter.

**The University of Navarra's Telefónica Chair's Mammography Appointment Management and Tracking System**
The University of Navarra's Telefónica Chair developed in 2009 a Mammography Appointment Management and Tracking System.

Breast cancer is one of the most common types of cancer among women and a very significant cause of death in developed countries. The best way known today to prevent breast cancer is to periodically undergo mammography and consequently the observation of the period between mammographies is essential.

Unfortunately, failing to turn up in time for breast exploration appointments is a common practice that has very negative consequences for women. A team from the *Massachusetts General Hospital* (MGH) has spent over a decade studying methods to reduce mortality due to breast cancer and has verified that, despite most women start to undergo mammography at the age of forty (as recommended in the US), one out of four women never has another mammography taken. Moreover, amongst women that continue undergoing mammography it is very unusual to

observe the optimum period between explorations. On the other hand, 25% of women forget to turn up for their appointment once they have been assigned a date and time for the mammographic exploration. In short, it has been concluded that the main reason why women do not regularly show up for mammography is forgetfulness.

The same MGH team has proven that by building a mathematical model of the propagation of cancer cells that the improper use of mammography appointments increase breast cancer mortality by 50% or, in other words, that if women observed the recommendations regarding the periodicity of mammographies, mortality due to this disease would drop by 50% in the US.

To this end, and in collaboration with the MGH and the MIT, the University of Navarra's Telefónica Chair developed in 2009 a system to assist in the management performed by all people involved in the prevention of breast cancer, from general practitioners to staff at mammography centres, that generates automatic messages by e-mail or phone so that women remember and go to their mammography appointments.

### Control of home patients with the system created by the University of Valencia's Telefónica Chair

The Polytechnic University of Valencia, with the support of the Telefónica Chair for New Technologies for the Environment and Social Inclusion, and University Hospital Dr. Peset, developed, in 2009, a mobile device for the post operative monitoring of patients as well as the detection and better management of medical emergencies. With this solution, convalescent people are controlled from their homes, which in turns allows reducing the costs of medical care.

The new system allows sending photos to the hospital and, together with a portable pulse oxymeter, provides objective information on the progress of patients. The initial version has been enhanced with new features that allow data to be entered over the internet and by means of voice recognition. In addition, a complex management software has been included for nursing activities and so that health professionals can review the data received at the hospital by using their mobile phones with web-based access.

### Keyboard for disabled people from the University of Valencia's Telefónica Chair

In 2009, the Polytechnic University of Valencia developed, within the scope of the Telefónica Chair, an intelligent virtual keyboard that allows people with severe motor disability to communicate with great ease.

The prototype is a substantial improvement with regard to current systems since it includes all characteristics in three keys, which makes writing much easier. "Full keyboards make it very hard to find the desired key, and this difficulty is reduce with a very small number of keys. Moreover, character groups are intuitive such that learning is fast, which increase the speed of communication," explained Juan Miró, one of the researches behind the keyboard together with Pau Bernabéu.

The researchers from the UPV have developed a PC application that will initially operate with word prediction and have basic editing functions such as character and word deletion and will generate sound outputs of the entered texts. It will also be possible to use the new device in other environments such as vehicles, phones, game consoles and digital television platforms.

### Project for accessing the emergency service via DTT from the University of Las Palmas de Gran Canaria's Telefónica Chair

In 2009, the Telefónica Chair of the University of Las Palmas de Gran Canaria (ULPGC) developed a project for accessing the 112 emergency service via DTT for deaf people. The project - the first of its kind in Europe - means the elimination for deaf people of the technological barrier entailed by the conventional access over the phone to basic services such as the notification of emergencies.

The project has been developed with the collaboration of the SIANI Institute located in the University's technology park.

# 5.6.7 Compliance with the Regulation and Competition Standard

## 5.6.7.1 Competitive context

In a situation of economic downturn, the commercial and financial results of the Telefónica Group in 2009 increase the advantages of its unique profile: a high diversification of its operations, the integrated nature of its operations in key markets, its competitive strength in the main markets, its high execution capacity, and its financial robustness.

The Company maintained throughout the last financial year an intense commercial activity that has allowed it to increase the number of total accesses by 2.1% with regard to December 2008, reaching a figure near 265m accesses. This growth has been mainly due to the expansion of mobile (+3.3%), broadband (+8.2%) and Pay TV (+9.8%) accesses. By geographical region, the growing contribution of Telefónica Latinoamérica stands out, which at the end of the 2009 financial year had more than 169m access in the region (+6.5% with regard to December 2008).

By type of access, the Telefónica Group's mobile accesses are near 202m at year end, with a net increase of almost 7m customers for the whole of 2009.

Retail broadband internet accesses stand at 13.5m, registering a year-on-year growth rate of 8.2%, driven by the increase in the adoption of packaged voice, ADSL and Pay TV service deals. In this sense, it is worth highlighting that more than 88% of retail broadband accesses in Spain are included in some form of double- or triple-deal package.

At the end of 2009, there were almost 6.5m broadband accesses in Latin America (a +8.3% year-to-year growth) and 5.4m in Spain (a +4.4% year-to-year growth), whereas in Europe the figure was above 1.5 m (a +37.2% year-to-year growth)

Pay TV accesses exceeded 2,4m, almost 9.8% more that in 2008 after registering a net increase of approximately 222,000 accesses during the year.

### Spain

The Company provides fixed telephony, internet access and Pay TV services in the country through the Telefónica España operator.

The Spanish fixed telephony market was affected by the unfavourable economic climate of 2009, which resulted in an approximate decrease of 0.8% in the number of accesses in relation to the previous year. In this situation, Telefónica España's fixed telephony accesses dropped by 7.3% down to 14.2m accesses.

The total broadband internet access market stood at approximately 9.9m accesses at the end of 2009. Telefónica España's broadband internet accesses increased by 4.4%, hitting 5.5m accesses.

The estimated share of leased loops in the broadband fixed internet access market increased by almost 21.1%. The total leased loop fleet at the end of 2009 amounted to 2.2m accesses, of which 21.0% correspond to the shared loop mode.

Telefónica España's wholesale ADSL accesses dropped by 15.3%, standing at 0.4m accesses, mainly due to migration to the leased loop mode.

In 2009, Telefónica España continued increasing its presence in the Pay TV market, its client base reaching 0.7m accesses.

With regard to competition, Telefónica España's main competitors in the fixed telephony market fall within three main categories:

- Cable operators, such as ONO - the Spanish cable operator at the national level - that provide triple packages, and regional cable operators.
- ULL operators, such as Orange, Jazztel and Vodafone.

- Operators that target large companies, such as British Telecom and Colt, that provide voice and data Virtual Private Networks (VPNs).

Telefónica España's estimated market share as of 31 December 2009 was the following:

- In fixed telephony accesses, the estimated market share amounted to 72% for retail accesses (dropping from 77% in 2008).
- The estimated broadband market share amounted to 56% for retail accesses (decreasing from 57% in 2008).
- The estimated Pay TV market share amounted to 17% in terms of accesses (increasing from 14% in 2008).

On the other hand, Telefónica España provides mobile services in Spain through the operator Telefónica Móviles España.

The Spanish mobile telephony market exceeded 55.4m accesses as of 30 September 2009, which means a 121% penetration, with a 5% increase with regard to the penetration as of 31 December 2008. The Spanish mobile market has experienced this growth mainly as a result of the development of transmission-based data services.

Telefónica's mobile client base in Spain - measured in terms of accesses - hit 23.5m accesses in 2009, a 0.3% drop in relation to the 23.6m achieved in 2008. This change is mainly due to a 9.2% decrease in accesses from the prepaid segment.

With regard to competition, Telefónica España's main competitors in the Spanish market of mobile communication services are the following: Vodafone España, a subsidiary of Vodafone Plc; Orange, which is the trade name of France Telecom España S.A.; Yoigo, whose main shareholder in TeliaSonera; and other virtual mobile operators.

Telefónica España's estimated market share in the country on the basis of the number of mobile accesses was approximately 43% as of 30 September 2009, below the 44% share as of 31 December 2008.

## Europe

Telefónica Europe provides fixed and mobile telephony, broadband and internet services in the Czech Republic, Germany, the Isle of Man and the UK as well as mobile telephony services in Ireland and Slovakia and Pay TV services in the Czech Republic.

In 2009, Telefónica Europe's total number of accesses rose by 6.9% to a figure of 49.2m accesses, compared to the 46.1m accesses in December 2008. This total number of accesses includes: 44.1m mobile accesses, 1.8m fixed telephony accesses, 1.8m data and internet accesses, and 0.1m Pay TV accesses. Likewise, it includes 1.4m wholesale ADSL accesses.

- **United Kingdom:** the mobile telephony market in the UK is very competitive. The penetration rate reached 123% as of 30 September 2009, equal to the penetration rate as of 31 December 2008.

  In 2009, the total number of accesses was up by 6.2% to 21.9m accesses (20.6m in 2008). This figure does not include Tesco Mobile customers, a joint venture 50% owned by Telefónica O2 UK and whose customers use its networks. Telefónica O2 UK enjoyed a net increase of 1.3m accesses in 2009, 41% less than in 2008.

  With regard to competition, in addition to Telefónica O2 UK, there are currently other four competitors with their own networks in the country: Vodafone UK, a subsidiary of Vodafone Plc; T-Mobile UK, which is a subsidiary of Deutsche Telecom; Orange, owned by France Telecom; and 3, belonging to Hutchison Whampoa. Virtual mobile operators in the UK market include Virgin Mobile and Talk Talk, which are owned by Virgin Media and the Carphone Warehouse Group respectively. Both use the networks of T-Mobile UK and Vodafone UK. Tesco Mobile is also in the picture.

  Telefónica O2 UK has deployed a capacity of leased loops in approximately 1,245 switchboards at the end of 2009, its broadband service reaching a population coverage of 67.2%.

- **Germany**: mobile penetration rate in Germany was down to 131% as of 30 September 2009, a 1% drop as compared to the penetration rate as of 31 December 2008.

  In 2009, the total number of Telefónica O2 Germany customers rose by 1.6m, reaching a total of 17.1m accesses. Telefónica O2 Germany's *joint venture* with Tchibo Mobile contributed 0.1m accesses to this increase since 31 December 2008, there being 1.4m accesses as of 31 December 2009. On the other hand, Telefónica O2 Germany's low-cost brand, Fonic, accumulated 0.6m accesses, hitting the 1.3m access mark at the end of the year.

As for competition, Telefónica O2 Germany mainly competes against three other companies in the German communication market. These are Vodafone Germany, part of Vodafone Plc; T-Mobile, a subsidiary of Deutsche Telecom; and E-Plus, owned by KPN. Telefónica O2 Germany also competes against several virtual mobile operators.

- **Ireland**: mobile penetration rate in Ireland amounted to 117% as of 30 September 2009, 4% less compared to the penetration rate as of 31 December 2008. Telefónica O2 Ireland had a net loss of 13,000 accesses during the past year. Total accesses dropped by 0.8%, there being 1.7m accesses at the end of 2009.

  As far as competition is concerned, in addition to Telefónica O2 Ireland there are currently other three main competitors in the Irish mobile market: Vodafone Ireland, a subsidiary of Vodafone Plc; Meteor, part of Babcock & Brown; and 3 Ireland, owned by Hutchison Wampoa Ltd.

  Telefónica O2 Ireland's mobile access market share was 33.0% as of 30 September 2009 in comparison with the 32.5% share as of 31 December 2008.

- **The Czech Republic**: Telefónica Europe provides fixed telephony, Pay TV and mobile telephony services in the Czech Republic. The penetration rate in the country rose up to 133% as of 30 September 2009, a 2% increase with regard to that as of 31 December 2008.

  In 2009, Telefónica O2 Czech Republic fixed telephony accesses were down by 6.5% to 1.8m, compared to 1.9m accesses as of 31 December 2009, mainly a result of the switch from landlines to mobile phones.

  Broadband accesses increased by 17.0% in 2009 with regard to 2008 up to a figure of 0.7m accesses as of 31 December 2009. In addition, Pay TV customers were up by 20.2% to 0.1m accesses at the end of 2009. These increases are the result of a greater demand for said services in the Czech Republic.

  Telefónica O2 Czech Republic's mobile accesses rose by 3.0% up to 4.9m accesses as of December 2009 in comparison with the 4.8m accesses as of 31 December 2008. Contract mobile accesses accounted for 56.9% of the total of mobile accesses as of 31 December 2009, above the 52.5% share as of 31 December 2008. The number of prepaid mobile accesses over the total of mobile accesses dropped down to 43.1%, reaching a figure of 2.1m accesses as of 31 December 2009 as compared with the 2.3m access mark at the end of 2008.

  As far as competition is concerned, there are currently two main competitors in the Czech Republic's mobile telecommunication market: Vodafone Czech Republic, which is part of Vodafone Plc; and T-Mobile, which is owned by Deutsche Telecom AG.

  Telefónica O2 Czech Republic's estimated mobile market share as of 30 September 2009 was 38.9% compared to the 38.6% share as of 31 December 2008 based on the number of mobile accesses.

  Finally, the country's fixed telephony market is made up of six large operators and other, smaller providers. The biggest competitors for voice services are U:fon, UPC and other cable operators that also provide voice, internet and Pay TV services in an integrated manner. Internet is provided by almost all mobile operators as well as by several Wi-Fi providers. Pay TV is marketed through a series of cable and satellite companies, UPC being the largest.

- **Slovakia**: Telefónica Europe provides mobile telephony services in Slovakia. As of 31 December 2009, Telefónica O2 Slovakia's total number of mobile accesses rose to 0.6m accesses, which means a 69.9% increase with regard to the number of accesses as of 31 December 2008. Contract accesses accounted for 35.4% of the total of mobile accesses as of 31 December 2009 in comparison with the 30.4% figure as of December 2008. Throughout 2009, Telefónica O2 Slovakia maintained its O2 Fér plan, a simple rate that unifies prepaid and contract rates and provides SIM-only products without the need to subsidise the mobile terminal.

## Latin America

Telefónica Latinoamérica provides mobile and fixed, internet and data and Pay TV services through its operators - which are described in the following sections - in the main Latin American markets. In addition, other Telefónica Latinoamérica members are: Telefónica Empresas; Telefónica International Wholesale Services (TIWS), the business unit in charge of other telecommunications operators and the management of the Group's international services and the network the supports these services; and Terra Networks Latinoamérica.

# 5.6 Relations with the Community, Governments and Regulators

Telefónica Latinoamérica's number of total accesses grew by 6.5% up to 168.6m accesses as of 31 December 2009 (158.3m as of 31 December 2008). Total accesses include: 134.7m mobile accesses, 24.6m fixed telephony accesses, 7.6m data and internet accesses, and 1.6m Pay TV accesses. Additionally, there are 56,000 wholesale accesses.

- **Argentina**. As of 31 December 2009, Telefónica Latinoamérica managed a total of 21.9m accesses in Argentina, a 5.7% rise with regard to 31 December 2008. This increase was mainly due to the growth in mobile accesses, which rose by 7.4% up to 15.9m accesses (14.8m accesses in 2008) and the growth in the number of broadband accesses, with a 14.4% rise up to 1.2m accesses as of 31 December 2009 (1.1m accesses as of 31 December 2008).

  - **Fixed telephony**: Telefónica Latinoamérica manages its fixed telephony business in Argentina through Telefónica de Argentina S.A., or Telefónica de Argentina, the leading provider of public fixed telephony services and basic telephony services in the country based on the number of accesses according to the information provided by competitors and regulatory authorities.

    Telefónica de Argentina's accesses have increased by 1.2% up to 6.0m accesses as of 31 December 2009 with regard to the 5.9m accesses as of 31 December 2008. This modest growth was mainly due to a 14.4% increase in broadband accesses, hitting the 1.2m access mark as of 31 December 2009 (1.1m accesses as of 31 December 2008). The growth in broadband accesses was accompanied by a slight 0.1% increase in fixed telephony accesses up to 4.6m as of 31 December 2009 (4.6m accesses as of 31 December 2008).

    With regard to competition, Telefónica de Argentina is the main provider of fixed telephony services in the Argentina's southern region. Other operators, however, are marketing local telephony services, including Telecom Argentina S.A., Telmex Argentina S.A., Impsat S.A. (acquired by Global Crossing in May 2007) and Port-Hable (Hutchison Telecommunications Argentina, S.A.). Claro, a mobile telephony company owned by América Móvil also competes in the fixed telephony market.

    Telefónica has an estimated share in the Argentinean fixed telephony market of approximately 47.8% as of 31 December 2009 based on the number of accesses, lower than the 48.1% share it had as of 31 December 2008.

  - **Mobile telephony**: the Argentinean mobile market kept growing during the part year, with a penetration rate increase of 120.3% as of 31 December 2009 (109,8% as of 31 December 2008) based on the number of accesses.

    Telefónica Latinoamérica manages its mobile business in Argentina through Telefónica Móviles Argentina, S.A., or Telefónica Móviles Argentina, whose accesses grew by 7.4% up to 15.9m accesses as of 31 December 2009 (14.8m accesses as of 31 December 2008). Telefónica Móviles Argentina also saw the number of contract accesses grow by 1.0% up to 5.2m accesses as of 31 December 2009 (5.1m accesses as of 31 December 2008).

    As for competition, the Company currently has three competitors in the Argentinean mobile market, each of which provides services at the national level: Telecom Personal, controlled by Telecom Italia through Telecom Argentina; Claro, controlled by América Móvil; and Nextel, owned by NII Holdings Inc.

    As of 31 December 2009, Telefónica Móviles Argentina had an estimated mobile market share - based on the number of accesses - of approximately 33.0%, lower than the 34.0% share it had as of 31 December 2008.

- **Brazil**. Telefónica Latinoamérica's accesses in Brazil increased by 10.2% up to 67.0m accesses as of 31 December 2009 (60.7m as of 31 December 2008). This growth reflects a 15.1% year-to-year increase in client base of Vivo (Telefónica Latinoamérica's mobile operator in Brazil) and, to a lesser extent, the expansion of Telesp (Telefónica Latinoamérica's fixed telephony operator in Brazil) in the broadband and Pay TV businesses. In contrast to these increases, there was a decrease in the number of fixed telephony accesses in Telesp's narrowband accesses as a result of an intense migration to broadband accesses.

  - **Fixed telephony**: Telesp provides fixed telephony and other services in the Brazilian state of São Paulo under the concessions and licences of the Federal Government of Brazil.

# 5.6 Relations with the Community, Governments and Regulators

Fixed telephony, data and internet, Pay TV and wholesale accesses through Telesp decreased by 3.7% down to 15.2m accesses as of 31 December 2009 (15.8m accesses as of 31 December 2008), mainly due to a drop in fixed telephony accesses in the context of the increase in the switch from landlines to mobile phones as a result of the growth experienced by the mobile sector in Brazil, as well as the reduction in narrowband accesses, mainly owing to migrations to broadband solutions that were not compensated by a rise in the number of broadband accesses. Telesp's fixed telephony accesses decreased by 3.5% down to 11.3m accesses as of 31 December 2009 (11.7m accesses as of 31 December 2008). Of these fixed telephony accesses, 25.8% were prepaid accesses or accesses with consumption limits.

The Brazilian broadband market kept growing in 2009. Telesp increased its retail broadband client base by 3.2% up to 2.6m accesses as of 31 December 2009. This growth was affected by the decision of ANATEL, the Brazilian telecommunication regulator, to suspend the sale of broadband products from 22 June to 27 August 2009 as a result of some technical issues in Telefónica's network. Telesp provides Pay TV mainly through a DTH solution and also, since Q4 of 2007, after the acquisition of *Navy Tree*, MMDS technology, reaching 0.5m accesses as of 31 December 2009, 15,000 accesses more than the previous year.

In terms of competition, Telefónica Latinoamérica's fixed telephony in Brazil faces strong competition, particularly in the large company and high-income home segments for the different types of services.

Its main large company fixed telephony competitors are: Oi, Intelig, and Embratel, a subsidiary of Telmex Internacional. In the high-income home segment, in long distance services it competes with Embratel and in broadband services with cable TV providers, mainly NET Serviços de Comunicação S.A. For local voice services and high-income segment, it also faces increasing competition from mobile operators, which have lower rates for certain types of calls such as mobile to mobile calls. This competition increases the Company's advertising and marketing costs. Telefónica is carrying out diverse initiatives to protect itself from increasing competition. It is focused on enhancing its broadband products, providing packaged services that include voice, broadband and Pay TV and upping the speed rate provided to its customers. In addition, it is improving its market segmentation and developing more competitive products, trying the fight its competitors' product offers and defend its market share.

Telesp had an estimated market share in the fixed telephony market of the state of São Paulo of approximately 74.4% as of 31 December 2009 based on the number of fixed telephony accesses, lower than its 83.5% share as of 31 December 2008. This decrease was mainly due to Net's intense competition, which provides its "Net Phone" service as part as its Pay TV and broadband offer.

- **Mobile telephony**: Brazil is the largest Latin American company in respect to mobile accesses, 174m as of 31 December 2009. By the end of the year, Brazil had an estimated mobile market penetration rate of 90.5% as compared to an estimated penetration rate of 79% as of 31 December 2008.

  In terms of number of accesses, Vivo's client base was up by 15.1% to 51.7m accesses as of 31 December 2009 (44.9m accesses as of 31 December 2008). Of these, 9.8m accesses were contract accesses. The main contributing factors to this growth were the new mobile broadband accesses; the wide range of terminals; Vivo's leadership in terms of brand image and distribution chain; marketing campaigns for prepaid traffic; and an improved capacity for attracting contract accesses, first with the "Vivo Escolha" plans and then with the "Vivo Voçe" plan. "Vivo Voçe" was launched to improve "Vivo Escolha" plans, and it started to be marketed at the end of November 2009.

  With regard to competition, Vivo is the leading mobile operator in Brazil in terms of number of accesses. The growth of the Brazilian market has been significant during the past few years and has been accompanied by an increase in competition owing to new competitors coming to the regions where Vivo operates. Its most important competitors are TIM Brasil (a subsidiary of Telecom Italia), América Móvil, and Oi.

As of 31 December 2009, Vivo had an estimated market share in the Brazilian mobile telephony market where it operates of approximately 29.7%, lower than the 30.0% share it had as of 31 December 2008.

- **Chile**. As of 31 December 2009, Telefónica Latinoamérica managed a total of 10.7m accesses in Chile, which represented a 6.4% increase in relation to 31 December 2008. This increase was based on the growth in mobile accesses, which were up by 9.5% to 7.5m accesses as of 31 December 2009 (6.9m accesses as of 31 December 2008). This growth was also caused by a 9.3% increase in broadband customers' final accesses, up to 0.8m accesses as of 31 December 2009, and an 8.4% increase in Pay TV accesses, up to 0.3m accesses. Fixed telephony accesses decreased by 4.4% down to 2.0m accesses as of 31 December 2009 (2.1m accesses as of 31 December 2008).

  - **Fixed telephony**: Telefónica Latinoamérica manages its fixed telephony business in Chile through Telefónica Chile S.A., or Telefónica Chile (previously, Compañía de Telecomunicaciones de Chile, or CTC Chile), the leading telecom operator in the country based on the number of accesses according to the information provided by competitors and regulatory authorities.

    Telefónica Chile accesses dropped by 0.3% down to 3.1m accesses as of 31 December 2009. Telefónica Chile's fixed telephony accesses were down by 4.4% with regard to 31 December 2008, to 2.0m accesses as of 31 December 2009. Broadband and Pay TV accesses kept growing in 2009 compared to 2008. Telefónica Chile managed 0.8m broadband accesses as of 31 December 2009 (0.7m accesses as of 31 December 2008).

    Telefónica Chile's Pay TV business grew to 0.3m accesses as of 31 December 2009. Telefónica Chile has become the third Pay TV operator in Chile by number of accesses.

    As far as competition is concerned, the new competitive framework of fixed telephony in Chile is marked by the significant effect of the switch from landlines to mobile phones. The increase in the sales of double and triple deals is the touchstone of Telefónica Chile's strategy with the aim to increase the number of revenue-generating units per client and consequently the ARPU. The Company's main competitor in the Chilean fixed telephony market is VTR.

    Telefónica Chile's estimated market share as of 31 December 2009 was the following:

    The broadband market share reached approximately 47.1% of retail accesses (lower than the 49.4% share as of 31 December 2008).
    The fixed telephony accesses market share reached approximately 58.4% of retail accesses (lower than the 62.1% share as of 31 December 2008).
    The Pay TV market share reached approximately 16.6% of the market by number of accesses (lower than the 17.5% share as of 31 December 2008).

  - **Mobile telephony**: the Chilean market grew by 9.0% up to an estimated penetration of 105.6% in 2009 compared to an estimated rate of 96.6% in 2008.

    Telefónica Latinoamérica manages its mobile business in Chile through Telefónica Móviles Chile, S.A., or Telefónica Móviles Chile, whose client base rose by 9.5% up to 7.5m accesses as of 31 December 2009. The number of contract accesses went up by 8.8% to 2.1m accesses as of 31 December 2009 (1.9m accesses as of 31 December 2008).

    Regarding competition, the Company currently has three main competitors in the Chilean market for mobile communication services with coverage at the national level: Entrel, Claro, and Nextel. In addition, in 2009, Nextel and VTR were allocated spectrum to provide mobile services.

    As of 31 December 2009, Telefónica Móviles Chile had an estimated market share in Chile's mobile sector of approximately 42.8%, lower than the 43.3% share it had as of 31 December 2008.

- **Colombia**. As of 31 December 2009, Telefónica Latinoamérica managed a total of 11.2m accesses in Colombia, a 12.8% decrease with regard to 31 December 2008. This decreases was due to a drop in mobile accesses, which wend down by 10.0% to 9.0m accesses as of 31 December 2009 (10.0m accesses as of 31 December 2008) as well as by the 28.7% drop in fixed telephony accesses with regard to 31 December 2008, which were not offset by a

6.7% growth in broadband accesses up to 0.4m accesses as of 31 December 2009 (0.4m accesses as of 31 December 2008).

- **Fixed telephony**: Telefónica Latinoamérica manages its fixed telephony business in Colombia through Colombia Telecomunicaciones, S.A. ESP, or Colombia Telecom, which is present in approximately 1,000 towns in the country. In April 2006, Telefónica Internacional, S.A., acquired a 51% share of Colombia Telecom for approximately €289m, according that agreed during in a bidding process. In December 2006, this company merged with Telefónica Data Colombia, S.A. As a result of the merger, Telefónica Internacional, S.A.'s share increased to 52.03%.

  Colombia Telecom reached 2.2m accesses as of 31 December 2009, which means a 22.6% decrease in relation to the 2.8m accesses it had as of 31 December 2008, mainly due to the 28.7% drop in fixed telephony accesses since 31 December 2008 to 1.6m accesses as of 31 December 2009 as a result of intense competition and a clean-up of the client base. Broadband accesses went up by 6.7% to 0.4m accesses as of 31 December 2009.

  Colombia Telecom also launched a satellite TV product at the beginning of 2007, which allowed it to start providing voice, broadband and Pay TV "Trío" packages. As of 31 December 2009, Colombia Telecom had 0.1m satellite TV accesses, which represents a 10.6% decrease with regard to the figure as of 31 December 2008.

  With regard to competition, Colombia Telecom's main competitors in the Colombian market are Telmex and ETB.

  Colombia Telecom has estimated that it had a market share in the Colombian fixed telephony market of approximately 22.4% as of 31 December 2009 based on the number of accesses, which is lower than the 29.2% share it had as of 31 December 2008. This drop was owed mainly to a clean-up of the client base and intense competition.

- **Mobile telephony**: As of 31 December 2009, the Colombian mobile market had an estimated penetration rate of 92.9%. This penetration rate means a 1.8% increase since 31 December 2008.

  Telefónica Latinoamérica manages its mobile business in Colombia through Telefónica Móviles Colombia, S.A., or Telefónica Móviles Colombia, whose client base shrunk by 10.0% since 31 December 2008 to 9.0m accesses as of 31 December 2009. As of 31 December 2009, approximately 19.6% of the Company's mobile accesses were contract accesses in comparison to the 16.4% figure as of 31 December 2008.

  With regard to competition, Telefónica Móviles Colombia currently has two main competitors in the Colombian market for mobile communication services: Comcel, owned by América Móvil; and Colombia Móvil, which operates under the "Tigo" brand and is owned by Millicom.

  As of 31 December 2009, Telefónica Móviles Colombia had an estimated market share in the Colombian mobile market of approximately 21.3%, lower than the 24.5% share it had as of 31 December 2008.

- **Peru**. As of 31 December 2009, Telefónica Latinoamérica in Peru had 15.9m accesses, which meant a 6.2% increase since 31 December 2008. This growth was mainly due to an 8.0% increase in mobile accesses since 31 December 2008 to 11.5m mobile accesses as of 31 December 2009, mainly in the prepaid segment. The IRIS project, a collaboration between fixed and mobile telephony operators in Peru, was launched in March 2007 with the aim to increase the penetration of fixed telephony and broadband lines; it also contributed to the overall growth in accesses.

  - **Fixed telephony**: Telefónica Latinoamérica manages its fixed telephony business in Peru through Telefónica del Perú, S.A.A., or Telefónica del Perú, which as of 31 December 2009 was the leading fixed telephony operator in the country based on the number of fixed telephony accesses.

    Telefónica del Perú had a total of 4.5m accesses as of 31 December 2009, a 2.0% increase with regard to 31 December 2008, mainly because of the growth in fixed wireless telephony and

broadband accesses. Fixed telephony accesses dropped by 0.5% since 31 December 2008 to 3.0m accesses as of 31 December 2009. Broadband accesses were up by 10% since 31 December 2008 to 0.8m accesses as of 31 December 2009. In addition, Pay TV accesses amounted to 0.7 million as of 31 December 2009, registering a 4.9% growth since 31 December 2008, mainly thanks to new cable customers.

As for competition, Telmex and Americatel, Telefónica del Perú's two main competitors, focused their business on packaged products (local and long distance telephony together with broadband).

As of 31 December 2009, Telefónica had an estimated market share in the Peruvian fixed telephony market of approximately 93.8%, lower than the 94.0% share it had as of 31 December 2008.

- **Mobile telephony:** the estimated mobile penetration rate in Peru reached approximately 64.5% as of 31 December 2009, which represents a 3.9% increase with regard to 31 December 2008.

  Telefónica Latinoamérica manages its mobile business in Peru through Telefónica Móviles Perú, S.A.C., or Telefónica Móviles Perú, whose customer base expanded by 8.0% since 31 December 2008 to 11.5m accesses as of 31 December 2009. This increase was mainly caused by a 6.7% growth in the number of prepaid accesses from 31 December 2008 to 31 December 2009.

  As regards competition, Telefónica Móviles Perú currently has two main competitors in the Peruvian mobile market: América Móvil and Nextel Perú.

  As of 31 December 2009, Telefónica had an estimated market share in the Peruvian mobile market of approximately 62.9%, greater than the 62.6% share it had as of 31 December 2008.

- **Mexico**. As of 31 December 2009, Mobile penetration in Mexico stood at approximately 75.2%, a 3.6% increase with regard to 31 December 2008.

  Telefónica Móviles México's customer base increased by 14.7% to 17.7m accesses as of 31 December 2009 compared to the 15.5m accesses as of 31 December 2008. This growth was mainly the result of the 13.1% increase in prepaid accesses in 2009 with regard to 2008. As of 31 December 2009, around 93.8% of the Company's mobile customers in Mexico had prepaid accesses, whereas the remaining 6.2% had contract accesses.

  As far as competition is concerned, Telefónica Móviles México is the second largest operator in the country based on the number of mobile accesses and competes with several mobile operators at the national level. Telefónica Móviles México's main competitor is Telcel, a subsidiary of América Móvil. Other competitors are Nextel and Iusacell.

  As of 31 December 2009, Telefónica Móviles México had an estimated market share in the Mexican mobile market of approximately 20.8%, greater than the 19.5% share it had as of 31 December 2008.

- **Venezuela**. As of 31 December 2009, mobile penetration in Venezuela was of approximately 100.6%, a 0.5% rise with regard to 31 December 2008. Telefónica Latinoamérica operates in Venezuela through Telcel, S.A., or Telcel, whose accesses dropped by 0.8% down to 11.8m accesses as of 31 December 2009 with regard to the 12.0m accesses as of 31 December 2008, mainly due to intense competition.

  In this regard, its main competitors in the mobile business in Venezuela are Movilnet and Digitel. Movilnet is a mobile communication service provider owned by the public operator CANTV and which currently uses CDMA and TDMA technologies. At the end of December it launched the 3.5G service. On the other hand, Digitel is a mobile communications provider that uses GSM technology and centres its strategy on mobile internet services based on 3G.

  According to the National Telecommunications Commission of the Bolivarian Republic of Venezuela (CONATEL), CANTV is the main operator in Venezuela with a 46% mobile market share (through Movilnet) as of 31 December 2009. CANTV is controlled by the Government of the Bolivarian Republic of Venezuela. As of 31 December 2009, Telefónica had an estimated market share in the Venezuelan mobile market of approximately 36.9%, based on the number of mobile accesses.

- **Ecuador**. The Ecuadorian mobile market grew in 2009, having an estimated penetration rate of 92.8% at the end of the year, which represents a 12.2% increase since 31 December 2008.

  Telefónica Latinoamérica manages its mobile business in Ecuador through Otecel, S.A., or Otecel, whose customer base reached 3.8m accesses as of 31 December 2009, an 18.5% increase from the figure of 3.2m accesses as of 31 December 2008. As of 31 December 2009, around 85.8% of the Company's mobile accesses in Ecuador were prepaid accesses, whereas approximately the remaining 14.2% were contract accesses.

  With regard to competition, Otecel currently has two main competitors in the mobile communication service market in Ecuador: Porta (América Móvil) and Alegro.

  As of 31 December 2009, Telefónica had an estimated market share in the Ecuadorian mobile market of approximately 28.4%, greater than the 26.6% share it had as of 31 December 2008.

- **Central America**. Telefónica Centroamérica includes El Salvador, Guatemala, Nicaragua, and Panama. At the end of 2009, the mobile penetration rate of the Central American market where Telefónica operates stood at 89.7%, which accounts for a 9.3% increase since 31 December 2008.

Telefónica Centroamérica's customer base rose by 1.8% since 31 December 2008 to 6.3m accesses as of 31 December 2009, mainly owing to the increase in mobile accesses in 2009 with regard to 2008.

## 5.6.7.2 Compliance with the regulatory framework

Telefónica is a global electronic communications operator that is present in the most important geographical markets, provides a plurality of services ranging from traditional telephony over fixed and mobile networks to audiovisual and content services. International groups of note and a great deal of experience in said markets are among its competitors.

Telefónica and its competitors operate in the market subject to the different electronic communications sectoral regulations at either the national level - in the different countries where they operate - or the transnational level - as is the case of the European telecommunications framework.
The ultimate goal of the different regulatory frameworks to which Telefónica submits itself is to promote competitive market structures and to enable the transition towards fully liberalised markets that render sectoral regulation unnecessary or minimise it.

As any other company, Telefónica submits itself, in addition to the telecommunications regulatory framework, to horizontal competition regulations, which means adopting respectful conducts towards both its competitors and the market itself with the ultimate goal of ensuring the wellbeing of consumers.

### Competition standards

**Europe**
The competition standards set in the Treaty of the Functioning of the European Union (TFEU) have a direct bearing on its Member States and thus are applicable to Telefónica's operations in EU countries.

The TFEU forbids arranged practices and any agreement between companies that might affect trade between Member States and restrict or intend to restrict competition in the EU. In addition, it forbids the abuse of a dominant position in the common market or a substantial portion thereof insofar as it might affect trade between Member States.

European legislation as regards control of concentrations requires that all mergers, acquisitions and *joint ventures* affecting participants that reach certain sales volumes are subjected to review by the European Commission instead of the national competition authorities. Under said regulations, concentrations that are susceptible of significantly hindering effective competition in the common market or a substantial portion thereof as a result of the creation or strengthening of a dominant position shall be forbidden.

Competition standards in the EU Member States stem from EU legislation, so their national standards apply bans similar to those set out in the TFEU. These standards are applied in the national sphere by each country's competition authorities. All European countries where Telefónica operates (the Czech Republic, Germany, Ireland, Slovakia, Spain and the UK) are part of the European Union.

# 5.6 Relations with the Community, Governments and Regulators

**Latin America**

- **Argentina**: the Law 25,156 on Competition forbids acts or conducts, manifested in any way, related to the production or exchange of goods or services whose the purpose or effect to limit, restrict, falsify or distort competition or access to the market or that constitute an abuse of a dominant position in a market such that they might detrimental to the general economic interest.

  The National Competition Commission is the authority in charge of applying concurrent standards in Argentina.

- **Brazil**: Brazilian competition legislation's fundamental standard is found in Law 8,884, of 11 June 1994, and forbids any practice aimed at restricting, limiting or harming free and open competition, controlling the relevant goods or services market, arbitrarily increasing profits or exerting a dominant position in an abusive manner.

  The Economic Law Secretariat (SDE), a preparation, examining and overseeing body integrated in the structure of the Ministry of Justice, the Ministry of Finance's Economic Monitoring Secretariat (SEAE) and the Administrative Council for Economic Defence (CADE) are the bodies empowered to apply competition standards in the country.

- **Chile**: the basic competition standard in Chile is Decree-Law 211, of 1973, whose current wording was set by Legislative Decree (Economy) 1, of 2005, and reformed in 2009 by means of Decree 20361. In accordance with the provisions of this Law, acts or behaviours that involve economic activities that constitute an abuse of a dominant position in the market or limit, restrict or distort free competition such that they affect the general economic interests in the national territory are forbidden and shall be punished by the law.

  The Free Competition Tribunal applies the regulations as regards competition law in the country.

- **Colombia**: Colombian competition law is regulated by Law 155/59 on Restrictive Commercial Practices and Decree 2153/92, restructuring the Industry and Trade Supervising Authority. Said Law forbids any kind of practice, procedure or system designed to limit free competition and maintain or determine unfair prices as well as the abuse of a dominant position.

  The Industry and Trade Supervising Authority is the Colombian authority in charge of applying competition standards.

- **Mexico**: the Federal Competition Law, which came into force in 1992 and was reformed on 28 June 2006 forbids monopolies or levies as well as practices that, in terms of this Law, reduce, damage or prevent free and open competition in the production, processing, distribution and marketing of goods or services.

  The Federal Competition Commission is the administrative body in charge of applying Mexican competition standards.

- **Peru:** the general competition framework in Peru is based on Legislative Decree 1034. This Law forbids acts or conducts related to economic activities that constitute an abuse of a dominant position in the market or that limit, restrict or distort free competition that could cause damages for the general economic interest in the national territory.

  The Supervisory Body for Private Investment in Telecommunications (OSIPTEL) applies competition standards in the Peruvian telecommunications sector.

- **Venezuela**: the basic competition regulation in Venezuela in the Law to Promote and Protect the Exercise of Free Competition, of 1992. Said Law forbids monopolistic and oligopolistic behaviours and practices and other means that might prevent, restrict, falsify or limit the enjoyment of economic freedom.

  The Supervising Authority for the Promotion and Protection of Free Competition is the body in charge of applying competition standards in the country.

- **Ecuador**: At the moment, the country lacks competition standards.

- **Central America**:

  There are no specific competition laws in Nicaragua.

# 5.6 Relations with the Community, Governments and Regulators

In Panama there is Law 29, of 1 February 1996, whereby competition standards are announced and other measures forbidding any act, contract or practice that restricts, reduces, damages, prevents or violates in any other way free and open economic competition in the production, processing, distribution, supply or marketing of goods and services are adopted. The Commission of Free Competition and Consumer Affairs is the body in charge of applying the Law as regards competition in the country.

Guatemala does not have specific competition standards, there being certain provisions on the subject included in the Political Constitution of the Republic of Guatemala, in the Trade Code - Decree 2-70, of the Congress of the Republic - and the Penal Code - Decree 17-73, of the Congress of the Republic.

The same happens in El Salvador. The regulations that include provisions regarding competition are the Constitution of El Salvador and some Articles in the Trade Code and the Penal Code.

## Sectoral telecommunications regulations

**Europe**
The current European electronic communications regulatory framework has brought about a simplification of the requirements to provide services and operate communication networks in the European Union, it currently being enough to merely notify the regulator and, where appropriate, become registered in the registry set up for such purposes. Likewise, said regulatory framework confers powers to the regulatory authorities of the different Member States to impose ex ante obligations e.g. price control, transparency, non discrimination, access and other obligations on those operators declared as having significant power in certain markets . Without prejudice to the above, the number of markets susceptible of regulation has been decreasing with time, and in general retail markets are not regulated.

Some aspects of the regulatory framework in Europe have been recently modified in order to adapt it the technological neutrality principle and basically strengthen both effective competition and user rights as well as to favour the flexible use of the radio-electric spectrum. In this sense, Directive 2009/136/EC (Citizens' Rights Directive) and Directive 2009/140/EC (Better Regulation Directive), both of 25 November 2009, have been approved. Likewise, Regulation 1211/2009, of 25 November 2009, setting up the Body of European Regulators for Electronic Communications (BEREC), which will advise and aid the European Commission in relation to the application of said regulations, has been approved. Member States must incorporate these regulations into their national law before 26 May 2011.

- **Spain**: the General Telecommunications Law (32/2003) and the regulations that implement it regulate the provision of services and the installation and operation of electronic communication networks. The Telecommunications Market Commission (CMT) is the national regulatory agency in charge of the telecommunications and audiovisual services market. This Commission supervises the specific obligations imposed on market operators and has the authority to enforce its decisions whenever necessary.

  Telefónica is free to set the price of the connection charge and calls in fixed networks. However, monthly payments are subject to maximum price regulation. Moreover, the CMT must be notified of offers 21 days in advance. As for the prices of calls in mobile networks, these are liberalised. In compliance with consumer protection regulations, operators are required to charge by the second.

  In the setting of the market analyses conducted by the CMT in 2006, 2008 and 2009, Telefónica de España, S.A.U., was declared an operator with SMP in several markets (mainly, the fixed network access service, fixed network termination, broadband market and infrastructure access markets) and consequently is subject to a series of obligations. The same stands for Telefónica Móviles España, S.A.U., with regard to the mobile network access and origin market and individual mobile network voice-call termination market.

  Telefónica is required to provide Universal Service till the end of 2010. The Universal Service Fund, to which the main operators providing services in Spain must contribute in accordance with the contributions approved by the CMT, was set up in 2008.

- **United Kingdom**: the European Union's regulatory framework was implemented in the UK in 2003 through the *Communications Act*. Under this regulation, the responsibility for the regulation of electronic communication networks and associated services falls on the Office of Communications (Ofcom).

  Telefónica O2 UK enjoys a significant position in the mobile network termination market in the UK, as well as the other mobile telephony network operators. Therefore, the rates for terminating calls in the Telefónica O2 UK's network are regulated.

# 5.6 Relations with the Community, Governments and Regulators

- **Ireland**: the regulatory responsibility for telecommunication networks and services in the country is vested in the Communication for Communications Regulation (ComReg).

  Telefónica O2 Ireland has a significant position in the mobile network termination market in Ireland, as is Vodafone's and Eircom's case. Therefore, the rates for terminating calls in the Telefónica O2 UK's network are regulated.

- **Germany**: the European regulatory framework was implemented in Germany at the end of 2004. Under this framework, the responsibility for regulating electronic communication networks and associated services falls on the Federal Network Agency (Bundesnetzagentur).

  Telefónica O2 Germany enjoys a significant position in the mobile network termination market in the Germany, as well as the other mobile telephony network operators. Therefore, the rates for terminating calls in the Telefónica O2 UK's network are regulated.

- **The Czech Republic**: the European regulatory framework was implemented in the Czech Republic in 2005 by means of the Electronic Communications Law. Under this framework, the responsibility for regulating electronic communication networks and associated services falls on the Czech Telecommunications Office (CTO). The governmental responsibility for the electronic communications area is vested in the Ministry of Industry and Trade.

  In April 2006, the regulation of the prices for fixed access to phone networks and calls was done away with. The market analysis carried out the CTO - in the second analysis - determined Telefónica O2 had a market dominant position in seven wholesale and retail markets. Nevertheless, the number of regulated markets has decrease with regard to the first analysis conducted by the Czech regulatory authority in 2006.

  In 2007 significant modifications took place in the telecommunications regulatory framework. The *Electronic Communications Act* was modified as regards the provision of certain services of disabled people - included in the Universal Service - and television and broadcasting. Likewise, the law was modified in 2008 as regards data retention and roaming prices.

  Telefónica O2 Czech Republic provide telecommunication services regulated by the CTO to provide Universal Service in the country.

- **Slovakia**: Telefónica O2 Slovakia provides telecommunication services under the protection of Law 610/2003 and the regulations that implement it. The communications sector regulator is the Slovak Republic's Telecommunications Office. However, with regard to communications policies, the responsible body is the Ministry of Transport, Mail and Telecommunications.

  In accordance with market analyses conduced by the Slovak regulator, Telefónica O2 Slovakia has been declared a dominant operator in the wholesale mobile network termination market. Retail prices are not regulated.

**Latin America**

- **Argentina**: the basic setting for the provision of telecommunication services in Argentina is established by the National Telecommunications Law of 1972 and the specific regulations of each type of telecommunication service. Additionally, Decree 264/98 establishes the transitory period from a monopolistic market to a liberalised market, promoting the protection of small operators and imposing obligations on the companies that are granted licences.

  The regulatory authorities that supervise the Argentinean industry's activity are the National Communications Commission (CNC), which supervises compliance with licences and regulations, approving the changes to governmental service requirements, and the Secretariat for Communications (SECOM), which grants new licences, regulates the allocation of spectrum and additionally determines the dominance of the different operators (Telefónica among others), which entails the setting of maximum rates.

- **Brazil**: the provision of telecommunication services in Brazil is subject to regulation under the General Telecommunications Law, approved in July 1997. The National Agency for Telecommunications (ANATEL) is the main regulatory authority in the Brazilian telecommunications sector.

  In the state of São Paulo, Telesp provides local and long distance services under the public scheme, which includes network expansion obligations and service continuity obligations. Under the network concession agreement renewed in 2005 for the next 20 years, Telesp must pay every two years a tax equivalent to 2% of its annual net profit for the provision of public fixed telecommunication services.

  Regarding prices, ANATEL sets the rates of switched fixed telephony services. Operators with personal mobile service licence can only increase the rates of basic plans annually depending on inflation, although they can also set special rates (outside basic plans) and modify them at will without prior authorisation from the Agency. The retail prices that operators can charge their customers are also regulated by ANATEL.

- **Chile**: the General Telecommunications Law of 1982 establishes the legal framework for the provision of telecommunication services in Chile. Chile's main regulatory authority is the Subsecretariat for Telecommunications (Subtel).

  The maximum rates for the provision of telecommunication services are set every five years by the Ministry of Transport and Telecommunications and the Ministry of Economy. Additionally, the Competition Commission can impose price regulations on any telecommunication service save mobile services, as established by the General Telecommunications Law. These regulations affect Telefónica Chile in its capacity as dominant operator, except in those regions where there are other dominant operators.

  Recently, the Competition Tribunal determined that only some local phone services are subject to rate regulation.

- **Mexico:** the provision of telecommunication services in Mexico is established by the Federal Telecommunications Law and several specific service regulations. The governmental agencies that supervise the Mexican telecommunications industry are the Secretariat for Communications and Transport (SCT) and the Federal Telecommunications Commission (COFETEL).

  The rates levied on consumers are not regulated; they are set by operators and must be registered and approved by COFETEL before coming into force. This same body is in charge of solving disputes between companies due to the application of interconnection conditions and rates.

- **Peru:** the provision of telecommunication services in Peru is regulated by the Telecommunications Law and other associated regulations. The rates for fixed services must be approved by the national regulatory authority, the Organisation for the Supervision of Private Telecommunication Investments (OSIPTEL), in accordance with a formula of maximum prices based on a productivity factor. Mobile operators are free to set the rates applied to their customers in accordance with the rate system supervised by OSIPTEL.

- **Venezuela**: the national authority as regards telecommunications is the National Telecommunications Commission (CONATEL), which grants the general telecommunication service licences in accordance with the Telecommunications Law.

  In accordance with Venezuelan law, telecommunications operators have freedom to determine and set the prices for the services they provide according to a price cap established by the regulator. There are, however, exceptions to the free price system for dominant operators or Universal Service projects.

- **Ecuador**: the Special Telecommunications Law and the General Telecommunications Regulation Law establish the regulatory system applicable to the provision of telecommunication services in the country.

  The regulation sets a monthly tax equivalent to 1% of the operator's turnover in consideration for the licences granted by SENATEL in order to guarantee support for the Universal Service. Despite of the above, this tax may be replaced in the operator provides telecommunication services in certain areas according to the National Universal Service Plan.

  Mobile service rates are regulated according to maximum prices, which differ according to whether the areas are rural or not. The operator is required to notify the regulation of any rate hike a certain time in advance.

- **Central America**: Telefónica provides telecommunication services in El Salvador, Nicaragua, Panamá and Uruguay through licences for the use of the spectrum regulated by the respective telecommunications laws. The services are supervised by each country's proper authorities.

## Actions to comply with Competition and Telecommunications Standards

Aware of the great significance of the goals of telecommunications regulation and competition standards, the Telefónica Group has incorporated into its Business Principles the commitment to observe the law and has adapted its internal structures with an evident intention to comply with the regulatory framework and Competition and Telecommunication Standards.

Thus, as envisaged by the Code of the Board of Directors of Telefónica S.A., there is a Regulation Commission made up of six board advisers - mostly external – whose aim is to know and analyse the most relevant events at both the level of each of the local operations and the level of the Group itself in relation to the telecommunications and competition regulatory framework. Said Commission met six times during 2009.

Within Telefónica's organisational structure, both Telefónica S.A. and local operators have units specifically devoted to regulatory management. These units have the support of other legal units specialised in telecommunications and competition law whose mission is to prevent and advise the Company so that, during the decision making, market growth and the fulfilment of the communication needs of the customers are combined with the observance of the telecommunications and competition regulatory framework.

Additionally, and in those countries where it has a leadership position in the market, Telefónica is aware of its particular responsibility and maintains its commitment to maintain the maximum respect for the principles and standards as regards telecommunications and competition law.

Due to all the above, Telefónica has kept carrying out actions aimed at guaranteeing compliance with Competition and Telecommunications Standards. This commitment has materialised throughout the years in the gradual implementation of specific training on the principles of these standards at both the executive level and the middle management level.

A good example of this is the existence of Competition Law Compliance Programmes, which are practically implemented in all European operators and in Brazil. The year 2009 marked the beginning of the implementation of these programmes in the other operators of the Group in Latin America. During 2010, Argentina, Chile, Colombia, Ecuador, Mexico, Peru, Uruguay, Venezuela and Central America operators will proceed to the definitive introduction of their programmes and a significant portion of their employees must carry out the Compliance Programme, the staff's commitment to the observance of competition standards and the Company's Business Principles being thus ensured.

The results of the preventive initiatives that are spreading throughout the Group and which have been detailed in the past few years have been very positive.

## 5.6.7.3 Relevant procedures regarding competition and regulations

In 2009, as a result of its business activity, Telefónica found itself in disciplinary proceedings regarding competition and regulatory law:

### Relevant proceedings regarding competition

**Spain**

On 20 April 2010, the High Court confirmed the National Court's sentence annulling the €57m fine imposed by the Competition Court on Telefónica de España, because the former considered it proven that the latter had behaved in a manner restricting competition, something forbidden by Article 6 of Law 16/1989, of 17 July, on Competition and Article 82 of the EC Treaty, a conduct consisting in an abuse of a dominant position by linking the provision of certain services to the inexistence of pre-allocations with competing operators and by carrying out unfair advertising campaigns. With this sentence by the High Court, it is conclusively proven once and for all that Telefónica did not infringe Competition Standards.

On the other hand, the Basque Competition Court passed a resolution on 11 February 2010 in which it declared the existence of an abuse of dominant position consisting in discrimination in relation to Euskaltel during 2006 and 2007. The Basque competition authority imposed fines on Telefónica de España and Telefónica Móviles España for €2,398,297 and €975,000 respectively. Telefónica will appeal against this ruling before the courts because it is in total disagreement with its content.

**Europe**

Telefónica was not the subject of significant proceedings as regards competition in any of its European operations during 2009.

**Latin America**

As far as business in Argentina is concerned, in 2009 the National Competition Commission (CNDC) imposed on Telefónica a €19m fine for its failure to observe the obligation of notifying its purchase of a minority and indirect interest in Telecom Italia. The purported legal basis of the disciplinary proceedings is the assumption that the transaction should have been notified by all parties involved in the operation. In any case, the parties concluded - according to the European Commission's opinion in response to a consultation by the parties - that the operation did not meet the formal requirements that required them to inform the CNDC about it. By virtue of Telefónica's and the rest of the parties' disagreement with the CNDC's ruling, an appeal was lodged by judicial means, the competent court deciding to suspend its execution.

As regards the operators in Chile, the CMET sued Telefónica Chile for a supposed abuse of dominant position consisting in the setting of predatory prices in the marketing of two products. The Free Competition Court (TDLC) rejected the lawsuit by means of Sentence No72 of 31 July 2008. Said decision was confirmed by the High Court by means of a ruling on 13 October 2009.

On the other hand, the TDLC, by means of its Sentence No88, of 15 October 2008, fined Telefónica Chile with approximately €2,600,000 for the application of discriminatory prices to the company OPS Ingeniería Ltda., on the rates offered for its services and by supposed blockings of certain basic elements for the provision of the services rendered by the actor. An appeal against this ruling has been taken to the High Court.

Finally, in relation to Telefónica's business in Brazil, on 12 December 2009, CADE and ANATEL filed, after the proper investigations, disciplinary proceedings brought against Telesp in 2002 for supposedly setting higher prices to its competitors that to itself because they considered that this did not entail a competition infraction whatsoever.

# 5.6 Relations with the Community, Governments and Regulators

## Relevant proceedings regarding regulations

**Spain**

In 2009, the €11m fine imposed by the Telecommunication Market Commission (CMT) on Telefónica de España, S.A.U., for being behind schedule in the implementation of the wholesale ADSL service without basic phone service (*naked ADSL*) is worth mentioning. Despite Telefónica having met the requests for said services received by alternative operators, the CMT decided to impose this fine bearing in mind the period of time in which it considered that the systems to meet this type of requests were fully automated. Telefónica is going to lodge an administrative appeal against the CMT's ruling.

**Europe**

Telefónica was not the subject of relevant regulatory proceedings in any of its European operations during 2009.

**Latin America**

Telefónica was not the subject either of relevant regulatory proceedings in any of its operations in Latin America during 2009.

# 5.6.8 Communication services in emergency situations

Telefónica relies on Business Continuity Plans to ensure that we can carry on providing services to our usual standards in the event of an emergency in every country where the Company operates.

These plans, which conform to international standards, are drawn up according to the characteristics and risks of each particular market. Their implementation commonly implies the availability of communication platforms to support operations and provide for a speedier recovery in the event of failure of the systems used by the platforms. The international nature of the Group is also a factor to be taken into account, as it allows the operators in the different countries to support one another if the need arises. Invoicing, customer service and service parameterisation are examples of this.
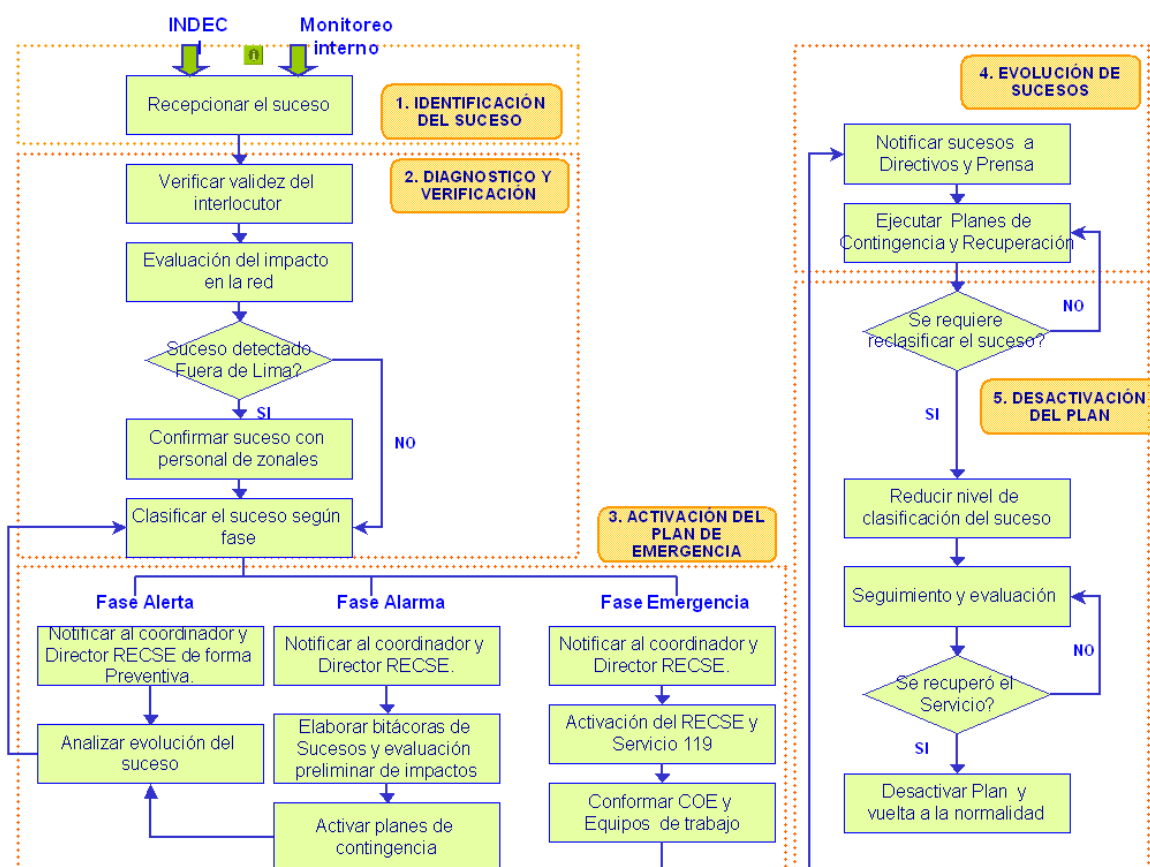


**Service Continuity Plan in the Event of Emergency (Telefónica Peru)**

Telefónica Peru's Service Continuity Plan in the Event of Emergency sets forth that once an incident has been identified, the diagnosis and verification stage is activated, which consists in determining impacts and resources, among other aspects. This leads to the activation of the subsequent stages of the Emergency Plan. The progress of all the processes involved is monitored until the plan is finally deactivated, upon restoration of the service.

Coordination with the RECSE is a key part of the plan. This is the country's nationwide communications network, the purpose of which is to enable priority communications between the authorities defined in Supreme Decree no 030-2007-MTC in the event of an emergency situation.

Several advances were made in 2009 with regard to communication services in the event of emergencies:

- In Argentina, Telefónica attained certification according to standard ISO/IEC 20000-1:2005, which focuses exclusively on information technology services. We are the first company to achieve this certificate in Argentina. It is worth pointing out that the Company already has Data Centre security certificates, such as ISO 27001, the certificate approved according to the BCRA A4609 and the individual certificates ITIL Foundation and ITIL Practitioner.

- In Brazil, Telefónica redefined its operating and commercial practices and invested in improving its broadband internet network. The measures for stabilising and extending network capacity include: the resolution capacity of DNS servers was doubled and their redundancy and contingency was increased, through the extension from 2 to 6 DNS centres; the international internet outgoing capacity (toll-gate) was increased from 60 to 140 Gbits. A third gate was established to increase redundancy and the backbone IP in the country was raised from 240 to 520 Gbits.

- In Chile, the Company introduced the Movistar Disaster and Crisis Action Plan, which describes the steps to be taken when faced with an emergency situation so that the Company can minimise the operational impact of basic fixed and mobile telephony services, and be prepared for any threats or vulnerabilities arising from the geographical characteristics of the region. The plan is kept alive through drill exercises.

- In Nicaragua, the Company worked to create a number of communication routes: redundant routes in areas on the Pacific coast; alternative routes in the North-Central region, and a second international outgoing route: one through Guatemala and the other through Panama.

- Telefónica O2 UK last year obtained certification BS 25999 in recognition of the Business Continuity Management processes implemented. It is the first telecommunications company in the country to have obtained this certificate. BS 25999 is an internationally recognised standard certified by the British Standards Institution (BSI). Certification is granted to companies that prove they have the capacity to continue operating in the event of unforeseen or emergency situations, such as a disaster or a serious incident.

- Telefónica O2 Ireland implemented a software tool for business continuity in the event of risk. With this software, the company supplemented its Business Continuity Risk Management Plan, used as a preventive measure on three occasions, as well as the specific continuity plans implemented for pandemic situations.

- In addition, Movistar's and Telefónica's Network Operation Centres (NOCs) were merged in order to strengthen the nationwide supervision of networks and services. This is now performed on the basis of a single approach, by a single team and under a common scenario. Lastly, the company worked in the unification of Movistar's and Telefónica's Change Management Tables, with the aim of controlling all actions on the networks - including corrective and preventive - from a single point. This allows acting in a more coordinated manner in proactive service monitoring and reacting to emergency and crisis situations.

Telefónica is also an active participant in the disaster programmes established by the different national governments.

**Wireless telephone lines to restore communications in São Luiz del Paraitinga (Brazil).**

A significant action in 2009 was the urgent provision of telephone lines based on wireless technology for the emergency services of São Luiz del Paraitinga, a town in the interior of São Paulo state that was devastated by the rains of New Year's Day 2010. Two satellite public telephones that operated free of charge were also provided.

The telephone exchange, which was located in the old part of the town, the area worst hit by the floods caused by the Paraitinga river, had been completely destroyed, interrupting service for some one thousand telephone lines.

Telefónica also improvised a shop where the Company's employees gave information and advice to the public, offering a postponement for January's accounts as compensation for the period in which service was unavailable. Some 150 people, including personnel from Telefónica and subcontractors, worked to restore Paraitinga's communication system as speedily as possible.

Telefónica also installed a radio antenna in the town to enable the operation of a mobile broadcasting unit of Ahorra Tiempo, a service of the São Paulo government that allows collecting documents at a greater speed than usual. Documents were lost in most homes affected by the floods.

**Telefónica facilitated international communications with Haiti after the earthquake.**

In January of 2010, and in a matter of hours, as had previously been the case with the hijacking of the Alakrana and the Mauritania, Telefónica started to facilitate international communications with Haiti via voice, data and TV through its BGAN service.

International rescue organisations, government agencies and media organisations were equipped with BGAN-enabled handsets with automatic international voice routing, broadband internet access and/or television signals, which they used to communicate and show live images of the disaster. This was made possible by stations no larger than a briefcase, without the need for an electricity supply at the time of communicating and with a global reach.

In addition a team of experts from the Telesp Division of Engineering and Network Deployment travelled to Haiti as part of the Brazilian government's mission to help restore communications.

Telefónica gave EUR 900,000 to the Red Cross to aid the Haitian people, which was allocated to projects to help children, with a special emphasis on healthcare. The will to help was also the driving force that moved Fundación Telefónica and a number of employee members of Telefónica Volunteers to take part in a wide range of aid initiatives. The Company also set its fundraising mechanisms in motion with the aim of collecting money via SMS for the benefit of several NGOs.

**100 specialist technicians worked to restore fixed, mobile and data services following the earthquake in Chile.**

The president of Telefónica Latin America, José María Álvarez-Pallete, coordinated the actions taken by the company in response to the devastating earthquake that hit Chile on 27 February 2010. The Company used its full capacity to maintain the telecommunication services in operation and aid the people affected by the disaster.

Telefónica's commitment materialised in the form of more than 200 satellite telephones, power generators, satellite stations, radio link units, and 12 tonnes of infrastructures. All this was donated in Spain, Argentina and Chile to help restore basic services in a number of towns across the country. Additional action was also taken, with the following highlights: the free use of public telephones; the availability of long-distance calls free of charge, and the maintenance of services for customers in the disaster area even if they were in default of payment.

The managing team immediately organised the emergency measures to be taken to guarantee service throughout the country and respond to the urgent needs of people in the affected region. 100 specialist technicians travelled to the disaster zone immediately, where they worked frantically to restore fixed, mobile and data communication services. A further 30 technicians travelled to Chile from Brazil, Peru and Venezuela to aid in this task.

The earthquake, which was extremely violent, caused cuts in the fibre optic and copper networks, as well as structural damage and flooding in a number of exchanges. The main difficulty in maintaining the service was the congestion caused by the large number of calls and the shortage of energy to power the equipment. The emergency batteries in wireless stations were exhausted before the power supply was restored, and those that had generators ran out of fuel.

**Prevention of climate disasters in Ecuador**

In 2008, Telefónica Ecuador signed an agreement with the International Centre for the Investigation of the El Niño Phenomenon (CIIFEN), the National Institute of Meteorology and Hydrology (INAMHI) and the company Message Plus de Ecuador, to develop a Mobile Information System for Climate Alerts, which will warn people in rural areas of any imminent climate disaster.

Thanks to this system, mobile telephony users in the country's coastal regions will receive alert messages generated by the INAMHI on their mobile telephones free of charge. It is expected that this will result in a substantial reduction in the disasters caused by El Niño, which is regularly responsible for heavy financial loss and human casualties.

Two alert messages were sent out in 2010: one on 25 February 2010 at 2.21pm: *"In the coming hours we may have moderate to heavy rain, probably accompanied by electric thunderstorms in northern inland and central coast areas"*, and a second one on 3 March 2010 at 2.21pm: *"Information provided by Inamhi: in coming hours we will have moderate rains in the Vinces canton".*

## Critical infrastructure in Europe

According to Council Directive 2008/114/EC of 8 December on the identification and designation of European critical infrastructures and the assessment of the need to improve their protection, the primary and ultimate responsibility for protecting ECIs falls on the Member States and the owners/operators of such infrastructures. The text also includes a number of duties for these operators, which are to be incorporated in the domestic legislations of the Member States.

On 31 March the Draft Royal Decree on the Protection of Critical Infrastructures was presented, which will implement the Directive in Spanish legislation.

The term "critical infrastructure" refers to any installations, networks, services or physical or IT equipment whose interruption or destruction could have a significant effect on the health, security or financial wellbeing of the public, or on the efficient operation of the governments of the Member States. These infrastructures include information and communication technologies.

Telefónica is currently working on a plan aimed at improving the protection of critical communication infrastructures in all the European countries where the Company operates.

# 5
# 7 Access to information and communication technologies

# 5.7.1 Strategy

Telefónica tries to promote an inclusive society by increasing the access of all citizens to telecommunications. In 2009 the Company continued to invest in projects in order to reduce the various kinds of social divisions: economic, geographic, training and educational, disability and health. Telefónica therefore invested over 426 million euros to reduce the digital divide through the implementation of 84 programmes.

Apart from contributing to the Universal Service, every year the Company undertakes numerous activities to help close the various divides related to digital inclusion. Telefónica has also developed the concept of Social Innovation, which seeks to reconcile social demands with the objective of ensuring growth in new businesses through innovation and the configuration of a suitable ecosystem in which the various elements of the value chain establish a model which is beneficial for all parties.

# 5.7 Access to information and communication technologies

**Initiatives undertaken in 2009**

## Initiatives by geographical area

18%

12%

70%

■ Latin America  ■ Spain  ■ Europe

## Initiatives by segment

13%

31%

14%

12%

30%

■ Economic  ■ Geographical  ■ Educational  ■ Disability  ■ Health
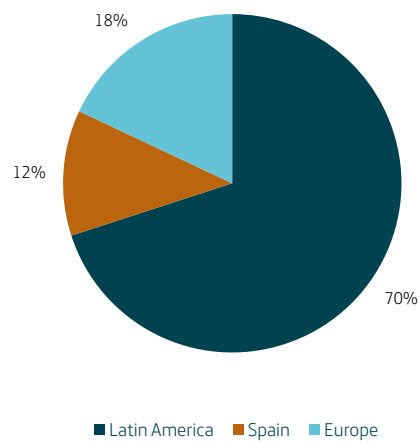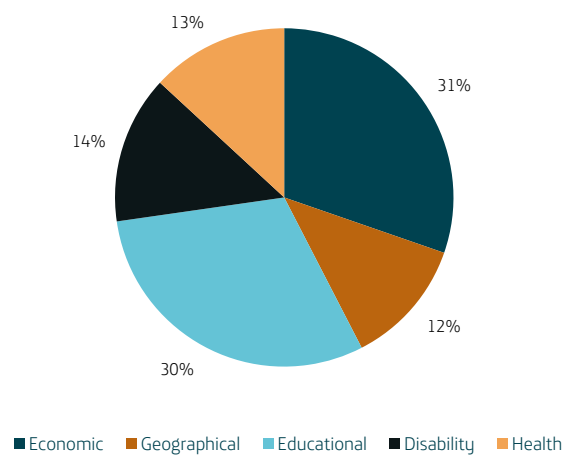
## Initiatives by beneficiary

13%

31%

8%

13%

35%

■ Community  ■ Children and young people  ■ Senior citizens and the disabled  ■ SMEs  ■ Health
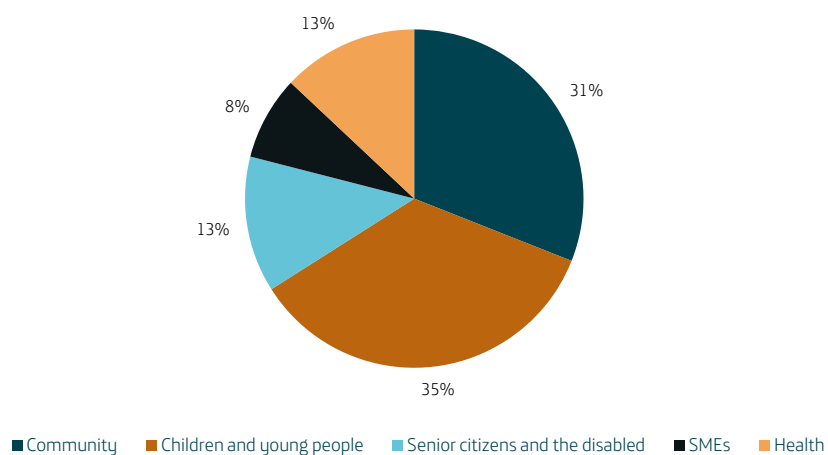
# 5.7.2 Concept of social innovation

The concept of Social Innovation is founded in Telefónica's business, that is to say, its points of access and infrastructures which provide the basis for the development of products and services that the various areas of the Company's commercial operations. This type of business requires certain alliances with other agents - for instance, with technological and commercial allies from the telecommunications sector - and other social collaborators and public institutions, all of which contribute to the formal recognition of the initiatives in question. This whole network constitutes an ecosystem of alliances all of which have a common objective: the development of solutions which seek to promote digital inclusion through ICTs.
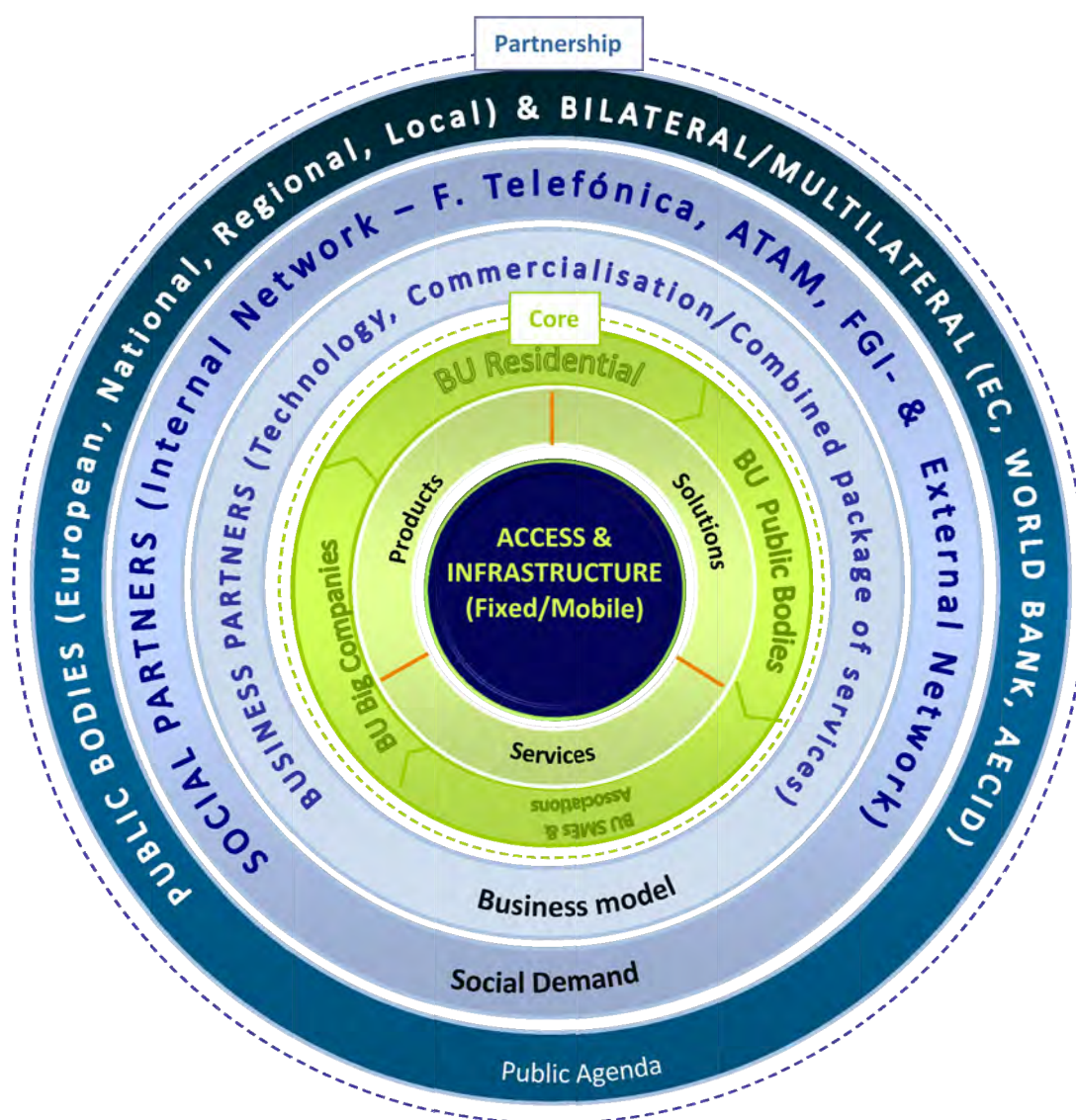
# 5.7 Access to information and communication technologies

The 10 characteristics which set this type of business apart from others are as follows:

- The offer aimed at these groups often requires compliance with certain functional and technical specifications demanded by a smaller target public than is habitual in mass-consumption markets.

- In many cases, the challenge is not so much in investing in new development but adapting existing solutions in order to better respond to specific needs.

- It is essential to maintain an active and constant dialogue with the social group at risk of exclusion, in order to best define needs at each moment, and ensure that they evolve in line with technology, thus meeting their requirements.

- La prescription of these groups, represented by associations, is a prerequisite for the commercialisation of solutions.

- Commercial offers require a 360º internal coordination within Telefónica, involving the heads of various segments and links within the value chain, with a view to drawing up an integrated response to the group in question (individuals, associations, public administrations).

- The meeting of the social need in question should be compatible with the Company's business objectives. Telefónica's business opportunity is based on consolidating value propositions for each of the levels that make up the aforementioned collectives.

- As well as the quantifiable economic benefits, there are other advantages, such as that of reputation, which, although difficult to measure financially due to their indirect nature, are no less real nor important for the Company.

- Given the social impact of these solutions, one of the key factors is the sensitivity and commitment on the part of the Public Administration (in a local, national and international context), which not only supports such initiatives through regulations, but also economically through the financing of public-private partnership projects.

- With the development and start-up of these services, it is necessary to establish an ecosystem of allies which includes private companies, the tertiary sector and public institutions.

- The objective is to seek solutions that imply a constant need to innovate, and which therefore inherently constitute a source of competitive advantage.

# 5.7.3 Universal Service

The aim of the Universal Service Fund is to establish financing mechanisms for the projects related to the provision of telecommunications services to the whole population, guaranteeing minimum levels of acceptable quality and affordable prices. Telefónica, complying with its commitment to society and considering this provision to be an element of equality, solidarity and social cohesion, abides by all the requirements of Universal Service and undertakes projects aimed at reducing the digital divide in the regions in which it operates:

- In Spain, Telefónica's obligation to provide the Universal Service was renewed until 2010 for the services of connection to the public telephone network from a fixed location, and access to the telephone service, public telephones, telephone directories and services to special users (people with disabilities, pensioners etc.). In 2008, Telefónica España's net cost for providing the Universal Service was 75 million euros.

- In Latin America, the use of Universal Service Funds are aimed at a number of different project types. In 2009 Telefónica contributed 180 millions euros to funds in Argentina, Brazil, Colombia, Peru and Venezuela.

- In the Czech Republic, Telefónica offered the following services derived from the Universal Service in 2009: public phone boxes and special offers for disadvantaged social groups.

**Provision of Universal Service Funds in 2009**
**(Thousands of euros)**

| | |
|---|---|
| Argentina | 21,943 |
| Brazil | 73,790 |
| Peru | 10,795 |
| Colombia | 43,839 |
| Venezuela | 29,229 |
| Czech Republic | 9,514 |
| Spain* | 75,000 |
| **Total** | **264,110** |

* 2008 net cost for the provision of Universal Service by Telefónica España.

# 5.7.4 Geographic divide

The geographical divide is a barrier that impedes the extension of telecommunications to rural areas, due to the high cost of establishing these services in these areas. In 2009, Telefónica worked to extend telephony to rural areas in both Spain and Latin America.

In Spain, as of the 31st of October 2009, the date of the conclusion of the Rural Broadband Service Plan, the Company had over 160,000 broadband customers who enjoyed access to these services thanks to this programme.

Since 2006, the Company has contributed to the reduction in what has become known as the digital divide that exists between users and areas with differing social and geographic realities. These efforts found expression in the launch of the rural broadband service, thanks to which a large number of homes throughout the country have been able to access broadband through ADSL, LMDS/Wimax or satellite technologies.

The Company has always been very active in bringing new technologies closer to the majority of the population, especially those segments which, due to their geographic location, had greatest difficulties in receiving such services and applications. As a result, when the Administration announced a public tender in order to appoint the operators who would be responsible for running the Rural Broadband Programme, Telefónica made a great effort in their bidding for this service, with their proposal accepted almost in its entirety. In June 2008, the Company ceased to offer the rural broadband product, instead introducing its commercial ADSL service into the affected areas. In October 2009, the number of customers to whom this service had been provided over the years amounted to almost 163,000 (of whom just under 1,500 accessed the service using LMDS technology and just under 1,200 using satellite technology).

It should be highlighted that from 2005 to August 2008, Telefónica has heavily invested in the creation of a new network, costing a total of almost 83 million euros to date, including a range of technologies (ADSL, LMDS and Satellite). Over the 2005-2008 period, the Company also received subsidies from the Ministry to the tune of 6.9 million euros and over 16.8 million euros in credit.

A new project is currently being undertaken within the framework of the Rural Broadband Programme and through the Plan Avanza, Subprograma Avanza Infraestructuras IT Society development and infrastructure initiative, covering the period 2008-2010, which requires new investment and greater coverage. The main awardee of this new project is Telefónica España.

In Latin America meanwhile, the initiatives undertaken in order to reduce this divide in 2009 included:

- **"Coverage 2009"** (Ecuador): This programme, which seeks to expand mobile telephony coverage in Ecuador, has resulted in the installation of 339 base stations ensuring urban and rural coverage for over 3 million beneficiaries.

- **"Communication Bridges"** (Chile): Through an agreement with the Chilean Ministry of Transport and Telecommunications, this project, which began in 2006, seeks to provide mobile phone coverage throughout the country. In 2008, the number of beneficiaries stood at nearly 90,000 people, a figure which increased in 2009 by a further 300 with the coming online of the antenna at Cerro Castillo, in the Torres del Payne region.

- **"Second Bi-Annual Plan"** (Colombia): This project, financed by public funds channelled through the Communications Fund with a view to extending and repositioning Social Telephony Networks, included the migration in December 2009 of 1,400 customers through fixed cellular access technology solutions. The programme foresees the installation of 15,000 lines in 21 regions providing coverage to 1,426 towns and villages and 334 municipalities in rural areas, reaching 100,000 homes.

- **"Expansion of Mobile Coverage"** (Colombia): The programme to extend mobile telephone coverage has seen a 9.17% increase in coverage in municipal capitals with GSM technology and a 12.59% using UMTS technology, compared to 2008. In 2009 GSM coverage was possible in 926 out of 1,102 municipal capitals, reaching a population of 35,099,752, representing 80.07% of the people in the country, and covering an area of 95,650 Km2. UMTS technology covers an area of 6,574 Km2 and reaches 59.72% of the country's population in 148 municipal capitals.

- **"Integrate me"**(Peru): This project is a public and private alliance to develop telecommunication services in high poverty rural areas. Through this programme, infrastructures have been implemented in 217 centres of population, in order to offer telecommunications services (fixed and mobile telephony, broadband and public wireless), with over 58,000 beneficiaries to date.

# 5.7 Access to information and communication technologies

- **"RuralCel"** (Brazil): Using digital mobile technology through its Vivo platform, Telefónica Brazil offers fixed telephony services in rural areas of São Paulo. In 2009, 12,150 people benefited from this initiative. 42,728 people in the area now have telephone services through the metal or single-channel radio network.

- **"Broadband in Schools"** (Brazil): This programme, began in 2008, aims to facilitate free broadband services to municipal, state and federal schools. The project will be extended until 2025, having already benefited over 4,800 schools.

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**Satellite Broadband in Peru**

Telefónica has committed itself to providing telecommunications services to 3,852 rural towns and villages, benefiting 1.7 million Peruvians. It received an investment and operational subsidy from FITEL (Fondo de Inversión en Telecomunicaciones - the Telecommunications Investment Fund) of 48.8 million US dollars and completed its operations in May 2010. The Ministry of Transport and Communication (MTC), through FITEL and OSPITEL (Organismo Supervisor de Inversión Privada en Telecomunicaciones - the Private Telecommunications Investment Supervisor), will be responsible for monitoring and supervising the project.

This project enables local people to create businesses through internet cabins and public telephones etc. From the start of the project in February 2009 until the end of that year, over 2,000 field reports and searches for businesspeople were performed; hundreds of information sessions were held with local beneficiaries and government bodies; over 500 websites were created with relevant content; and more than 500 businesspeople and 5,000 local people were trained in the uses and possibilities of these technologies.

This project, awarded to Telefónica Peru, is the most significant effort by the Peruvian Government so far to promote access to the benefits of the Information Society for remote rural settlements.

In December 2009 Telefónica Peru announced that it had successfully completed the second landmark for the project, which was 50% of the total roll out and implementation. The company by far exceeded this target, benefiting over 800,000 Peruvian people in 1,944 towns in the Cusco, Junin, Ancash, Piura, Tumbes and Arequipa regions.

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| | Mobile coverage as a % of the population | Public telephones |
|---|---|---|
| Spain | 99.8 | 58,529 |
| Germany | 99.8 | n.a. |
| Ireland | 99.6 | n.a. |
| Czech Republic | 98.9 | 19,945 |
| United Kingdom | 99.0 | n.a. |
| Argentina | 89.5 | 88,520 |
| Brazil | 88.7 | 250,518 |
| Chile | 93.3 | 19,430 |
| Colombia | 80.1 | 19,500 |
| Ecuador | 87.7 | 84,670 |
| El Salvador | 85.3 | 6,230 |
| Guatemala | 61.2 | 15,170 |
| Mexico | 89.0 | 95,970 |
| Nicaragua | 59.0 | n.a. |
| Panama | 90.0 | n.a. |
| Peru | 82.7 | 172,100 |
| Uruguay | 87.0 | n.a. |
| Venezuela | 97.0 | 47,660 |

# 5.7.5 Economic divide

Differences in income between people can, in some parts of the planet, act as a barrier to inclusion in the world of telecommunications. To counter this, Telefónica offers a wide range of services which help to reduce this divide through plans covering fixed and mobile telephony and broadband connectivity.

As part of these services, Telefónica has more than 6 million fixed pre-pay and controlled line customers, enabling users to control their spending and so be able to have a fixed-line phone in their home. The offer includes the development of low-cost wireless fixed telephone lines. Another of the ways in which Telefónica helps its customers to control their spending is through its pre-pay and controlled line services. In 2009, in Latin America, over 82% of the more than 134 million Telefónica customers in the region used pre-pay services. Also, the deployment of GSM networks continued to help customers have access to handsets at lower prices.

With the aim of better responding to the needs of our customers within the context of the current economic downturn, in 2009 Telefónica launched a discount programme the unemployed, the self-employed and small- and medium-sized companies in Spain. The Company reduced fixed-line and mobile bills by 50%, up to a limit of 20 euros per month per bill. This programme benefited over 115,000 customers and close to 5,600 businesses. Telefónica also introduced a new initiative aimed at the self-employed and small- and medium-sized companies which seeks to facilitate control over spending on fixed-line and mobile communications for customers who create new jobs in their businesses. The programme consists of consists of a 33% discount in their phone bills up to a limit of 50 euros per month per bill.

Finally, 2009 saw continued innovation in products and services for the most disadvantaged groups in all the regions in which Telefónica operates:

- **"Free Broadband"** (Chile): This project seeks to provide internet access to those sectors at risk of social exclusion in the population. The scheme consists of offering free internet access to customers who have an STB line contract. On payment of an extra 1 dollar, this access is extended to 4 hours, and for 2 dollars, to the whole day. A total of 4,000 people benefited from this programme in 2009.

- **"Movistar at Home"** (Mexico): As a result of this programme, Telefónica Mexico sought to provide landline telephone services to low-income households. The scheme was launched in 54 cities and 71 towns and villages, with over 230,000 beneficiaries (90% pre-payment and 10% post-payment). The service consists of offering pre-paid rates, known as *pagamenos control y pagamenos pospago*.

- **"Fono ya"** (Peru): This is a wireless landline service aimed at low-income households who, until the introduction of this scheme, had no chance of having a landline telephone service in their home. To date, 560,000 people have benefited from the programme. The price per day is 1 sol (0.30 US dollars). In 2009, this project was awarded the "Business Creativity" prize for public services by Peru's University of Applied Sciences (UPC), given to companies that incorporate creativity and innovation in their management practices.

- **"(Microtop-Up)"** (Latin America): A service that offers pre-pay customers the possibility of recharging their phone with amounts from 0.5 to 5 US dollars.

- **"Computer Workstation"** (Latin America and Spain): A service that provides self employed people and small and medium businesses with the necessary tools to satisfy all their data processing and internet needs at a single monthly price. As of the end of 2009, the Company managed over 150,000 computer workstations in Latin America and over 2 million in Spain.

## 5.7.5.1 Financial services

Another of the innovations that the Company introduced in 2009 were the financial services via one's mobile phone, with the aim of helping those persons who, for whatever reason, do not form a part of the conventional financial system. In this way, Telefónica takes a further step forward towards the inclusion of those communities who are cut off and need support for their development.

The main characteristics of this new service are as follows: offering people the chance to access financial services, such as savings and loans; enabling people to have access to their personal funds in a secure location; providing detailed information on all transactions carried out, enabling better control; and making it possible to receive these services at low cost.

In order to introduce these new services, Telefónica has selected the technology of the Israeli firm Trivnet to offer these financial services using mobile phones in Latin America. Users of this service will be able to make transfers, use e-commerce, pay bills and carry out mobile banking operations. The Company has also developed close relations with banks, service integrators, service and security providers and commercial networks.

**Click here** **for more information on Telefónica's financial services.**

# 5.7.6 Training divide

Even when Information and Communications Technologies (ICTs) are available, some people are not trained to use them. According to the CIS, 91.9% of people aged 65 or over do not use the internet, and of those, 58.1% admit they do not use it because they 'don't know how to use it'.

In 2009, Telefónica carried out numerous initiatives to try and teach people how to use new technologies so they can benefit from their advantages. Last year, more than 240,000 people benefited from the Company's training programmes.

The work of the Fundación Telefónica is of key importance here. Training is provided through the EducaRed educational programme, the aim of which is to promote the use of Information and Communication Technologies in education. The benefits of this programme are felt by teachers, students, parents and other groups from eight countries: Argentina, Brazil, Chile, Colombia, Spain, Mexico, Peru and Venezuela. Last year 86,623 people took part in 2,385 online and face-to-face training activities organised by the EducaRed programme, which involved a total of 1,283,551 hours of training. This is a 111% increase on the number of people trained in the previous year.

Likewise, Telefónica invested in other programmes to improve the technological abilities of groups at risk of exclusion:

- **"Connect Me"** (Peru): This scheme seeks to reduce the literacy divide and bring ICTs closer to rural communities with very limited access to such services. Through its Mobile Bus, Telefónica has providing training to thousands of people in the interior of the country, in matters relating to education, health and productivity, using modules that are relevant to economic and social development in various regions. In 2009, more than 25,000 people in 45 towns and villages benefited from this programme. The scheme was recognised in 2009 as one of the best services de telecommunications services products in the world, receiving *"The World Business and Development Award"*, promoted by the United Nations' Development Programme.

- **Fundación Telefónica Classrooms** (Latin America) This project aims at strengthening, through the use of ICTs, the teaching and learning processes of teachers and members of communities which are affected by child labour. As of December 2009, there were 275 classrooms in thirteen countries in which the Fundación Telefónica programme, Proniño, operates.

- ***Digital community***(Ireland): In association with the St. Andrews Resource Centre (Dublin), Telefónica O2 Ireland helps to provide telecommunications services to people of all ages in areas around the city centre. The groups, directly subsidised through the Company's funds, are: the *Silver Surfers*, pensioners who receive telecommunications training, the *IT Literacy Group*, a group of adults using telecommunications in order to improve their literacy and IT skills, and the *Cyber Kids*, a group of children in the area who have been given the chance to acquire more advanced telecommunications knowledge for educational ends. To date, 700 people have benefited from this programme.

# 5.7 Access to information and communication technologies

**National parks and schools in Argentina**

Launched in 2007, this programme, new to Argentina, uses new technologies to connect teachers, students, park rangers and researchers from the National Parks and neighbouring schools. This initiative s based on a strategic alliance between Telefónica, Microsoft and the Bajo la Cruz del Sur Foundation to work initially with 14 rural schools and 14 national parks to develop a project to promote Argentina's cultural and natural heritage. In 2008, a further 9 state schools were added to the programme.

Each of the schools which joined the programme was equipped with an IT room (equipped with three computers, printer, webcam and scanner) and free broadband connectivity (satellite connection). In addition, teachers from the schools and the guards from the natural parks received training on the uses of new technology in Buenos Aires.

In 2009, work continued to improve access to training and a number of online projects were developed, including educational blogs, online exchanges and training, etc. In addition, installation of antennas and computers was also completed. To date, 23 schools and 21 parks and nature reserves have benefited from the programme.

# 5.7.7 Disability divide

## 5.7.7.1 Telefónica's commitment

Over the past five years, Telefónica has developed a plan which seeks to reduce the social divide which results from certain types of disability. The aim is to be able to satisfy the needs of this group in terms of our employees, customers, suppliers and society in general, throughout the whole Company, with regard to both internal and external processes and from a business perspective which ensures process sustainability, by integrating end-user and corporate interests.

In 2008, Telefónica's Human Resources and Corporate Reputation and Responsibility Committee launched the "Workplace Integration of Disabled People Internal Regulation" in Spain, which sought to define the direct employment of disabled people and the promotion of this policy in other companies, though the purchase of goods and services from so-called social providers. In 2009, compliance with this approach stood at 165.5%

The only way to guarantee that disabled people's needs are fully met is to directly involve them in the project. To this end, Telefónica considers it essential that the disabled participate in the processes and actions that the Company undertakes in this area, as well as, of course, validate the results and offer their experience as end users.

This participation is officially ensured through collaboration agreements with the main associations that represent the disability. In 2009 all such previous agreements with CERMI, FIAPAS, FEAPS, ASPAYM Granada, SERVIMEDIA, Fundación ONCE and CNSE were maintained.

Other bodies which also form a part of this inter-related structure in order to introduce accessibility initiatives are the related public bodies and other private companies, either on an individual level or through large company associations. As far as public bodies are concerned, it is worth highlighting the relationship Ministry of Education and Ministry of Health and Social Policy departments, such as the Disability Directorate General, IMSERSO, the Real Patronato de la Discapacidad, Red.es etc. Telefónica has maintained its collaboration with CEAPAT (Centro de Autonomía Personal y Ayuda Técnicas - the Centre for Personal Independence and Technical Assistance) and participates as a founding partner of the Fundación CENTAC (Centro Nacional de Tecnologías y Accesibilidad - the National Centre for Technology and Accessibility), promoted through the State Social Services, Families and Disability Secretariat. Other joint ventures include the "Company and Disability 2008-2010" project, promoted by the Fundación Empresa y Sociedad, or collaboration with the Club Excelencia para la Sostenibilidad.

It is worth pointing out that in 2009 signed up to the "Simplit" programme, the first certificate scheme that ensures that the products thus recognised are easy to use, are comfortable and intuitive, and designed with use by the elderly in mind. "Simplit" therefore fits the profile of a tool that allows Telefónica to adapt the design of its products and services, to ensure that the needs of this group are better met as well as guaranteeing their usability.

This initiative was set in motion by the Unión Democrática de Pensionistas y Jubilados de España (UDP), a body representing Spanish pensioners and the retired, and the Instituto de Biomecánica de Valencia (IBV), in partnership with AENOR, the Spanish Association for Standardisation and Certification, who are responsible for examining the various products submitted for certification. "Simplit" seeks to be applicable to all types of products: communications, housing, food, personal goods, household goods, health products etc.

Telefónica also sits on the board of the Fundación para el Desarrollo Infotecnológico de Empresas y Sociedad (Fundetec - the Foundation for Business and Social Info-Technological Development), whose activities focus on the analysis, promotion, dissemination and revitalisation of access to Information and Communications Technologies (ICTs) for both individuals such as the elderly, women, the prison population, immigrants etc.) and companies and institutions.

## 5.7.7.2 Products and services

In 2009, Telefónica was committed to the promotion and development of products and services to improve access to ICTs for such groups, in order that they might benefit from the mobility advantages that such devices and services would imply. Some examples of this are:

- "Teclón" landline handsets: designed for the elderly and or those with hearing or visual disabilities, reduced mobility or cognitive problems.

# 5.7 Access to information and communication technologies

- Mobile phones adapted via an induction loop: this is an accessory that facilitates the use of mobile phones with hearing aids and cochlear implants.

- Mobile phone adapted using *Mobile Speak*: this device is a screen reader which guides the user when using a mobile phone, allowing them to identify callers before answering, sending and receiving messages and personalising the phone's operating modes. This product is aimed at those with visual disabilities.

- Work stations adapted for use by the disabled. These work stations consist of a computer with a number of special applications and devices, such as keyboard stickers with extra-large characters, mouse emulators, virtual keyboards etc. They have already been installed on a number of sites: the Adapted Equipment Demonstration Unit (CEAPAT-IMSERSO), the Cantabria Centre for Integrated Information and Assessment, Technical Assistance and the Elimination of Barriers, or the Telecommuting and Teletraining Workshop at the Spinal Injuries Rehabilitation Foundation.

- Video call services: this is a service that allows those with hearing difficulties to make video calls, in other words, to speak and see the other person on the phone screen at the same time.

- "Locateme" among other uses, this service allows the families of those with cognitive problems and/or learning difficulties, the elderly and those with physical disabilities, to be locatable, as well as offering them greater independence.

- "SMS vocal": this service allows the user to receive text messages in the same way that a voice call is received, something which is especially useful for those with visual disabilities or the elderly.

- Web Messenger: through this application, those with hearing disabilities may send text messages to landline or mobile phones through a computer connected to the internet.

- "Find the One for You": this guide, developed by Telefónica, helps customers to acquire accessible landline and mobile handsets, designed for the disabled or the elderly. The guide also includes usage recommendations regarding commercial models.

- Tele-interpretation platform in sign language (*e-Health*): In collaboration with the CNSE (Confederación Nacional de Sordos - the National Deafness Confederation), Telefónica has developed a communication platform for people with hearing disabilities in public and private services, including emergency, healthcare and education services and administrative information etc. The service enables people in this situation to communicate through a call centre where the interpreter has a webcam with which to interact with the deaf person and audio to communicate with the hearing person.

# 5.7 Access to information and communication technologies

Finally, Telefónica, through its Telefónica Accesible and Movistar Fácil programmes, offers accessible services, easy-to-use handsets, and answers to questions relating to accessibility, disability and mobile telephone services.

Thus, in 2009, the Company developed a number of initiatives in the countries in which it operates aimed at these groups, in line with local demand and characteristics:

- Intermediation Centre for people with hypoacusis (Argentina): through an agreement with the Argentinean Deaf Persons Confederation, this project seeks to disseminate a website via through which people with hypoacusis, or speech impediments, can access telephone communication services. In 2009, 443 customers registered for this service.

- Relay Centre (Colombia): this project, which began in 2006, seeks the adoption and implementation of technologies which allow those with hearing difficulties access to telecommunications. The relay centre is responsible for receiving communications requests from people with hearing difficulties and making calls on their behalf to normally hearing persons and vice-versa. The service access network was implemented in 66 municipalities on a national level, in 105 locations, with a total of 221 computers with internet access and 17 special text telephones. 4,577 people benefited as a result of these initiatives.

- Adapted Public Telephones (Brazil): in São Paulo, Telefónica has installed 9,232 specially adapted public telephones for people in wheelchairs. All public phones also incorporate a key to increase the volume for those with hearing difficulties and keys in Braille for those with visual disabilities. By the end of 2009, there were 2,557 devices for people with hearing or speaking disabilities, whose assistance is ensured through the Deaf-Hearing Intermediation Service. The Telefónica Engenharia de Segurança do Brasil has also developed the infrastructure and software for the São Paulo Metro, with the aim of offering interactive panel services aimed mainly at people with audiovisual disabilities, reduced mobility, ensuring them greater safety and access to important information concerning transport matters. The equipment consists of a camera, Braille texts and direct communication with the station's safety centre. By mid-2010, all 56 metro stations currently in operation will have this service up and running.

- The Retadis Project (Spain): Fundación Telefónica launched this scheme in late 2006, within the framework of the Ministry of Industry's Advanced Plan. To date, a network with 26 centres has been set up, using technology adapted for the disabled in 17 Spanish region, and the autonomous cities of Ceuta and Melilla. Each of these locations has two computers which have been specially adapted with numerous applications, technical aids and the software required to provide access to the internet and connections with other computers in the network. With the experience that it has gained over the years, the Fundación Telefónica has embarked upon a new initiative known as the "Retadis Network of Centres for Individual Accessibility", consisting of 50 personal users, who, in their homes or offices, have adapted devices which cover their communication needs and who work alongside the Retadis Independent Centres, enjoying the training and technical assistance facilities that the network offers.

- *Mobile transcription* (Germany): this is a pilot project for people with hearing disabilities developed by Telefónica O2 Germany, together with Social Affairs, an organisation that seeks to develop products and services aimed at the disabled. This service offers people with hearing difficulties, regardless of their location, a voice recognition and transcription system which allows them access to communications.

- *Emporia handsets* (Ireland and the Czech Republic): Telefónica O2 Ireland and Telefónica O2 Czech Republic have jointly developed a handset aimed at the elderly and the disabled, at a cheaper price.

**An iPhone application for people with autism (Ireland)**

After evaluating the usefulness of the images on Apple's *iPhone* for children with autism, Telefónica O2 Ireland has developed software to help autistic children to communicate using images representing everyday objects in their lives. It has been found that children who use this application have improved communication with their families and better relationships with others.

The objective of this application is to create a book of images which the children's parents, teachers and tutors can add to the device and send to each other to communicate the new objects the children are using and recognising as they develop.

The difference between this system and that used by parents currently (*the Picture Exchange Communication System*) is that the old device was difficult to transport because of its size; in addition, the *iPhone* enables instant sending of images between parents, teachers and tutors. The application also features images which the children can use if they are suffering an illness, etc. This enables parents to know when their children are ill or when they have hurt themselves. The application costs 29.99 euros.
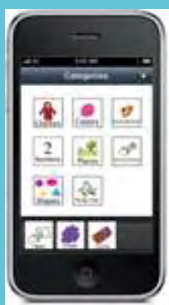
### 5.7.7.3 Social awareness: *Ability Awards.*

Telefónica, always at the cutting edge of social and corporate change, has demonstrated its commitment to a project which it considers to be of vital social importance: a change in the perception that the corporate world and society in general has of people with disability. The Telefónica Ability Awards seek to be the driving force behind this change, with the support of the business sector.

It is still a challenge today to understand the needs of people with disabilities in order to better include them within a business environment, as customers, employees and suppliers. The Telefónica Ability Awards are a pioneering and innovative initiative which each year recognise the companies or institutions that include disability within their value chain, and especially those that that have placed creative solutions on the market, available to their disabled customers. To this end, the Telefónica Ability Awards not only represent an initiative that will have great impact on society in general, but which also constitute a driving force for competitiveness among companies operating in this field.

These Awards originated in Ireland, and more specifically, at Kanchi, a non-profit making organisation that was set up to improve relations between the disabled and society at large. After the success of the first four years, Caroline Casey, the founder and president of Kanchi, set a new objective; exporting these awards to other countries. Spain was the first place in which she sought to share her approach and she chose to do it with Telefónica, one of the main social organisations in the country.

The Awards are divided into 6 categories: "Executive Management and Employee Leadership", "Recruitment and Selection", "Accessibility", "Learning, Development and Progression", "Customer Service" and "Retention and Well Being"; plus three additional categories: "Best large private company", "Best small or medium-sized private company" and "Best Public Sector Organisation".

The companies that wish to present their candidature, may easily do so by visiting www.telefonicaabilityawards.com. PriceWaterhouseCoopers, a project partner and independent assessor of the various candidates, chooses the 50 best companies among all those who have entered, and then visits them one by one in order to verify the information they have presented in earlier phases. A preliminary jury, made up of Board members then chooses the finalists from this short list of 50 and a definitive jury, also consisting of Board members, announces the winners at a gala in November 2010.

# 5.7 Access to information and communication technologies

The Board is another key feature of these Awards. The Telefónica Ability Awards has a prestigious Board who support this pioneering initiative within the business world. This board is made up of representatives of the private sector, the public sector, the associational fabric relating to the world of disability and society in general.

The Telefónica Ability Awards are presented on the 1st of April 2010 at a ceremony attended by not only key representatives of the media but also leading figures from social, business and academic organisations.

In Ireland, the home of the Ability Awards, they are regarded as a point of reference in terms of disability matters. Over 100 organisations presented their candidature for the 4th Annual Ability Awards held in 2009; 18 of which did so for the first time. The sectors that were represented at the Awards are financial, pharmaceutical-medical, technology, hotels and restaurants, education, voluntary work and sports and leisure, as well as the public sector. Of those organisations present, 38 were pre-selected and PriceWaterhouseCoopers drew up a detailed report examining their activities.



Telefónica ability awards
crecemos con la inclusión
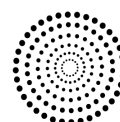
# 5.7.8 Health Divide

## 5.7.8.1 Telefónica's commitment

The e-Health corporate unit was created in late 2008 based on strategic analysis of new business areas where Telefónica could contribute value in the countries where it operates. This analysis highlighted eHealth as an opportunity through which Telefónica could offer its customers services, within the health sector, that would help them to improve the quality of their day-to-day lives. These needs had already been identified on a local level and so the main objective of this overall unit is to ensure that the initiative extends throughout the Company.

Furthermore, thanks to Telefónica's own business operations, there exists the possibility that health services can be incorporated into mobile phones (*mHealth*), constituting a new channel of communication between the patient and the treatment they receive or the health care professional who attends to them. The channels also provide professionals with new access to health systems, thus increasing their productivity and promoting greater quality of care that they can offer at any moment and from any place.

It should be highlighted that our technological partners in the health sector, both suppliers and medical specialists, are working hand in hand with Telefónica in order to come up with solutions which improve patient treatment, their quality of life or the monitoring of their condition. As a result, Telefónica is a collaborating partner in the "Continual Health Alliance", an open, not-for-profit coalition working to improve the quality of personal health care, which works with the United Nations Office for Partnerships and private institutions to find solutions to the problems of the 21st century, such as, in this case, healthcare.

In addition, Telefónica is also part of the *Ambient Assisted Living* programme, a European initiative which uses new technology to improve quality of life for the elderly.

The Company is thus contributing its capacity for communication, storage and transmission for medical systems in a safe, secure and private manner, offering cutting-edge services which improve our quality of life.

## 5.7.8.2 Current focal points

Telefónica is currently assisting hospitals, clinics, health centres and private centres to improve productivity with regard to internal processes, and facilitate the provision of their services in order to increase efficiency. These centres have networks monitored and managed by Telefónica which ensure communications quality and security. The Company also offers services which assist in the interaction between the patient and the medical service, both prior to commencing and during the service, and after. All of this results in significantly improved services and greater quality of life for all.

As far as healthcare professionals are concerned, Telefónica offers services which improve communications between doctors at the moment of diagnosis; virtually reducing the distance between patient and specialist and assisting in remote monitoring of the chronically ill and the care of patients recovering from operations. Hospitalisation time is thus reduced whilst at the same time increasing the level of attention.

The final focus point is tele-assistance. Telefónica is striving to improve assistance and the care of the elderly or incapacitated, either in their homes or on the street. The Company, ensuring personal privacy, provides users with automatic and manual devices, in order to keep patients in contact with their relatives and carers.

## 5.7.8.3 Products and services

The *global eHealth initiative* divides products, services and categories into three areas:

- Information and Communication Technologies (ICTs): these consist of all the services which provide technological and communications infrastructures adapted for health services.
- Telemedicine: this includes services which directly help both healthcare professionals and patients.
- Tele-assistance: these services are designed for people with disabilities and the elderly who require special assistance to increase their safety and quality of life.

# 5.7 Access to information and communication technologies

## ICTs

ICT products include those which focus on technological infrastructures and personalised communications within a healthcare environment. These products and developments are essential in being able to offer tele-assistance and telemedicine products and services. Through their development, Telefónica is making a great effort to the entire telecommunications infrastructure to the environment of healthcare.

## Telemedicine:

Telemedicine products allow healthcare professionals and patients alike to take better advantage of the services that Telefónica offers. The following are worthy of particular note:

- The monitoring services for the chronically ill, heart patients, diabetics or those with lung pulmonary illnesses, as well as post-op hospital attention. This service facilitates the sending of patient medical data directly to the specialist, without the need for a new visit to the doctor. It enables the patient's complaint to be continuously monitored, and also provides the doctor with much more information on which to base a diagnosis, propose treatment and anticipate any possible complications or dangerous situations for the patient.



- Tele-rehabilitation, for knee and heart operations. In this service, the patient follows a mixed course of treatment split between home and the hospital. The time needed for rehabilitation in hospital is shortened, while total rehabilitation time is lengthened, since the patient once at home continues to do the exercises he has learnt in hospital, and is remotely monitored and supported by a specialist at all times.



- "Colabor@". This area provides services which help healthcare professionals to do their jobs. "Colabor@" is a scheme that has been developed by Telefónica I+D, (a pioneering Spanish software development company), which allows healthcare professionals to share all manner of medical results remotely with other doctors and in real time. These can include MRI and CAT scans, ECTs, videos and photographs.

- Medical telepresence, or high-definition remote diagnostic services. Thanks to this service, patients can enjoy personalised and specialist attention which their local centres cannot offer them. The patient connects to the service through telepresence with a specialist doctor. The telepresence system also features a series of medical measurement apparatus which allow a number of different tests to be carried out, just as if doctor and patient were in the same room. It has been shown that 85% of visits to the doctor do not require physical interaction between patient and doctor if there are suitable remote measurement apparatus available. These are very useful solutions,

# 5.7 Access to information and communication technologies

which enable healthcare workers to consult specialist on specific critical cases, although they might be on opposite sides of the world, as well as helping patients who live in remote rural areas or where access is difficult. In developing this system, Telefónica has jointly worked alongside CISCO



## Tele-assistance

The disabled and the elderly are very often not sufficiently independent to be able to do everything on their own. Telefónica therefore offers them a series of ways to help them and improve their quality of life . These services give the person concerned a far greater sense of security as well as offering peace of mind to family members and carers.

Tele-assistance services are divided depending on the environment in which they operate. Firstly, Telefónica offers a fixed home tele-assistance service, though which, in case of emergency, the elderly or disabled person can press a personal panic button and communicate with a coordination centre. Communication is seen as the basic function, which can be supplemented by a home automation sensor in the home. In the event of alarm, carers or family members are advised by the coordination centre, who will also advise, if necessary, the emergency services.

Secondly, the the elderly or disabled person in question can also take advantage of this type of service in the street (mobile tele-assistance). Mobile tele-assistance is mainly aimed at those suffering from Alzheimer's disease, the elderly, children and the disabled. It allows them greater independence, and, at the same time, be locatable (thanks to the geolocalisation system) at all times.

Health care professionals also find services such as these to be of great use, as in the course of their work they often have to put themselves in dangerous situations. This system can help them to advise their colleagues or the emergency services in the event of difficulty.

Finally, due to the dramatic increase in recent years in cases of gender violence, in 2009, Telefónica introduced its "Gender Violence Social Programme". This is a service which, thanks to new communications technologies, offers victims rapid help and protection, 24 hours a day, 365 days a year, wherever the person concerned might be. The aim is to prevent or minimise aggression, by facilitating rapid and simple contact (by pressing a key or "Search" on a mobile phone) which immediately alerts the necessary individuals and organisation (emergency services, security organisations or specialist staff). It also guarantees the monitoring, information and support in each case, at all times and in all possible situations, through a simple phone call and the immediate updating of the application's database, giving the victim a greater sense of security and improved quality of life.

# 5.7 Access to information and communication technologies

## 5.7.8.4 Telefónica global awareness

The e-Health initiative has the global aim of helping people and improving their quality of life in each of the 25 countries in which the Company operates. Needs, however, differ greatly from region to region as the realities of healthcare systems vary enormously:

### Spain

- This is young market as far as services of this kind are concerned, although a number of telemedicine services are in operation, such as the implementation of "Colabor@" in a number of hospitals, both public - Hospital del Mar (Barcelona), Torrevieja Hospital (Alicante) - and private. In addition, monitoring services are provided for patients with chronic conditions, such as that at the Hospital del Mar (Barcelona); and the "Rehabitic" (tele-recovery) project at the Torrevieja (Alicante), Esperanza (Barcelona) and Son Llatzer (Mallorca) Hospitals. Fixed and mobile tele-assistance services are also being developed.

### Europe

- For several years, Telefónica O2 United Kingdom has been developing products and services which help patients, users and professionals. This was one of the first business units to study the implementation of services of this kind, with the aim of contributing to improve people's quality of life. Currently, and in collaboration with the British National Health Service, a number of telemedicine and tele-assistance products are either already offered or are still at the study stage. This is the case of the *Lone Worker* initiative which provides security for health service professionals who travel. Mobile tele-assistance will be one of the forthcoming priorities for Telefónica O2 UK in 2010, and one of the main points of focus in terms of the country's e-Health programme.

- Telefónica O2 Czech Republic has, since 2008 offered the posting and maintenance of an e-prescription application for the Czech state's Medication Management Office (SKUL). Telefónica O2 also took part in the consultancy and reengineering processes required to install this application.

### Latin America

In this region health service infrastructure is being fully modernised with highly qualified personnel. Telefónica collaborates with professionals and state administrations in this process, the key to social development in these countries, which have differing needs due to both their evolution and geography. Even with such a diverse panorama, certain current examples can still be cited:

- In Argentina, a telepresence service has been implemented in association with CISCO which virtually connects Garrahan Hospital in Buenos Aires with the paediatric hospital in Neuquén, over 1,000 kilometres away. There is also a digitalisation and storage service for medical images (PACS-Picture Archiving System) in collaboration with AGFA for the Galeno network of clinics in Buenos Aires. This service is part of an integrated plan covering the recuperation of data after a system collapse.

- In Chile, the Ministry of Health will be testing the efficiency of rehabilitation services after workplace accidents. Chilean doctors have also been testing Telefónica's "Colabor@" services.

# 5 8 Environment and Climate Change

# 5.8.1 Environmental Strategy

Telefónica's environmental strategy is based on two main pillars: its Climate Change Office and its Global Environmental Management System (EMS).

At Telefónica, new technologies are key elements in making efficient use of natural resources and reducing the environmental impact of its installations, while at the same time forming the basis for the solutions that it offers its customers in order to enable them to become more energy efficient and to reduce their effect on climate change.

For Telefónica, the environment and climate change represent a further element of its business objectives. They represent a challenge for internal management, because legal compliance, environmental management and the use of natural resources must lead to greater efficiency. Moreover, they represent a business opportunity that enables the development of new services that contribute to environmental stability and, therefore, open a door to new sources of revenue.

Therefore, Telefónica is aware of both the positive and negative repercussions that its global business has on the environment. For this very reason it has voluntarily undertaken a commitment to work towards its corporate activities being environment friendly and thus contributing to more sustainable growth.

Over recent years, the Company's environmental commitment has duly increased, as can be readily seen by the fact that its environmental expenses and investments amounted to €33 million in 2009. In this sense, 2006 saw the approval of Telefónica's Business Principles, which contain a specific commitment to the environment: *"we are committed to sustainable development, the protection of the environment and the reduction of any negative impact arising from our operations in the environment"*.

Moreover, in 2008, the Group's Environmental Policy was approved, which lays down Company responsibilities and activities with respect to environmental and climate change matters.

- A basic standard system was laid down for all Telefónica Group companies, which constitutes its Global Environmental Management System (EMS) and sets forth the guidelines to be followed by operators in accordance with the ISO 14001 international standard.

- Telefónica's Climate Change Office was set up in response to a global issue that already figures on the agenda of all institutions and companies, in which the role of Information and Communication Technologies (ICTs) is becoming increasingly more important owing to the potential they have to enable other sectors to become more efficient and to reduce their greenhouse gas emissions (GGEs).

- Both of these elements have led Telefónica to structure its environmental structure along two different lines:

  - The EMS pursues the proper management and control of different Company aspects and lays down the minimum requirements for all Group companies, regardless of their geographical location or activity. It aims at continuous improvement on the basis of compliance with current legislation and the control of Telefónica's environmental footprint. The Business Principles Office is the body that oversees the implementation of, and compliance with, this System.

  - Climate Change Office objectives focus on ensuring a reduction in Telefónica's energy consumption and greenhouse gas emissions; promoting the development of services that enable customers and other services to be more efficient; and the positioning of the ICT sector at the centre of the solution to this global problem.

The following diagram shows the application of Telefónica Group's environmental strategy:
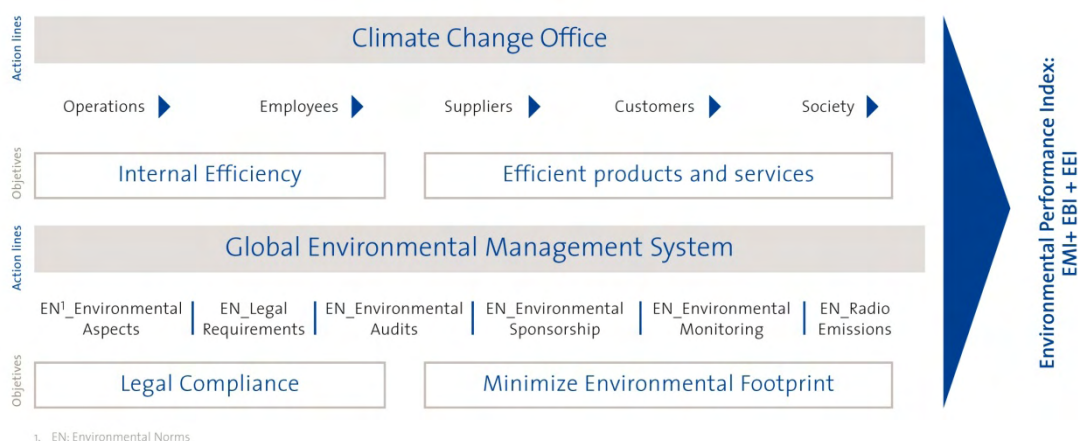


**Click here** for more information on Milestones and Challenges.

**Click here** for further information on Telefónica's Environmental Policy.

## 5.8.1.1 Alliances and collaborations with third parties
The level of the Company's environmental commitment has increased in recent years, which in turn has brought with it an increase in its alliances in favour of the environment.

In 2002, Telefónica signed up to the United Nations Global Pact, thus undertaking to work from a standpoint of preventing pollution, promoting environmental responsibility and favouring the development of environment-friendly technologies. One year later, it signed up to the Global e-Sustainability Initiative (GeSI) aimed at promoting the sustainable development of the Information Society. By means of this initiative, Telefónica has collaborated in the drafting of documents on sustainability and climate change that must be taken up by the business sector in order to adopt the best management practices.

At present, the Company is also taking part in other regional bodies involved in environmental issues, such as the European Telecommunications Network Operators' Association (ETNO ), along with other work groups in its sector that are seeking to position ICT as part of the solution to climate change.

# 5.8 Environment and climate change

Worthy of special mention is Telefónica's signing up to a collaboration agreement with the nature protection organisation, World Wildlife Fund Spain, with the twin objectives of: carrying out internal environmental awareness campaigns and supporting the dissemination of the role of ICT in the fight against climate change. This collaboration has given rise to the development of the "Eco Effect" internal awareness campaign and participation at a global level in the "Earth Hour" initiative.



"Earth Hour" is a worldwide campaign organised by the WWF by means of which private individuals, companies and institutions come together to assert that it is possible to fight climate change with the collaboration of all. The initiative, which consisted of a symbolic turning off of lights, took place on 28 March 2009. According to organisers' data, over 4,000 cities around the world, 9 of the 10 most populated cities on the planet, 18 G-20 countries, over 21,000 companies and millions of private individuals all took part.

Telefónica disseminated information about this initiative among its employees and customers with the aim in mind of increasing awareness about climate change. Among others, the following activities were carried out:

- The lights of the office buildings, as well as Movistar and O2 stores, were turned off.

- Information campaign addressed to employees.

- Information campaign addressed to customers by way of SMS messages, information on invoices, web pages, etc.

**Click here for further information on the "Earth Hour".**

Collaborations such as these, contribute to protecting the environment and help Telefónica to improve its environmental behaviour and to develop sustainability supporting products and services. Moreover, quite often Company employees actively participate in environmental projects by way of the Telefónica Volunteers area, which is managed by Fundación Telefónica.

Just some of the initiatives carried out in 2009 are listed below.

- **Spain:** UNEP (The United Nations Environment Programme) launched its global "Plants for the Planet" campaign, the objective of which was to plant some 7 billion trees by the end of 2009 - one tree per person in the world - in order to combat climate change. This objective has been achieved. Within the framework of the work of its Climate Change Office, the Company has signed a collaboration agreement with this campaign, combining music and the environment. Telefónica therefore undertook to donate 1% of the revenue generated from the musical career of the "new artistes" on its Espacio Movistar label to the cause.

# 5.8 Environment and climate change

- **Spain:** Over 15,000 people - some 1,500 by using the corporate Intranet - accessed the online information provided by Telefónica to support the "Earth Hour" initiative, which promotes responsible energy consumption. The lights on the facade of Telefónica's flagship building on Madrid's Gran Vía were switched off for one hour, whilst inside the Movistar shop a concert was given by the singer Rojas by candlelight. This event was the climax of a week in which over 7,000 candles were distributed in the shop.

- **Brazil:**Last year, Telefónica sponsored the EIMA (Encuentro Iberoamericano de Desarrollo Sostenible - the Latin American Sustainable Development Conference), which was held in Foz do Iguaçu. At the event the Company presented its environmental strategy and the potential of the ICT sector to help in the reduction of greenhouse gas emissions.

- **Ecuador:** Telefónica joined in the "Earth Hour" campaign and in a symbolic gesture switched off the lights in its head office building in Quito.

- **Ecuador:** The "Green Ecuador" programme arose out of the need to implement offset actions and to carry out environmental management policies in line with the environmental policy and objectives of Telefónica. In this framework, the Company formed a partnership with the Ciclópolis organisation and other public (Quito Council and the Environment Ministry) and private sector bodies to promote a mobile telephony sustainability event in Quito. The objective was to raise awareness in society about the need to reduce the effects of climate change. This led to the "Go to work by bike" campaign, which aimed to encourage Group employees to go to work by bike one Friday each month.



- **Mexico:** The reforestation day took place in July 2009, in synergy with "Reforesting Mexico", and was supported by 110 Telefónica Volunteers, who planted some 4,700 pine trees in Nevado de Toluca.



- **Venezuela**: The World Beach Day held in September also counted on the participation of Telefónica Volunteers, during the course of which coastal beaches, rivers, lakes and lagoons all around Venezuela were cleaned. This initiative managed to create awareness and make people conscious of the responsibility each of us have with respect to the environment.

# 5.8.2 Telefónica and its contribution to a low carbon economy

In the course of 2009 Telefónica's Climate Change Office worked towards positioning the ICT sector as a strategic one in creating low carbon economic growth worldwide. This work was done in line with the Company's vision of transforming its internal energy and carbon footprint management model into an energy-saving and efficient one. In this way, this same vision is being promoted among customers by means of the supplying of products and services targeting energy efficiency and climate change.

In 2009, Telefónica undertook to achieve excellence in its greenhouse gas effect energy inventory. To this end it carried out an audit on 2007 and 2008 energy data with the aim in mind of: improving information compilation processes, properly managing GGE reduction projects and measuring their carbon footprint impact.

Telefónica's climate change strategy is based on the measurement and determination of Group baseline emissions and ends with the measurement of this impact with the aim in mind of reducing the $CO_2$ emissions associated with its operations. Within this framework, Telefónica is working with different business lines in all Group regions: operations, suppliers, employees, customers and society.

## 5.8.2.1 Operations Focus

In 2009, the operations divisions began to implement efficiency measures at their facilities in order to reduce the consumption of electricity, basing such implementation on the Telefónica Group's Manual of Good Energy Efficiency Practices. The implementation of these measures represents a process of transformation that allows compliance with the corporate goal of reducing Telefónica Group network electricity consumption through equivalent access[13] by 30% by 2015 compared to 2007.

The degree of implementation of aforementioned measures depends on the energy and financial realities of Group operations. Implementation is linked to the reduction of energy consumption and measuring its direct impact on operations' costs. It is important highlight the fact that different operations have set up several initiatives in order to improve network energy efficiency. The challenge for 2011 is to be able to measure the impact of each one of the measures taken within the framework of the overall goal of reducing Telefónica electricity consumption by 2015.

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**_Smart metering_ in the United Kingdom**

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

This policy has ensured specialist management of the energy used in company operations, resulting in savings of 32 MWh since 2008 in terms of energy and an electricity bill saving of €740,000 (£647,000) in 2009 alone. This smart management system has enabled a reduction of approximately 2 tonnes of $CO_2$ per year.

The installation of energy metering on the networks is one of the measures established in the Group's Good Practice Manual, which should be implemented in all Group operations in the medium and long term.

For this and other activities, Telefónica O2 UK was decorated with a High Commendation at the 2009 Green Company Awards for its focus on CO2 reduction and its ambitions in the field of carbon emissions. It has, therefore, become the first telecommunications company in the country to be awarded the Carbon Trust certificate.

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In the operations area work is being done jointly with the Climate Change Office in order to encourage the use of renewable energies on Telefónica networks and in its buildings. In this sense, Telefónica is participating with the GSMA Association in the development of the world inventory of renewable energy networks. In 2009, the Company signed up

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[13]Equivalent access: refers to the fixed, mobile, broadband and television access equivalent unit measurement.

to the Green Power for Mobile programme in order to contribute to the goal of reaching 118,000 base stations - between the new and old ones - in developing countries by 2012. Over the course of 2010 and 2011 Telefónica will continue to work with this association in order to promote the use of renewable energies on Latin American networks.

**Click here** for further information on the *Green Power for Mobile* programme.

In 2009, Telefónica also promoted several projects in line with its business objectives and the principle of sustainability that governs its networks.

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**Renewable Energy in Ireland**

In December 2008, Telefónica O2 Ireland commissioned the first self-sustaining base station in Ireland in Knockaleva, Colon, County Louth. The base station is supplied directly by electricity generated by a small wind turbine and solar panels, completely independently from any connection to the national grid. O2 has reduced its carbon footprint by 44 tonnes of $CO_2$ a year with this base station alone. The solution is scalable and O2 is currently examining other variants for base stations which currently use ESB connections. This project was entered for the prestigious *Sustainable Energy Ireland Awards* in 2009.

These awards recognise best practice in energy performance, management and design, and are organised by *Sustainable Energy Ireland*, a state-financed national energy agency. On awarding Telefónica O2 a prize in category B (Pioneering Renewable Energy Projects), the judges commented: "*This is an innovative energy efficiency project which has a lot of potential for being repeated. The project presents a self-sustaining mobile communications station fed by a hybrid system consisting of a small-scale wind power generator and solar panels with battery storage which substitutes a conventional diesel generator*".



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

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Lastly, within the framework of operations, the Systems and Green IT areas have been working on developing several projects aimed at maximising energy consumption at Telefónica data processing centres and in work posts.

## 5.8.2.2 Customer focus

In 2009, Telefónica worked on different Group business lines in order to identify those products and services that foster a low carbon economy. The Company has opted for a segment focus as regards the provision of ICT solutions that will enable customers to reduce their energy consumption and $CO_2$ emissions. This is one of the most important areas of the Climate Change Office's work, given that if focuses directly on the business.

In this sense, it bases its principles on innovation and working with the business lines, understanding climate change to be a global issue. Attention to customer demands in all Company business is aimed at providing energy efficient solutions.

During the course of 2009, Telefónica worked to provide these types of services to major customers, corporate customers, SMEs and residential sector customers.

Telefónica España's Small & Medium Companies segment has been a pioneer in including information for customers on energy savings through integrated solutions.

- In Spain, high performance installations are supplied to workplaces with annual customer savings of 120 kwh. Almost 45,000 such solutions have been sold. Last year also saw the launch of a programme to work

jointly with the local government of Getafe in the Madrid region under the auspices of the Spanish SME Energy Efficiency Day.

- Through such projects, Telefónica is opening up a new area for growth in ICT solutions for small and medium companies and the self-employed. We have launched an area on our website to provide information for our customers, which is available at www.movistar.es/eficiencia. This same information was brought to the SIMO 2009 fair, while the energy efficiency message was disseminated all over Spain by means of the Plan Avanza which received 161,000 visits in the 13 cities in which it made an appearance.

Within the confines of the mobile service for all Telefónica segments (particularly the residential segment), 2009 saw work being done on providing products and services that enable customers to be more efficient in their use of energy by means of their mobile applications.

- The chairmen of Nokia and Telefónica S.A, Olli-Pekka Kallasvuo and César Alierta, signed a collaboration agreement in 2009 based on principles and values of sustainability and energy efficiency in order to develop a set of alliances. Through this initiative, Nokia and Telefónica are seeking to find synergies by focusing their activities on the development of mobile telephony solutions that are compatible with the environment, and which are based on sustainable products and innovative applications. This initiative marks the beginning of the development of a series of projects focusing on, among other areas, the residential sector mobile service.

**Mobile telephony for energy efficiency in the residential market**

In 2009, Telefónica O2 Germany, Ireland and the United Kingdom marketed the GreenHeartTM range of the Sony Ericsson Naite handsets, one of the main features of which is the reduction of its general carbon footprint by 15%. This handset has an in-built, low energy charger, less packaging and an electronic manual which, all told, enables considerable reductions in $CO_2$ emissions related to transport. Moreover, the telephone's electronic manual reduces the use of paper by 90%. Product sales have been very solid to date: 7,552 units have been sold in Germany, 184 in Ireland and 7,500 in the United Kingdom.

In this respect, Telefónica O2 UK collaborated in the Forum for the Future and the International Chemical Secretariat in order to support the launch of this new range of handsets. The Company decided to support this launch because of the similarity between its defining philosophy and that of the Company itself: *We do not want to put green devices onto a specific market. What we want to do is to put all the devices on the market with greener credentials*.

Thus, Telefónica O2 UK became the first operator in the country to launch the handset. Customers who have bought it have the option of receiving a gift, which includes a solar energy charger, receiving a basket of organic food, or making a donation to charity. By means of the latter option, customers can pay the wages of a teacher for a month, or finance the care of a child under threat of social exclusion, among other possibilities.

**"Ruta Movistar – App" to reduce travel time and CO$_2$ emissions**

In 2009, Telefónica España launched the "Ruta Movistar" application onto the market, by means of which the mobile telephone indicates the route you must take to your intended destination in any town or city on the Iberian Peninsula and in the Canary or Balearic Islands. This is achieved by means of voice instructions and moving maps. The user can plan his trips beforehand, as well as create a list of favourite destinations, places of interest, etc. Moreover, the maps are updated automatically, thus there is no need to buy new maps every now and again.

The application enables you to see the estimated time of arrival, the progress you are making on the route and the distance yet to be travelled. Use of this App (mobile phone application) makes a saving on travel time. *Wayfinder*, which uses TeleAtlas mapping, is the supplier with which Telefónica has worked to get this project underway. The App is available in the Apple Store shop.

In its large companies segment, Telefónica supplies a range of products and services which offer energy efficiency and a reduction in costs and CO$_2$ emissions to numerous companies around the world.

- **Teleconferences and videoconferences**: on-line meetings, or meetings carried out over the phone, in order to reduce emissions. A conservative calculation suggests that the teleconference and videoconference could replace 5% to 25% of business trips. We offer two services of this type at Telefónica: "Web ex" and "Telepresence".

# 5.8 Environment and climate change

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**Telepresence in the Telefónica Group, a solution for our customers?**

In 2009, Telefónica made extensive use of its 17 telepresence facilities. Numerous virtual meetings were held there by the different operations, giving rise to a potential reduction of 2 tonnes of $CO_2$ per year as a result of the business trips that had been avoided.

In order to reach the customer and pass on the overall benefits of installing such facilities, business divisions have developed a tool which measures the impact of the use of telepresence systems in real economic terms, the return on investment made and the environmental benefits (tonnes of $CO_2$ avoided) in a clear visual manner.



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- **Intelligent buildings**: the term "intelligent buildings" describes a set of technologies used to make the design, construction and operation of the buildings in question more efficient. It can apply to both existing, as well as new, buildings. These technologies include building management systems (BMSs) that control the building's heating and cooling systems according to the needs of its occupants, or software that disconnects all PCs and monitors after everybody has left the building. ICTs provide an excellent opportunity to reduce emissions in this sector. According to the "*Smart 2020*" study, an estimated reduction of some 15% will be made by 2020.

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**Building Automation Service for Energy Efficiency**

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

The estimated energy savings and $CO_2$ emission reduction thanks to building automation solutions are between 20 and 30%. Telefónica Soluciones currently supplies this service to a number of commercial and financial institutions across Spain, including, for example, companies such as C&A and Caja Navarra.

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- **Intelligent networks**: ICTs form part of the different technologies that go to make up an intelligent power supply. Smart meters are just one of these technologies. These provide customers with more information on the amount of energy they are consuming, as well as enabling the automatic reading of energy consumption data. The capacity of intelligent power networks to support decentralised energy production makes it possible to reduce emissions even more. This enables renewable energy to be integrated into the network, thus reducing non-renewable resource energy generation and emissions.

## 5.8 Environment and climate change

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**R&D's "My energy" application**

Efficient management of electricity in homes and offices requires centralised energy systems. Telefónica R&D has developed the *"My energy"* application which enables management of energy using a mobile phone (compatible with IPod and HTC). This new application has won awards within the European Union, and is part of the European Commission's *BeyWatch* project.

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### 5.8.2.3 Employee focus

The main employee goal is to reduce energy consumption in the carrying out of the daily tasks of Telefónica Group employees, as well as to encourage the climate change culture in the Company. In 2009, the company carried out a global, employee awareness campaign entitled the "Efecto Eco", which addressed two particular issues: reduction of energy consumption in offices and sustainable mobility.

Work continues in the employee sector on encouraging telecommuting. By the close of 2009, almost 7% of the Company's employees had a telecommuting contract (4% excluding Atento) and over 15% saw a reduction in their working day (2% excluding Atento). A total of 17,728 had a telecommuting contract.

### 5.8.2.4 Supplier focus

The suppliers' goal is to implement policies and procedures that enable the inclusion of energy efficiency criteria and low carbon content in all products and services acquired by Telefónica. In 2009, general information was requested of all the suppliers of equipment product lines that consume energy. Telefónica has managed to include energy consumption as part of its procurement process, underlining this feature as an important factor when it comes making a decision about the purchase of a good or service. To this end, energy consumption has been included as a variable in the Total Cost of Ownership (TCO) analysis.

Moreover, during the course of the last year information was requested for the first time on suppliers' capacity to measure their carbon footprint as part of the Suppliers Control Process.

### 5.8.2.5 Society focus

The main objective of this focus is to make Telefónica a leader in the fight against climate change, getting across the message that ICT is at the heart of the solution to reducing $CO_2$ emissions, and also seeks to encourage energy efficiency in other strategic sectors, promoting a low carbon economy.

In order to get its message over, Telefónica is working hand in hand with several bodies in the sector: the International Telecommunications Union (ITU), GeSI and the GSM Association. This work involves taking active part in fora and spaces around the world related to the ICT sector.

- Telefónica and the International Telecommunications Union (ITU). In July 2009, Telefónica sponsored the 3rd ICT and Climate Change Symposium hosted by the ITU in Ecuador, where it presented its climate change strategy; its Inmótica home energy efficiency service; and Telefónica Ecuador's SMS early warning system. Telefónica also took part in the ITU *Kiosk*, which was organised as part of the World Climate Change Summit held in Copenhagen in December (COP 15). At the Summit, Telefónica signed up to the *Copenhagen Communiqué* promoted by Cambridge University, joining with all the companies in the world to request the agreement of firm commitments at the summit.

- Telefónica and the Global e-Sustainability Initiative (GeSI). Telefónica leads the Climate Change Working Group of GeSI, the main aim of which is to make progress in the objectives of "*Smart 2020: Enabling the low carbon economy in the information age*", which recognises the potential of ICT to encourage a low carbon economy. In 2009, a Spanish translation of the study was presented in Spain, which Telefónica has undertaken to distribute in those Spanish-speaking countries in which it operates. This study was also presented at the 7th Encuentro Iberoamericano de Desarrollo Sostenible (Latin American Sustainable Development Conference) held in Foz de Iguazú, Brazil. Sergio Mindlin, Chairman of Fundación Telefónica in Brazil, represented the Company at a round table on the challenges facing companies within the new green economy and climate change framework. Mindlin spoke about the actions Telefónica has take to position itself at the centre of the solution to the climate change problem, such as the setting-up of Climate Change Office and the development of actions around five hubs: Operation, Employees, Customers, Purchasing and Society.

# 5.8 Environment and climate change

- Telefónica and the GSM Association. Telefónica signed up to the GSM Association's *Green Manifesto*, the goal of which is to promote energy efficiency in mobile telephony networks and to work together to provide mobile services that enable increases of efficiency in other sectors.

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**II Climate Change Epoch Award in Brazil**

For the second year running, Telesp (Telefónica Group's landline operator in Brazil) was awarded the II Climate Change Epoch Award for Company Leader by the magazine Época (published by Editora Globo), an important weekly, Brazilian magazine, with technical support coming from the consultants, PricewaterhouseCoopers. The award highlighted the initiatives of 20 Brazilian companies and organisations that have greenhouse gas effect emission reduction policies. During the award ceremony the organisers underlined the Telesp's energy efficiency initiatives, especially those actions aimed at the reduction of air-conditioning consumption at its operation centres. The savings made in this type of project are estimated at 2.6 GWh/year, thus giving rise to a reduction of 212 $CO_2$ emissions a year.

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# 5.8.3 Environmental Management

A start was made on the implementation of the Global Environmental Management System (SGA) in 2009. Furthermore, certification continues on operators' (Argentina mobile and Telefónica's new headquarters in Spain) Environmental Management Systems. At present over 50% of the Group's companies holds ISO 14001 certification.

Environmental management plays an essential role in preventing environmental impacts and in boosting the positive effects that Telefónica can have on the environment. Consequently, Telefónica is working towards all of its companies having sound Environmental Management Systems (SGA) integrated into Company processes.

For example, as far back as 1998 Telefónica Móviles España had its system certified externally. At present, over 50% of Group companies hold a certificate certifying that the SGA's comply with that which is set forth in the ISO 14001 international standard, 70% of the company in terms of income in 2009. Moreover, 100% of these do their own environmental management.

In 2008, the Company designed a Global SGA in accordance with ISO 14001, which lays down the common guidelines to be followed by al Group companies. This common, global focus seeks to establish the best possible environmental practices which, on occasion go further than existing environmental legislation, and further seeks to achieve synergies which, as well as ensuring the best possible overall Telefónica environmental practices, contribute to more efficient management.

The Business Principles Office is the internal, corporate body that monitors environmental management in all Group companies. This Office is a collegiate body which reports directly to the Telefónica Board of Directors' Human Resources and Corporate Reputation Committee, and is permanently integrated by Human Resources, Internal Audit, General and Legal Secretariat and Telefónica's General Technical Secretariat to the Chairman corporate areas. It also has one representative each from Telefónica España, Telefónica Latinoamérica and Telefónica O2 Europa, respectively. The Business Principles Office meets every 3 months. Moreover, each company has its own Committee that is responsible for environmental management.

The documents that go to make up the Global SGA are as follows: Environmental Policy, Basic Standards, new Specific Environmental Management Standards and the Environmental Performance Index. In this way, the new model covers and extends the guidelines laid down by the Minimal Environmental Requirements Standards which has been in force since 2005.

Environmental aspects linked to Company activities, to processes that are carried out on the Responsible Network Deployment and to normal facility maintenance work were identified in the drafting of these standards in order to define good, specific environmental management practices for each one of same.

The Global SGA leads to the management of natural resources and other essential aspects, such as:

- Environmental aspects (waste, noise, electromagnetic emissions, visual impact, resources consumption).
- Legal requirements.
- Environmental checks on suppliers.
- Training and communication.
- Audits.

A start was made in 2009 on the process of implementing this global system. Thus, for example, it was implemented in Spanish operators and the Telefónica head office in Madrid was certified in accordance with these standards. Moreover, an in-depth analysis was also carried out on the Company's environmental risks in Latin America and a start was made there on plans to implement the system. The standards will be implemented and verified in all Group companies from 2010 to 2012.

Worthy of special mention is the fact that Telefónica Móviles Argentina managed to achieve certification for its Environmental Management System.

# 5.8 Environment and climate change

**District C, headquarters of the Telefónica Group in Madrid, awarded ISO 14001 environmental certification**

In 2009, the new headquarters of the company in Madrid were awarded environmental management certification by AENOR, having met the international ISO 14001:2004 standard. These offices, in an open plan business complex with a floor area of almost 370,000 m2, where some 12,000 employees work in 10 Telefónica Group companies, are the largest in Spain to have such a certificate. From the start of the planning stage, District C was conceived as a sustainable campus. The building has 16,600 solar panels on its roof, and an architectural and landscape gardening policy that at all times seeks to ensure the greatest possible efficiency in the use of resources. The office complex is certified under Telefónica's Global Environmental Management System.

# 5.8 Environment and climate change
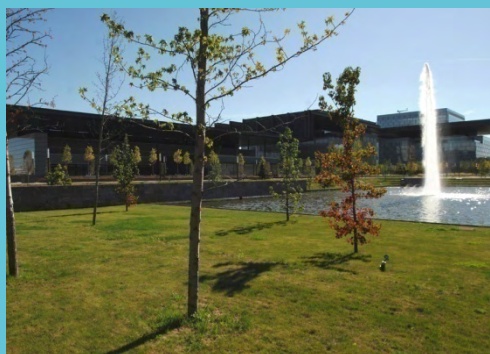
## 5.8.3.1 Environmental management balance

### Environmental Performance Index

Telefónica's Environmental Performance Index (EPI) provides us with information on the environmental situation at each Group company, enables us to assess the impact of the initiatives developed and acts as a support for future decision making. Moreover, the quantitative information allows us to make comparisons and to set out targets for those aspects that are open to improvement. On the other hand, the EPI report leads to improved environmental communication and Company transparency.

2009 was the first year in which the EPI was calculated for Telefónica Group operators. This index is made up of a series of indicators. It is based on the ISO 14031 Standard, which specialises in environmental indicators. The EPI thus integrates environmental management, operational control and energy efficiency information on all Telefónica operations. The first two areas are managed from the Global Environmental Management System, while the third is managed from the Climate Change Office:

- Management indicators, which provide information on Company efforts to bring about improvements in its environmental performance. They are linked to elements such as environmental objectives, legal files or the external certificate.

- Operational control indicators, which focus on aspects of the activities carried out that can cause an impact on the environment, such as waste, visual impact, noise and paper consumption.

- Energy efficiency and climate change indicators, which provide information on the results of actions carried out by each company in order to maximise their energy consumption and to reduce their carbon footprint, all of which are aimed at complying with the goal of global reduction.

The first aggregated results of the EPI in 2009 shows how operators in Europe have managed to make their management systems more solid, and are making swift progress in environmental improvement. The following graph gives you an idea of the current situation:

## ENVIRONMENTAL PERFORMANCE INDEX

# 5.8 Environment and climate change

## Environmental Management

Last year Telefónica made a considerable effort to consolidate environmental management working on all necessary aspects, both preventative, as well as corrective ones. In 2009, the Company increased the budget it allocates to environmental aspects by 9% with respect to 2008, thus, environmental revenue and expenses amounted to €33 million throughout the entire Group. Despite this there were 70 small penalties for environmental issues, but none of them lead to subsequent environmental damage, and were corrected. They were mostly related to administrative issues or the impact of noise or minor work on the local surroundings.

Moreover, each country looked after the normal management of environmental elements and improved the level of commitment and environmental organisation in general.

The following diagram shows the SGA situation in Telefónica companies:



**Breakdown of environmental management at Telefónica**

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

\*   Certificate does not cover the entire company

The purpose behind the implementation of the Global Environmental Management System and the Environmental Performance Index is to turn these specific advances into generalised ones throughout the Company, thus ensuring proper and sustained management over time. In 2012 all companies in the Telefónica Group used the SGA.

## 5.8.3.2 Extending the commitment

As part of its environmental policy, Telefónica makes its customers, employees and suppliers party to caring for the environment by transferring to each one environmental management guidelines and information.

By way of the foregoing, the Company manages to highlight environmental issues and involves its stakeholders in areas such as: reduction of resource consumption, compliance with legal requirements, environmental work procedures and waste recycling. In turn, it provides a response to the growing environmental concern generated by these issues.

The following sections describe in greater detail some examples of the initiatives undertaken in 2009:

### Employee targeted initiatives

In 2009, Telefónica Group employee environmental training and awareness continued. 16,500 hours of training were given in areas such as environmental management, legislation, waste management and the Responsible Deployment Network, all of which contributes to controlling and minimising the Company's environmental impact. It must be pointed out that environmental training is integrated into employee training plans.

- Seeking to comply with one of the environmental goals set by Telefónica Ecuador at the outset of 2009, an internal training plan was carried out last year for employees. By means of this training, in which a total of 769 people took part, 10 environmental subjects were dealt with. Moreover, the proposed objective was amply met, producing a performance rating of 9.44/10.

- 90% of Group companies also carried out environment awareness campaigns. Among the campaigns undertaken, the one entitled "Eco Effect" deserves special mention. This was an initiative implemented in Spain with the collaboration of the environmental organisation, WWF. To date it has been extended to Ecuador and the United Kingdom.

**The "Eco Effect" in Spain and Ecuador**

This initiative, jointly developed with the NGO, WWF Spain, aims to foster more respectful habits towards the environment within the Company, and to extend this idea to all those with whom it comes into contact. To achieve this objective, 5 campaigns were developed under the slogan "Do if for yourself, do it for the planet. Do it for everyone who will come after us"; these focused on paper use; water use; waste management; energy efficiency and climate change; and mobile sustainability.



The "Eco Effect's" philosophy is that the sum of many small actions is required to help create a world which is more sustainable, both for us and for future generations. Small individual actions -such as recycling, switching off lights and not printing a document- can result in huge effects, such as the conserving of forests, improving the air and combating climate change.

Intent on fostering good environmental practices among all its collaborators and making a rational use of natural resources, Telefónica Ecuador came on board this campaign as well.

For the last 4 months of 2009 a start was made on presenting the campaign throughout the entire Ecuadorian operation, making the most of general SGA training. An introduction to the meaning of the "Eco Effect" was presented in September and October, while November and December saw a start being made on the campaign by means of internal communiqués: posters and other means of dissemination made of recycled material. The daily, electronic internal communication newsletter "Day to Day" was also used as a means of disseminating messages on good environmental practices every Tuesday.

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## Customer targeted initiatives

Telefónica is developing a series of initiatives aimed at making people, particularly its customers, aware of caring for the environment, reducing the environmental impact of the products marketed by the Company and disseminating a use of ICTs that contributes to a more environmentally sustainable world. Some of the actions involved in these initiatives are, among others, the collection of telephone and battery waste, the e-invoice, the launching of environmental campaigns such as the use of biodegradable bags, etc.

### a. Telephone and battery waste collection

In 2009, the Company collected 1,900 tonnes of customer telephone waste. These items of waste were recycled and their materials have once again formed part of new manufacturing processes, thus reducing raw material, energy and water consumption. Telefónica has launched several campaigns in pursuit of this goal.

**DESTINO DE LOS MATERIALES RECUPERADOS:**



- **Spain**: For several years now the Company has been collecting unwanted mobile phones, devices and accessories in containers at its distribution points and stores in Spain. This action is carried out within the framework of the agreement signed with the Tragamóvil Foundation, which is part of the Spanish Electronic and Communications Companies Multi-sectoral Association (ASIMELEC). In the past three years, 1,497 tonnes of waste have been collected using these containers, which is then guaranteed to be processed in an environmentally friendly way.

- **Germany**: The July 2009 edition of the WWF's magazine included a bag which readers could use to return their old mobile phones to the NGO for free so that these can be reused. This campaign was a huge success, with the volume of telephones collected being almost 400% of the amount the previous month. In addition, two articles, one in the *"Essentials"* bulletin and the other in the *"Elements"* magazine, told our commercial customers about this recycling project, describing the process and encouraging them to follow the Company's example.

In 2009, a 28 page booklet was published describing how customers and employees can contribute to protecting the environment by saving energy in IT and telecommunications. The Environment Department answered questions from our customers and the general public relating to environmental issues. These questions related the Company's environmental efforts and to the mobile phone recycling project.

- **Ireland**: A project took place in 2009 to encourage and reward customers who recycle old mobile phones. The phones collected were recycled and the funds generated as a result went to an NGO. The target set at the beginning of the year was to collect 10,000 telephones. The work of the telephone recycling team generated some innovative solutions for promoting and raising awareness of recycling. These included gifts of tickets for the O2 concert venue and in-store and workplace promotions. Despite strong competition from other alternative charity organisations and their prominent advertising, over 12,000 used phones were collected and 25,500 euros were generated.

## 5.8 Environment and climate change

- **The Czech Republic**: The Company works with the REMA collection system to recycle waste electrical and electronic equipment. The development of the "Let your old mobile phone help" project continued in 2009. This is a social initiative through which the O2 Foundation receives 25.00 CZK (Czech koruna) for the ecological elimination of each mobile phone and 1.50 CZK for the ecological elimination of each kilo of landline telephones allocated to the support of the Safety Line association that helps children and teenagers.

- **Brazil**: The Telefónica Group company TGestiona in Brazil has been taking actions since 2001 in the reverse logistics area (an expression that refers to the return to industry of products and packages at the end of their service life). It reformulated its operation at the end of 2008, which serves Group companies (Telefónica SP, Terra and Vivo), by extending the return to equipment no longer in use. On average, some 76,000 out-of-date or defective pieces of equipment were removed from houses and companies, practically 100% of the total. As a result of this process change, 2009 saw a rise in the collection of products from 30% to 100%. The appliances that are collected are evaluated, and depending on their condition, are either repaired or sent to companies that recycle their components.

- **Mexico**: 70 million people use mobile phones in the country; however, there are at least some 15 million such phones which are no longer in use and stuck in a drawer, and a similar number end up in the ordinary household garbage, polluting the environment. In 2009, Movistar México continued offering its mobile phone and battery recycling points, and raised awareness of the importance of the simple act of recycling with its customers. One example of this is the campaign in the town of Puebla, where this type of "hazardous" waste accounts for 2% of all rubbish sent for dumping. The Company has been promoting collection of such equipment since 2006. Currently 72 Customer Service Points throughout the country have a recycling point. 37 new collection points were set up last year, and 26,010 mobile phones and batteries were collected.



- **Panama**: Telefónica has launched its 'The Earth is calling you… Reply!' programme, through which the Company invites its customers to recycle their unwanted mobile phones, batteries and chargers. In addition, as an incentive, Telefónica offers to plant a tree for every phone left for recycling. Telefónica Móviles Panama has placed special boxes in its stores and Movistar kiosks so that customers can leave their old phones; recycling and reuse is the responsibility of the Recimax company, which has 10 years' experience in handling and recycling waste, providing advice, holding seminars and designing recycling programmes at the national level.

**b. Electronic billing**

In 2009, nearly 12 million customers received e-invoices. Increasingly more Telefónica Group companies provide this service, which uses ICTs to avoid the consumption of natural resources, such as paper.

- **Colombia:** The implementation of "e-invoicing" through the virtual "e-invoice" encourages customers to replace printed bills with bills in digital format. The Company has created an inter-department committee to promote mass-acceptance of this development. In 2009 this included a campaign to promote rational paper use.

- **Peru:** In 2009 Telefónica started a project through which it aims to bill services to 209,000 customers without using paper bills; this will result in a saving of 800,000 sheets of paper. In 2010, it expects to expand digital billing to cover 400,000 customers. Telefónica Móvil offers its customers the "Movistar Digital Bill" service, which enables customers to receive their bill by e-mail rather than on paper.

- **Venezuela:** and since July 2009, Telefónica Venezuela's customers have been able to view their bills online 24 hours a day, 365 days a year, downloading them from the mimovistaronline website using the Online Services section of the website www.movistar.coma.ve. The digital bill is also sent to users by e-mail, and its issuance is notified to customers by text message.



**Click here for further information on e-invoicing.**

**c. Biodegradable bags**

- **Peru**: Telefónica Peru's multi-centre stores offer biodegradable bags for leaving unwanted products for recycling.

- **Venezuela:** Mobile phone sale bags are made of oxo-biodegradable plastics with d2W additives which cause less degradation time.

**New recyclable bag for customers in Chile**

In 2009, Chile introduced a new format for its bags for customers. The new format consists of a much smaller bag made of 100% recyclable paper; the bag is covered in printed messages about recycling, reducing energy consumption and general information about mobile phone masts.

# 5.8 Environment and climate change

**d. Other initiatives**

- **Spain:** Eventos Magazine applauded the event "48 Hours with Telefónica", which was held in June, for its commitment to the environment. The publication valued the effort made to reduce $CO_2$ emissions resulting from travel to the event. Telefónica Spain's Large Companies Unit managed to minimise its environmental impact by using recyclable materials and electrical energy saving equipment. In addition to commending its sustainability, the magazine also praised the richness of its content, which was the result of innovative presentation in which only a small number of highly advanced technological items were used.

Eventos Magazine also praised the Formula 1 Grand Prix in Valencia - another sustainable event sponsored by Telefónica - in which it offset 2 tonnes of $CO_2$ emitted.

- **Spain:** Telefónica offered guests at its Campus Party in Valencia in July the possibility to take part in the Green Campus, a room dedicated to environmental conservation. The Company used the room to demonstrate how old mobile phones are recycled. In addition, visitors found out how customers opting to receive electronic bills between January and June eliminated the need to print 19 million sheets of paper, cut down 1,560 trees and emit 2 tonnes of $CO_2$. Telefónica also took the opportunity to encourage the guests to get involved in its strategy to combat climate change and offer a range of services which will make it possible to save resources and reduce emissions.

- **Mexico**: In November, during the Campus Party, environmental activities were carried out with over 1,000 children who were invited by the Telefónica México Foundation.

- **Chile:** In May 2009 a Movistar shop was opened in the city of Temuco (Region XI) which was designed to incorporate environmental standards such as: toilets with double flushes and automatic shut off of taps; high-efficiency thermal insulation; efficient lighting systems; and ecological refrigerant gasses in climate control systems.



- **Peru:** Lastly, a project was put into operation that aims to reduce printing of the White Pages telephone guides by converting customers to the digital version. The target is to have 1.19 million users in 2010. In 2009 the system already had 539 users.

## Supplier targeted initiatives

An important pillar of environmental management at Telefónica is the transferring of environmental requirements and procedures to its supply chain and collaborating companies. In this sense, Telefónica has several work lines that come into play whenever a company wants to become a Group supplier. On the one hand, environmental clauses are included both with respect to the purchasing of products, as well as regards the contracting of services. Moreover, environmental training days are held for suppliers and specific guides are drawn up for them. In 2009 some 1,000 training hours were given.

A check is also made on suppliers' environmental good practices in several ways, such as: checking compliance with the quality and service clauses, or audits within the framework of the Telefónica project. In 2009, over 60 environmental audits were carried out on those suppliers who were seen to represent a possible environmental risk. In addition, these suppliers are given support in the drafting of plans to sort out those aspects that can be improved with respect to their environmental management.

# 5.8 Environment and climate change

On the other hand, Telefónica actively participated in sectoral and inter-sectoral initiatives that seek to ensure Human Rights and respect for the environment, thus further strengthening the commitment it undertook in 2008 upon signing up to the Global Compact.

**Click here** for further information on Telefónica's Supply Chain.

**To find out more about Supplier focus of Climate change Office click,** click here.

Below is a description of some of the environmental work done with suppliers:

- **Ireland:** In 2009, Telefónica O2 Ireland carried out an in-depth audit of its electrical equipment suppliers, and drafted a report on mobile telephones, accessories and other electronic equipment that is sold at our shops in order to make sure that this equipment is presented properly and accurately to regulation bodies. The audit was also aimed at ensuring compliance with requirements laid down in the Directive 2002/96/EC of the European Parliament and of the Council on Waste Electrical and Electronic Equipment. The conclusions of the audit enabled the Company to find that it is complying with the stipulations of the directive, and that there is a robust system in place to ensure that it continues to comply with them in the future.
- **Colombia:** Every year Telefónica Telecom undertakes considerable efforts to ensure its contractors comply with environmental requirements and procedures. In 2009 it held the 3rd Environmental Allies Workshop, in which 14 companies participated.



**New supplier assessment process in Colombia**

In 2009, at Movistar Colombia a new assessment process was implemented for critical suppliers in the country, that is to say, those suppliers that generate a greater environmental impact in Company operations.

The following input was to be taken into account when selecting critical suppliers:

- Environmental impact assessment of the processes in the organisation carried out by third parties (contractors, suppliers and/or allies).
- Geographical coverage of activities carried out by suppliers.
- Duration and economic impact of the contracts or renewal frequency.

The processes in which suppliers of this type are to be found are as follows:

- Network expansion. Building and site installation.
- Network operation and maintenance.
- Building construction, building maintenance (administration offices, CVS and Customer Experience Centres) and facility cleaning.
- Vehicle maintenance.
- Logistics.

A total of 20 suppliers were selected, who underwent second stage audits. By means of these audits and a supplier classification system, the average environmental performance level of the Company's critical suppliers was found to be acceptable. On foot of this information work will be done in 2010 on developing improvement plans in order to increase their classification.

## 5.8.4 Environmental footprint and network deployment

At Telefónica we devote time and effort every working day to minimise the potential impact of our activities on the environment. To this end the Company integrates the best environmental control and prevention practices into its operation.

The most significant environmental aspects of Telefónica's operations are:

- Use of resources and materials (energy, water, paper, etc.).
- Waste management (particularly from electrical and electronic equipment and batteries).
- Radio-electric emissions.
- Visual impact of installations.
- Noise generation.

The following diagram shows the processes where these elements are generated, mainly in telecommunications networks and office buildings.

### Environmental practices in network deployment
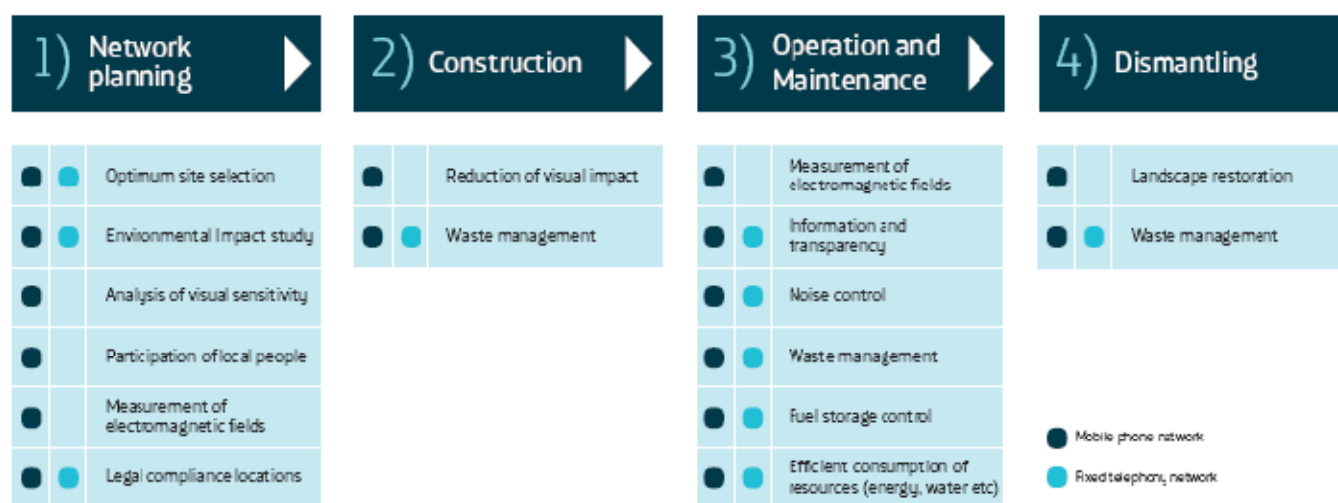


This chapter explains those aspects related to the consumption of resources, with waste management having a direct impact on the environmental footprint of Telefónica, as well as other aspects that are directly associated with the deployment of the company's telecommunications infrastructures.

# 5.8 Environment and climate change

## 5.8.4.1 Responsible network deployment

At Telefónica we devote time and effort every working day to minimise the potential impact of our activities and infrastructures on the environment. This means integrating good practices into our processes, in order to achieve a Responsible Network Deployment.

These management practices affect the entire network cycle, i.e.: design, planning, construction, maintenance and dismantling operations. As part of our Global Environmental Management System (EMS), we have established a set of regulations and a number of guides focusing on the environmental aspects most relevant to a telecommunications operator, where the procedures applicable in all the companies in the Group are laid down. These practices are based on current legislation, although occasionally, depending on the geographical region concerned, more restrictive rules are implemented to ensure that Telefónica uses the best possible instruments for the prevention and control of environmental impact.

Thus, we have established rules to control environmental aspects such as noise, visual impact and radioelectric emissions, and also preventive procedures against contamination due to spills originating in fuel tanks, for example. Telefónica currently has almost 10,000 tanks. There were few spills in 2009, and they had no effect on the area adjoining the tank thanks to the rapid reaction at the time of the incident, which resulted in 17 $m^3$ of waste being collected for subsequent treatment.

- Last year, operations for adapting fuel tanks were carried out in 6 towns in Brazil. In the same period, a pilot project was implemented with a one-thousand-litre fuel-treatment tank, aimed at reducing contaminating emissions.

Stakeholders - including customers, neighbourhood organisations, non-governmental organisations, local town councils, etc. - are involved in all the stages of network deployment, helping the Company to improve.

### a. Planning and Construction
**Environmental impact studies**
Telefónica S.A. makes use of a number of tools in the network design stage that help to prevent, as far as possible, any adverse effects on the environment. All environmental impact studies to reduce the potential impact of installation required by the public authorities are carried out, and the necessary corrective measures proposed. In 2009, 979 studies of this kind were undertaken.

**Visual impact reduction through integration with the environment**
As a voluntary measure, Telefónica undertakes analysis of visual fragility for the majority of its mobile telephony operations in order to ensure that the impact of the infrastructure in question is as limited as possible. As a result of this analysis, two different types of visual integration operations are used. The first consists in visual adaptation, which seeks to integrate the infrastructure within the environment through the use of paint finishes or by simulating the structures and textures which are similar to the buildings or landscape in which they are located. The second is based on infrastructure sharing with other operators, which reduces the number of antennas in the mobile telephony network.

In 2009, 3 million euros were invested in visual impact adaptations and 25,200 new installations were shared with other operators.

# 5.8 Environment and climate change

## Sharing of infrastructures with other operators



Latin America: 7,068 (2009), 3,012 (2008)
Europe: 9,222 (2009), 7,378 (2008)
Spain: 8,916 (2009), 7,204 (2008)

■ 2009 ■ 2008

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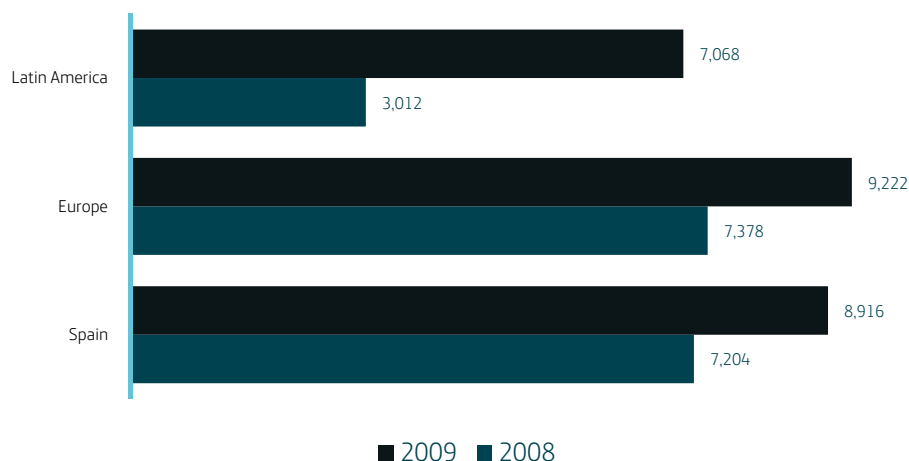
**Visual impact reduction through integration with the environment**

- **In Argentina,** work continued in 2009 on the visual integration of infrastructure installed in national natural parks.



- **In Ecuador,** 114 stations were visually integrated with their surroundings last year throughout the country. New designs were used in visual integration operations, achieving greater impact reduction. 3 examples are worthy of particular note: the Malecón Puerto Ayora station in Galápagos, implemented in January; the Bahía Centro station in Ciudad Bahía de Caráquez, implemented in July, and the Recoleta station in Quito, implemented in July.



- In **Guatemala**, camouflaged structures (environment-friendly monopoles) and reducing the number of towers are preferred to other visual integration alternatives. In 2009, 4 sites were installed around the Atitlán Lake, all of which used ecological monopoles to reduce their impact: Santa Catalina Palopo, San Antonio Palopo, Cerro de Oro and San Pedro la Laguna.

# 5.8 Environment and climate change
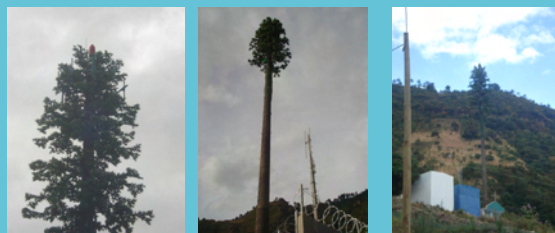
**b. Maintenance and radioelectric emissions**

**Radio-electric emissions**
Before mobile telephony networks enter into operation, and during the maintenance phase, Telefónica monitors and controls their levels of radioelectric emissions to ensure compliance with applicable legislation and European and international recommendations.

The Company performed 16,884 measurement operations of radioelectric emission levels at its base stations, and confirmed that 100% of them are within the legally established limits.

## Measurements of the levels of emission registered by regions (2009)

| Region | Value |
|---|---|
| Latin America | 3,125 |
| Europe | 6,217 |
| Spain | 7,542 |
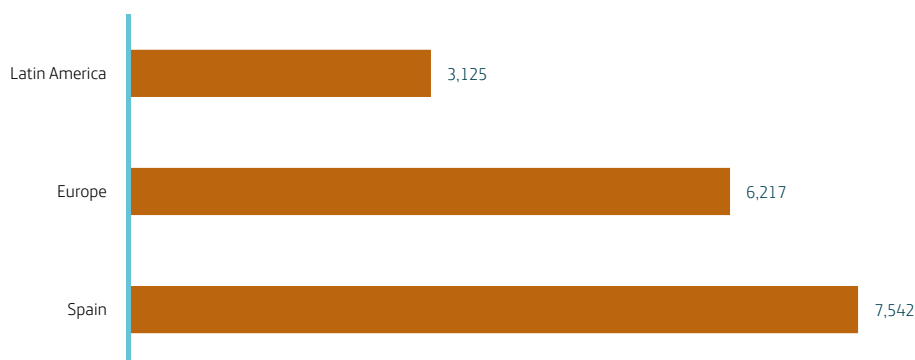
Telefónica is conscious of the concern that exists within society regarding radioelectric emissions, and therefore maintains transparent communication on this matter. The Company consistently provides information on request to neighbours' associations, public bodies, customers or any other party interested in the operation of its base stations and mobile telephony antennas, and collaborates in the dissemination of the knowledge available on the subject.

Concerns over mobile telephony and health are centred on safe levels of exposure to RF waves emitted by mobile handsets and base stations. Telefónica devotes a great deal of effort to ensuring that its products, services and networks stay within the RF exposure limits established by the International Commission on Non-Ionising Radiation Protection (ICNIRP) and the European Commission. This involves performing control measurements as described above, and including the legally established limits in its requirements for the purchase of mobile telephones.

Telefónica's work is therefore in line with internationally established RF exposure policies, which are based on the human exposure recommendations of the World Health Organisation (WHO) and the compliance methods developed by the IEC (International Electrotechnical Commission), the ITU (International Telecommunications Union) and CENELEC (European Committee for Electrotechnical Standardization).

The following cases demonstrate some example of how Telefónica responds to legal requirements and provides information to stakeholders on this issue:

- **Spain:** Telefónica has established a number of channels that allow us to give an adequate response to demands for information from the general public in Spain. For our customers and other people interested in this matter, we have the website www.movistar.es/telefoniamovilysalud. It also provides information to its employees using the corporate Intranet (internal information bulletins, FAQ documents, e-mail addresses for asking questions, etc).

  Telefónica is working with the Government and public sector bodies such as the Secretariat of State for Telecommunications and the Information Society (SETSI) in order to harmonize network implementation and provide and communicate better information. The Company is also involved in continuing discussions with the Spanish Federation of Towns and Provinces about how to apply the Best Practice Code for the Installation of Mobile Telephony Infrastructure, which was signed in 2005. By the end of 2009, some 1,140 town councils had adopted this code.

## 5.8 Environment and climate change

In 2009, Telefónica undertook a visit plan taking in town and city councils and regional government bodies, supervised by the company's Territorial Committees, with a view to giving greater impetus to collaboration with all levels of the Administration, especially within a local context, permitting deployment of the infrastructures that are necessary in order to support mobile services in an environment of understanding, contributing to flexible procedures which offer maximum guarantees.

The Company also collaborates in the holding of Informative One-Day Conferences, open both to the Public Administration and the general public, at which questions which cause social concern may be examined as well as giving an impetus to the deployment of the infrastructure required for the mobile telephony services that the public demand. The conferences cover subjects such as: the functioning of mobile telephony networks; aspects which determine the design of networks in relation to their locations (vicinity or dispersion) and the technical requirements involved in installing base stations in an area; references to framework regulations regulating such facilities at a national, regional and local level; the definition of municipal powers relating to such infrastructures; and the guarantees in place covering the deployment of telecommunications networks (the conclusions reached by the World Health Organisation's scientific committees and the Spanish Ministry of Health, among others). In 2008 and 2009 Telefónica collaborated in nearly 50 such One-Day Conferences.

- **Germany:** All the base stations in the country are required to have a certificate of conformity with exposure directives before they can enter into operation. The website of the Federal Regulatory Office, emf2.bundesnetzagentur.de, provides detailed information on each installation and measurement results are available to the public.

  Telefónica O2 has made a voluntary commitment to keep the local authorities informed of all planning issues from the initial stages. The company assesses the site locations proposed by the local authorities and works towards an agreement. In 2010 it presented the German government with an independent external review of implementation of its voluntary commitment.

- **The Czech Republic:** Telefónica O2, with the other collaborators of the APRM (Mobile Network Suppliers Association), created a website on health and mobile telephony in 2009. The website offers objective information on all matters in connection with wireless technologies and their effects on human health. An information brochure has also been issued on this subject.

- **Chile:** National regulations in Chile establish that a record must be kept of the emissions of every base station in the country, and that these emissions must always be below the maximum levels permitted in regulations, which are, in themselves, among the most demanding in the world.

  In 2009, a measurement plan was implemented for all mobile base stations in collaboration with the three companies in the sector, which carried out over 5,000 measurements throughout the country. The measurements were satisfactory, revealing that levels were below the maximum permitted throughout the network; as a result, no changes needed to be made to comply with regulations.

  The Chilean Mobile Telephony Association, which groups the three operators in the country including Movistar as an active member, has held talks with a number of local authorities in the country to provide detailed explanation of the need to deploy the network, and disprove the myths surrounding health and mobile telephony.

- **Guatemala** Before commencing construction of a new site, the Company holds talks with the representatives of the Community Development Councils (COCODES), which carry great weight in the country, in order to obtain the community's approval of the project.

- **Venezuela:** Under Administrative Order no 581 issued by CONATEL, the National Telecommunications Commission, in 2005, all telecommunications service operators are required to perform measurements at all their stations. To date some 3,600 measurements have been made nationally as a result.

  In Venezuela, public policies and projects aimed at providing for communities' needs are managed by Community Councils. These public participation entities established in Venezuelan law, act as coordinators for the different community organisations, social groups and civil society representatives, and constitute one of the first instances for approval of the installation of antennas, repeaters and cells.

# 5.8 Environment and climate change

As a result, 18 meetings were held throughout the country in 2009 with these organisations, which dealt with: technical discussions of health and masts, electromagnetic fields, current legislation and compliance with domestic and international standards. Information pamphlets on these issues have been distributed, and an open dialogue has been established with the community to answer their concerns.

## Sound emissions

Another relevant aspect concerning Telefónica installations is that of noise. Any acoustic sources are subject to monitoring and evaluation to regulate and control noise emission levels. Throughout 2009, 1,273 measurements of sound levels were undertaken, and 1.3 million euros invested in order to reduce their impact.

- **Brazil**: In 2009 the Company carried out work on 14 of its facilities as part of its continuing challenge to improve noise control at its telephone exchanges.

- **Mexico**: All constructions have to comply with the requirements of regulation NOM-081-SEMARNAT-1994, which specifies permitted noise levels for base stations. In addition to this, a SEMARNAT certificate of compliance is issued once it is verified the noise levels are within the permitted limits. Telefónica performs an annual study, in collaboration with an external supplier, to verify compliance with the standard.

- **Venezuela**: the installation of a hive system for attenuating the noise produced by a generator in the switch room has resulted in a 20 dB reduction in noise levels over the last year.



## c. Dismantling

When an infrastructure is dismantled, Telefónica uses practices to restore the site to its original condition, in such a way that it will not be perceived that there was ever an installation in that place. Another aspect that is particularly sensitive in dismantling operations concerns waste production. The Company applies the best waste treatment practices and ensures that it is not left unprocessed or mismanaged.

**d. Cases of responsible network deployment**

- **Spain:** In 2009, Telefónica undertook an expansion of the 3G network that will allow us to offer high quality mobile telephony services to a larger number of customers, broadening our service coverage by more than 25% in densely populated urban areas. This expansion, which will also improve energy efficiency and reduce environmental impact, was carried out by Nokia Siemens Networks, and is part of Telefónica España's GPS Transformation Process.

   "The Spanish telecommunications market is incredibly competitive, and we have to develop new, better services at a very fast pace to maintain our cutting edge status, while we extend our coverage across the country. In order to meet these objectives, we needed a partner with the ability to implement a first class network and which has an innovative attitude; that is why we chose Nokia Siemens Networks,' stated Carlos Calvo, Technology, Operations and Systems Manager for Telefónica España. "But that is not all. As responsible citizens, we have the duty to make our own small contribution to preserve the environment. We believe the ideal solution must be one that takes all these factors into account."

   With this project, which includes the implementation of Nokia Siemens Networks' Flexi Base Station, Telefónica expects to reduce $CO_2$ emissions by more than 9,500 tonnes a year. This would be the equivalent 1,800 vehicles disappearing from Spanish roads.

   As the Flexi base station is the smallest and most energy efficient currently available, it can reduce energy consumption by up to 70%. Thanks to its light weight, its modular architecture and ease of implementation, it also contributes savings in operating costs.

   Nokia Siemens Networks completed this ambitious network implementation for Telefónica in record time. Nokia Siemens Networks also offered its network management solutions and services for the monitoring, control, analysis and management of Telefónica's network. Pentti Tolonen, Nokia Siemens Networks Sales Director for Telefónica Spain says that *"we feel very proud about this project, which has allowed us to genuinely become partners of Telefónica and to contribute to our customer's success. Nokia Siemens Networks has successfully combined the renovation of the existing 3G wireless network with an ambitious network expansion plan. Both these projects were conducted simultaneously and without any compromise to the quality of the service, which according to the perception of Telefónica's end users, was even improved.*

- **Colombia:** Similarly to other operators, Movistar Colombia engages in activities aimed at mitigating the environmental impact caused by the construction and installation of its base stations. These consist in the implementation and adherence to the Dike Adaptation Plan, noise generation, supplier management and visual impact management. 112% of 2009 objectives was achieved.

   The Dam Implementation Plan for existing sites involved building 50 dikes and optimising resources, with 127 projects being carried out. As regards the evaluation of visual fragility, the average grade obtained was 2.8. This figure, which beats the proposed target by 7%, is the result of the increased use of shared-location sites, a practice that reduces the visual impact on the surrounding environment. Regarding third-party management, the first environmental evaluation of suppliers causing environmental impact was performed. The level of environmental quality achieved was 80%. This figure indicates that, on average, Telefónica's suppliers apply minimum standards of environmental management which are acceptable for operation, and which can be improved further. In addition, noise emissions were reduced by 98% on average.

   Movistar Colombia is currently still in an intense phase of expansion, driven mainly by three factors: the installation of new mobile telephony services to cover a larger number of users, whether in remote areas or zones which are currently not covered; the installation of new stations in areas which already have coverage in order to maintain service quality for the increasing number of users and volume of call traffic; and the installation of UMTS radio base stations to serve the increasing number of data users, improving service quality and speed.

   In 2009, Movistar  continued carrying out environmental impact assessments to identify the best sites for its network expansion plans. A total of 574 new sites were introduced between January and September, each with its visual fragility study. As a result, 12 projects were carried out to integrated structures into their environment, through continuation of facades and painting masts and towers.

**Ecuador**

One of the requirements for implementing networks is to reduce times, costs and environmental impact during construction of the mobile telephony base station. In order to resolve this issue, in 2009, an innovative station design was developed which makes it possible to reduce normal implementation times by 66% and, as a result, to minimise environmental impact during construction and removal of a base station.

Such infrastructure, which is new in Ecuador, does not require any excavations for support structures, and occupies an area no larger than 10m x 10m. The new design also helps to restore the site to its original condition in the dismantling stage. This reduces the risk of any environmental impact, noise generation, disturbance from the work, pollution, etc.

The generation of solid waste during the construction and removal stages is also significantly reduced, as no excavation rubble is produced and the majority of the parts are re-usable.



- **Peru:** Where new mobile base stations are concerned, visual integration is applied in site design as far as possible, with the aim of minimising visual impact. In rural areas, "fast sites" have begun to be installed in rural areas. These have smaller communication towers, with the resulting benefits, such as a decrease in the resources used, reduced effects on the soil and a smaller amount of waste. In addition, transmission equipment installed in some base stations does not require refrigeration equipment, resulting in lower noise emissions.

## 5.8.4.2 Consumption of natural and material resources

The maximisation of resources and materials consumption enables Telefónica to increase efficiency, while at the same time reducing its environmental footprint. As has already been seen, there are efficiency plans related to energy consumption in all Telefónica Group companies. Nevertheless, this is not the only resource that is subject to maximisation actions. Every day practices are implemented to reduce the consumption of water, paper, electricity, fuel, etc.

Moreover, work is also being done on reducing the consumption of certain substances that are hazardous to the environment, such as gases that deplete the ozone layer.

Internal awareness raising campaigns play a key role in achieving reductions in resources.  In this respect the awareness actions aimed at employees, in which they are invited to get involved and participate in initiatives that seek to save resources, as well as a greater commitment to the environment.

**a. Water Consumption.**
Water is a scarce resource, but one that is essential to life. Though its consumption in Telefónica is basically linked to employees, and not directly related to the activity concerned with providing our service, the Company acts in a responsible manner as regards its consumption. In this sense, the actions that are carried out are mainly bound up with the installation of saving devices, the study of the biggest consumption points and the carrying out of internal awareness campaigns.

Year after year, Telefónica makes a great effort to complete the water consumption inventory as accurately as possible. This work is essential to establishing the starting point information, thus enabling us to learn of the impact of the reduction measures. It is important to underline the fact that the installation of consumption meters is not customary practice in all the countries in which Telefónica is present. Nevertheless, Telefónica has installed this type of device in its main offices.

In 2009, the Company consumed approximately 4.47 million m3 of water, which amounts to around 8% less than the year before. These are approximate data owing to that which is explained above. Paradoxically, part of the efforts made concerning consumption reduction is lost given that each year the information increases from new sites owing to the installation of the meters.

### Consumption of water in millions of m$^3$



| | 2008 | 2009 |
|---|---|---|
| Spain | 1.05 | 1.14 |
| Europe | 0.44 | 0.39 |
| Latin America | 3.4 | 2.94 |
| Telefónica Group | 4.85 | 4.47 |
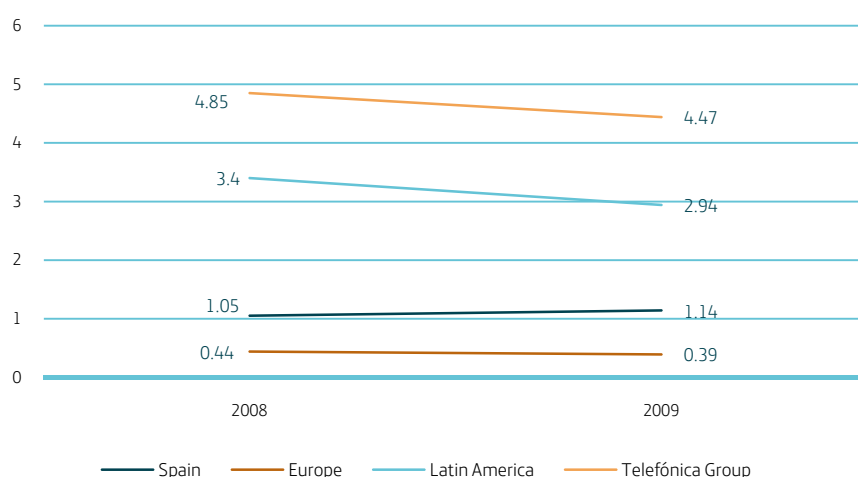
Depending on the circumstances the companies of the Group establish targets related to water consumption as part of its environmental management systems. Among these, the following are worthy of mention:

- Telefónica Perú Fija has set a target of reducing water consumption by 2%, as just one among its other goals. With a view to meeting this target it has laid down and implemented different actions, such as leak inspections, revisions and assessments of timer shutoff cocks, the replacing of taps and urinals, etc.

# 5.8 Environment and climate change

- Telefónica Colombia Fija aimed to save 41,000 m3 (absolute) of water in 2009, which amounts to a 20% saving with respect to the 2008 consumption figure. Telefónica Colombia Móviles also aimed to achieve a consumption of 0.73 m3 per person/month.

**b. Paper consumption**

As a telecommunications company, Telefónica is aware that the use of technologies makes it possible to reduce paper consumption. Therefore, some years ago the Company put the "Paper-free Office" initiative into operation, which is currently being implemented in a lot of Group companies. Moreover, it promotes the use of recycled paper instead of white paper. All of the foregoing gives rise to reduced energy, water and tree consumption and less $CO_2$ emissions.

## Consumption of Paper (t)



| | 2008 | 2009 |
|---|---|---|
| Spain | 438 | 416 |
| Europe | 576 | 521 |
| Latin America | 2,621 | 2,453 |
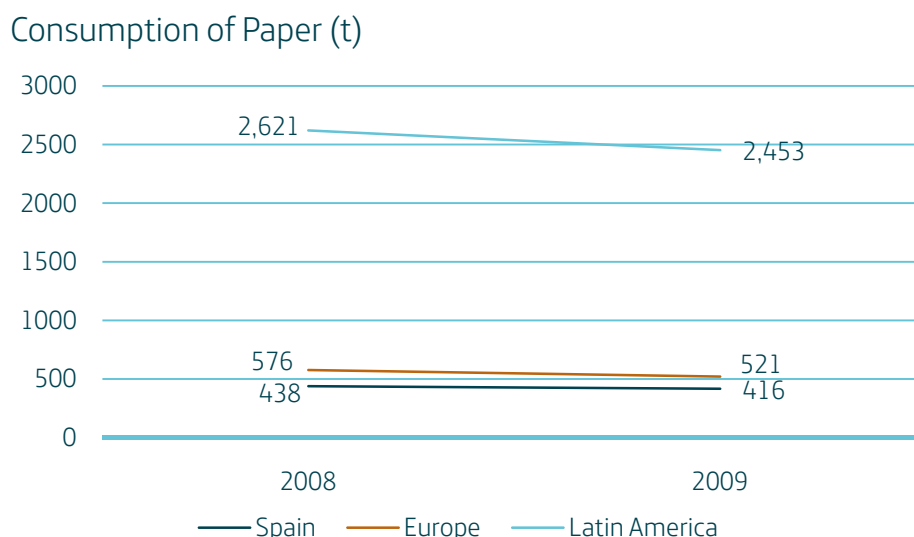
In 2009, 2,732 tonnes of white paper were consumed in company offices along with 657 tonnes of recycled paper. Consumption was reduced by 7%, which is equivalent to having saved 3,400 trees, 3 m$^3$ of water and 1 million kWh.

Worthy of special mention is the fact that Telefónica aims to reduce paper consumption per employee. In Spain, for example, paper consumption of 14 pages per employee/day in 2005 was reduced to 7.8 pages per employee/day in 2009.

# 5.8 Environment and climate change

**Saving paper in District C, Telefónica's Madrid headquarters**

In 2009 the Company established reducing paper use and promoting the use of recycled paper as two of the environmental objectives for this complex where some 12,000 employees work.

This has resulted in a 15% reduction in paper use compared to 2008, with 88% of paper used being recycled. Use of recycled paper has increased from just 500 tonnes in 2007 to 12,800 tonnes last year - a huge advance reflecting a major change in habits.

Telefónica firmly advocates white paper reduction policies, which are becoming increasingly widespread in work centres, as well as fostering the standardised use of recycled paper. Plans are afoot to extend the "Paper-free Office" initiative, which is closely linked to new work practices at the Company's head office in Madrid, District C, to the other work centres and regions where the Company operates, given that this is a basic factor in achieving greater consumption efficiency.



Likewise, and in line with its environmental commitment, the Company is promoting the use of the e-invoice among its customers, which will gradually manage to reduce the consumption of resources previously used in the issuing of invoices. Last year over 14,000 tonne of paper was consumed for this purpose, though the Company managed to convince new customers to change over to e-invoicing. At present approximately 12 million users have opted for the latter invoicing method.

**Click here for further information on e-invoicing.**

### c. Gases that are depleting the ozone layer

At each Telefónica Group company work is being done on eliminating cooling gases that are depleting the ozone layer, depending on the legislation of the country in question and always in accordance with international protocols. The following are some examples of the initiatives that were carried out concerning this issue in 2009:

- **Argentina**: Halon gas fire extinguishers prohibited by the Montreal protocol (covered in turn by National Law No 24040) were removed and sent for definitive disposal. As far as HCFCs (R22) are concerned, which are used by air-conditioning equipment, though they are authorised by the law of the country until 2040, Telefónica has stipulated than all new equipment that is bought must work with gases that are ozone layer friendly.

- **Brazil:**The use of CFC gases has been totally done away with in Brazil at the Telefónica plant, thus complying with the term set in the National CFC Elimination Plan, which set January 2010 as the deadline

for prohibiting the use of such substances. Those gases had not been used in air-conditioning equipment for some time, but other CFC gases authorised by local legislation were being used in 79 telephone cable pressurizers, which represented a total load of 44.4 kilos.

- **Guatemala**: The use of GGEs (R22) has been eliminated in the new air-conditioning systems, making the use of R-407C compulsory (an environment friendly cooling gas).

- **Mexico**: In Mexico, the use of R22 cooling gas has been replaced by R407 at 65 sites as part of a project that began back in 2005.

- **Germany**: The amount of air-conditioning systems that use R22 gas was reduced from 209 to 169 in 2009.

- **Ireland:** A start was made on a project to identify those installations in business operations that use HCFC containing air-conditioning and cooling systems. The aim is to ensure that the Company finds itself in a secure position to face up to the effects of the progressive removal of R22 cooling gases. A project team was set up within the Installation Team, to which sufficient financing was allocated in order to undertake this task in the course of 2010.

## 5.8.4.3 Waste management

Waste generation is one of the Company's main impacts on the environment, given that this occurs in practically all of its activity processes and in great quantity, though the majority of the waste generated does not contain elements that are harmful to health or the environment.

As has been mentioned above, waste is generated by office and building maintenance activities, on the network and in the use of equipment by customers.

Telefónica promotes the practice of the three R's in its management of waste: Reduce, Re-use and Recycle. Both waste generated internally on networks and in offices, as well as that produced by customers, is managed separately depending on its type and always by waste management companies that have been authorised by the public administration in question.

In 2009, 75% of the waste generated was sent for recycling, which leads to the reduction of the use of raw materials in the manufacturing of new products, while at the same time reducing the impact caused on the environment by dumps and waste incineration.

Broadly speaking, two Company waste generation lines can be distinguished:

- Telefónica Waste: waste which is generated in the Company by its internal operations, mainly that resulting from network Waste of electric and electronic Equipment (WEEE), batteries and the waste generated in offices.

- Customer waste: that waste which is produced by customers, basically telephones, accessories and other electrical and electronic devices.

**a. Telefónica Waste**
The most important waste generated by Telefónica is that which comes from its infrastructures, both as a result of its volume as well as its composition, which is characteristic of any telecommunications operator.

Among this we find the Waste of electric and electronic Equipment (WEEE) from its network and office operations (1,959 tonnes), waste produced by its infrastructures (81,220 tonnes) and waste from its batteries, which also comes from network installations, (2,681 tonnes).

A total of 91,661 tonne of waste was generated in 2009, 90% of which comes from telecommunications infrastructures and which, therefore, is made up of cables, network equipment, metal and fibre cabinets, stationary batteries, etc.

The following graph shows that there has been a drop of 21% in the amount of Waste of electric and electronic Equipment (WEEE) generated by the company in comparison to the 2008 figure. The amount of waste that is generated each year depends on many factors such as technology changes, out-of-date network deployment plans, etc. Nonetheless, Telefónica waste management practices are always aimed at generating as little waste as possible.

## 5.8 Environment and climate change

### Waste of electric and electronic Equipment
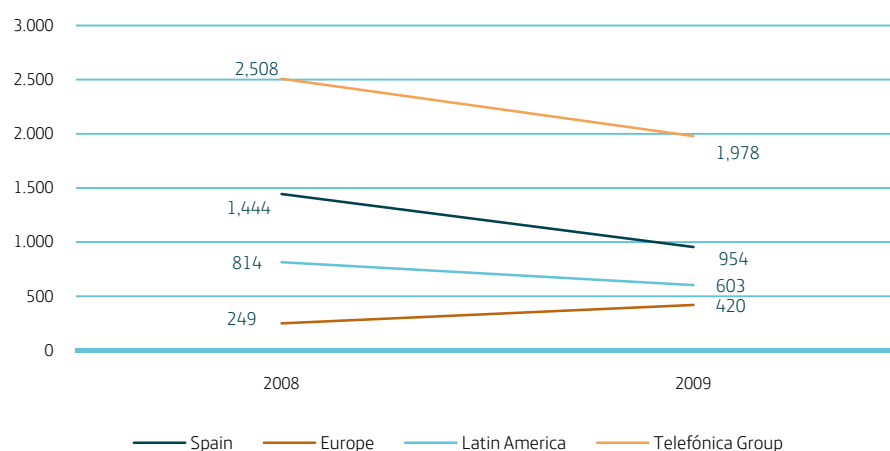


As regards this matter, special mention must be made of the re-use of telecommunications equipment, a habit that has become a Company custom for some years now, and which is being extended to other countries and types of equipment. In this way, used equipment is sent to workshops for repair and later re-use, thus benefiting the environment in two ways; not only by the considerable reduction made in the volume of waste that is generated, but also because of the recycling and use that is made of the discarded equipment and materials. In 2009, this practice saw the re-use of approximately 1.4 million pieces of equipment (accounted for in units).

Though Waste of electric and electronic Equipment (WEEE) represent the most significant waste generated by Telefónica, other types of waste are also generated: cables and other waste materials from infrastructures and battery waste, the latter falling within the hazardous waste type. Both types are represented in the following graphs:

### Waste of Telefónica installations
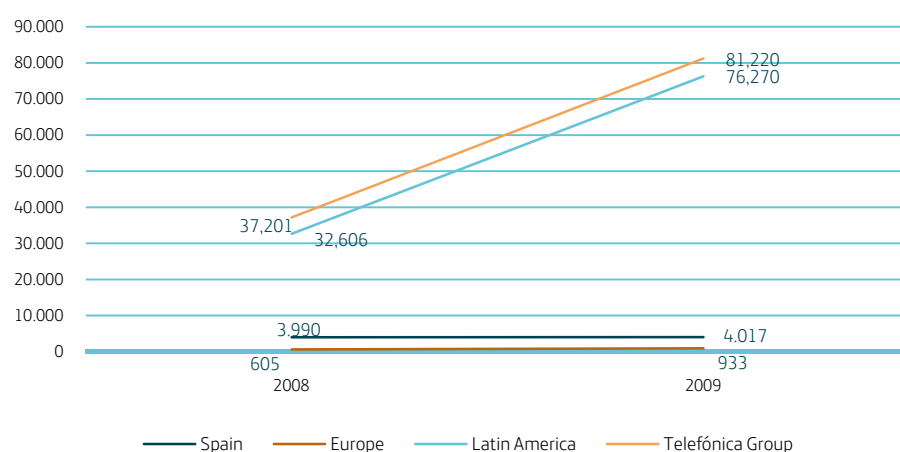
## Battery waste
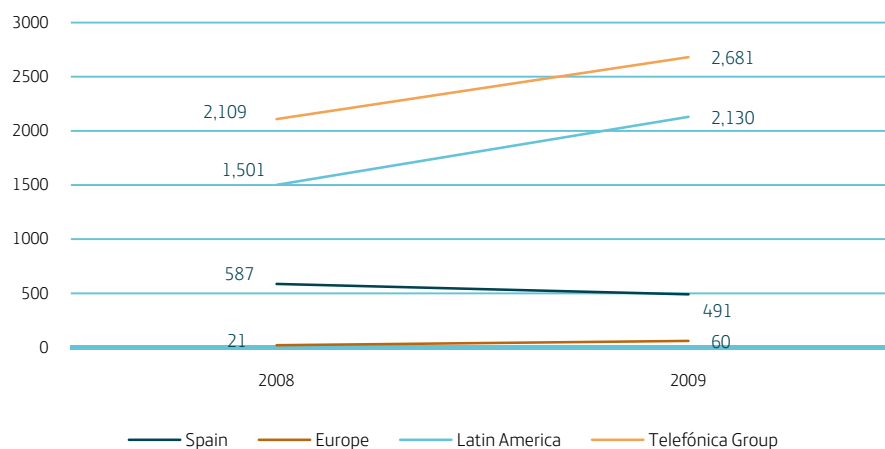


In 2009, 81,220 tonne of plant waste was generated (this includes cable waste and other plant waste, understanding the latter to mean that which is generated in the construction and dismantling of telecommunications infrastructure, other inert waste, etc.).

Moreover, 2,681 tonnes of battery waste were generated. In all those countries in which Telefónica is present, battery waste is treated by specialised companies that take great care in avoiding hazardous components harming the environment.

Finally, it is worth highlighting the fact that 10% of waste is generated by the offices of the company. In total, 5,634 tonnes in 2009, of which 40% was paper and cardboard waste. For the effective management of this type of waste, it is vital to carry out awareness raising campaigns for employees, which are carried out in all companies of the Telefónica Group, with the aim of emphasising the importance of a proper separation of same for subsequent processing and to make the best use of resources and raw materials.

- **Spain:** Waste generated from activities carried out by contractors is managed by these, always in accordance with current legislation. As far as RAEE type waste is concerned from customers, systems, etc., this is managed by means of collaboration agreements with the existing Integrated Management Systems (IMS). These IMSs are created by manufacturing companies and are normally registered with the Ministry of Industry as Foundations. Whatever the case, operational control is exercised on this waste, the amounts generated are registered and compliance with legal requirements is monitored.

- **Peru:** A reverse logistics process was implemented in 2009, which seeks to recover broken-down equipment from customers' homes for inspection, and where appropriate, repair. Equipment that is beyond recovery receives proper treatment by a recycling company.

**New recycling initiative in the United Kingdom**

Telefónica O2 United Kingdom, which has 12,000 employees in many different offices, retail stores and networks throughout the country is confronting a key issue: the volume of waste produced. A considerable proportion of waste is sent to dumps, and it is very expensive to process. Telefónica O2's challenge is to reduce the volume of waste sent to dumps and to increase recycling. In 2009 it was decided to try a new recycling initiative at the Preston Brook call centre.

Approximately 1,700 people work at the centre and, although it has recycling facilities, it was not as efficient as it could have been as it was only recycling 40% of waste.

The initiative launched involved reviewing current scenarios and best practices in the sector, focusing on everything from obtaining energy from waste to separation at source. The Company also coordinated a visit to evaluate the facilities of the local Material Recycling Installation (MRI), where waste is classified and recycled. MRI operators demonstrated their capabilities for centralised waste classification, and demonstrated how waste could be recycled instead of being sent to a waste dump. This research demonstrated that implementing mixed recycling in Preston Brook using MRI could significantly increase the level of recycling achieved.

In addition, Telefónica O2 recognised that a key factor in improving recycling was raising awareness among staff. The Brand and Communication Departments therefore designed a communication programme using effective recycling signs and a highly visible awareness raising campaign.

The new system has resulted in modernisation of the existing flow of mixed waste recycling activity in Preston Brook. This included the many existing recycling channels being replaced by a simpler system with just 2 main flows of waste: mixed waste and food waste (dump). The resulting increase in environmental performance has been substantial: 170 tonnes of waste pre year are now being sent for recycling instead of for dumping (90% of waste). In addition, this is resulting in savings of some £6,000 per year at this centre alone.

This initiative can also be applied to other facilities, although it depends on the capacity of the local waste transporters to be able to process mixed recyclable material. Based on this, Telefónica O2 has already identified other centres where it can apply mixed recycling.

**b. Customer waste**

As indicated in the chapter on customers, Telefónica offers its customers the possibility of handing-in electronic equipment, basically telephones, that are no longer being used so that they can be recycled. This service is provided in most countries, even in those places where there was no suitable infrastructure but where one has now been set up for this purpose.

In this way, 2009 saw Telefónica collect 1,895 tonnes of waste electrical and electronic devices from customers, which represents a 16% on the year before. This trend is extremely positive as it increases the possibility of recycling them. Thus, Telefónica carries out different actions aimed at encouraging customers to hand in obsolete equipment that can be used after it has been properly recycled.

## Waste of electric and electronic Equipment of customers
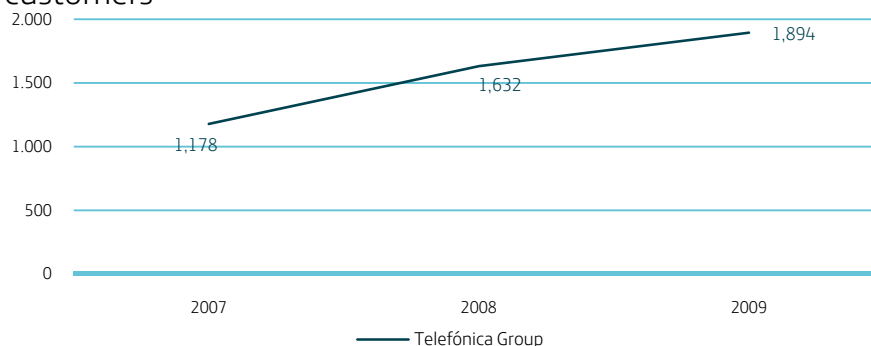


**For more information in environmental activities aimed at customers, the collection of telephones and batteries click here.**

# 5.8.5 Main environment and climate change figures

| | Measurement unit | 2008 | 2009 |
|---|---|---|---|
| **Network deployment** | | | |
| Environmental impact studies | Units | 1,104 | 979 |
| Noise measurement | Units | 906 | 1,273 |
| Measurement of electromagnetic fields | Units | 5,865 | 16,884 |
| Infrastructure sharing with other operators | Units | 17,594 | 25,206 |
| **Consumption of resources** | | | |
| Total white paper consumption (including invoices) | t | 16,281 | 16,943 |
| Total white paper consumption (including invoices) | t | 683 | 660 |
| Water consumption | Thousands of litres | 4,871,780 | 4,470,909 |
| **Waste management** | | | |
| Office paper waste | t | 3,587 | 2,237 |
| Telefónica electrical and electronic equipment waste | t | 2,509 | 1,978 |
| Battery waste | t | 2,109 | 2,681 |
| Other Telefónica facility waste | t | 37,201 | 81,221 |
| Customer electrical and electronic equipment waste | t | 1,632 | 1,895 |
| Total waste recycled | Units | n/a | 75% |
| Oils in litres | Thousands of litres | 112 | 89 |
| Reuse of equipment | Units (millions) | 1,513 | 1,378 |
| Hours of employee environmental training | Units | 34,606 | 16,491 |
| **Environmental accounting** | | | |
| Measurement of electromagnetic fields | Thousands of euros | 2,208 | 4,046 |
| Environmental Management | Thousands of euros | 11,096 | 23,612 |
| Acoustic impact adaptation | Thousands of euros | 3,098 | 1,259 |
| Reductions / adaptations of visual impact | Thousands of euros | 3,310 | 3,093 |
| Environmental sponsorship | Thousands of euros | 376 | 927 |
| Total environmental costs and investment | Thousands of euros | 20,088 | 32,937 |
| **Climate Change and Energy.** | | | |
| Fleet fuel consumption (diesel and gasoline) | Thousands of litres | 27,677 | 24,442 |
| Fuel consumption in networks (diesel) | Thousands of litres | 4,215 | 3,797 |
| Fuel consumption in office buildings (diesel) | Thousands of litres | 981 | 1,180 |
| Electricity consumption in office buildings | MWh | 874,730 | 695,989 |
| Electrical consumption in operations | MWh | 4,279,832 | 4,528,070 |
| Direct emissions | t CO2 | 156,566 | 119,999 |
| Indirect Emissions (electricity) | t CO2 | 1,918,623 | 1,925,781 |
| Indirect Emissions (from travel) | t CO2 | 27,909 | 59,682 |
| Total CO2 emissions | t CO2 | 2,103,098 | 2,105,462 |
| Work travel by plane | Units | 72,338 | 117,709 |
| Work travel by train | Units | 45,525 | 88,550 |
| Work travel by car | Units | 13,695 | 18,946 |
| Self generation of renewable energy in mobile networks | MWh | 355 | 308 |
| Self generation of renewable energy on fixed networks | MWh | 3,329 | 3,297 |
| Sale of renewable energy on the electrical market (0) | MWh | 3,203 | 3,416 |
| Purchase of renewable energy on the network | MWh | 719,625 | 555,337 |

Note Energy and emission data through auditing processes and external verification.
(0) Energy sale from electricity generation at the "District C" Telefónica headquarters, Madrid – Spain.

# 6

## Telefónica as a driver for progress/ development

# 6
## 1

# Driving force for progress

In 2009, Telefónica created 67,718 million Euros of wealth.

Telefónica is a driving force for economic, technological and social development in the countries where it operates[14]. In 2009, the Company earned more than 67,000 million Euros in revenues. These collections generated payments of 6,453 million euros to its employees; 11,977 million euros to Public Administrations; 30,735 million euros to suppliers and 5,785 million euros to shareholders. This is how the Company allotted the wealth it created.

In 2009, the Company invested over 4,290 million euros in technological innovation. Of this total, 692 million euros were invested in R+D[15], making Telefónica the world's 4th largest operator in the sector in this regard[16].
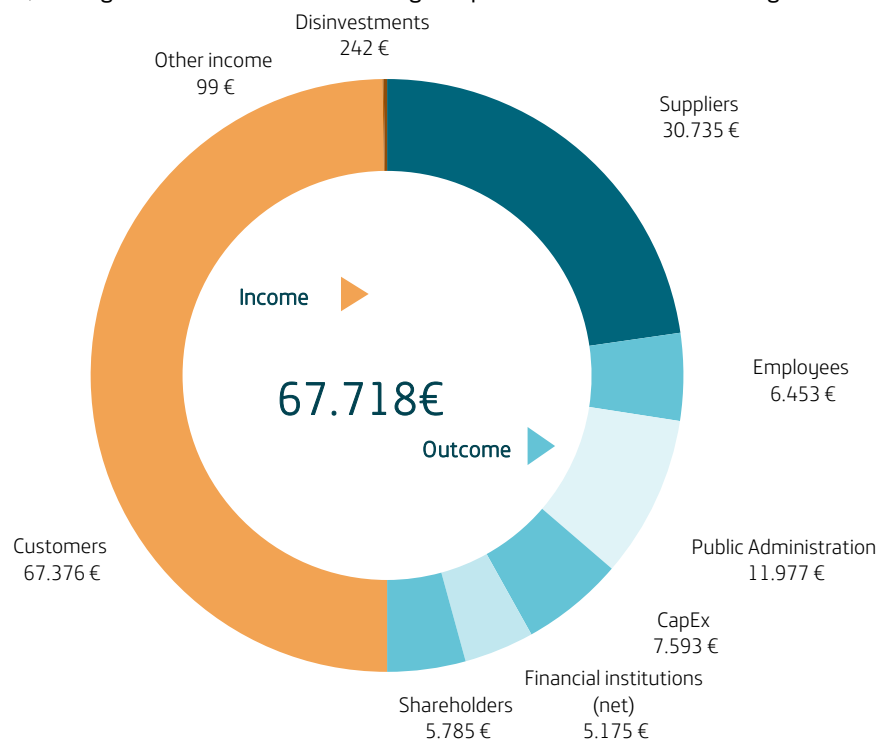


Note This information was calculated with payment criteria. The information published on this page has been obtained from internal sources of the cash flow of the Telefónica Group, and verified by the auditor of the CR report. The information referred to may be subject to changes resulting from subsequent events and developments. For a detailed analysis of the consolidated financial statements of Telefónica Group, the audited information is included in the financial statements. Disinvestments carried out were by way of real estate disposals.

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[14] Figures in millions of euros.
[15] Research and development.
[16] Source: 'The 2009 EU Industrial R & D Investment Scoreboard'.

# 6.1 Driving force for progress

## Contribution to progress

| Country | Economic impact | Revenues | Payments breakdown | Revenues/GDP | Key Figures | |
|---|---|---|---|---|---|---|
| Spain | Revenues / Payments | 19,938 | 7,145  2,064  3,894  2,941 | 1.9% | Employees<br>Suppliers awarded contracts<br>Total Accesses | 52,060<br>4012 (90.5%)<br>46.778 |
| Germany | Revenues / Payments | 3,706 | 1,614  796  128  396 | 0.2% | Employees<br>Suppliers awarded contracts<br>Total Accesses | 5,214<br>1907 (84.6%)<br>17,109 |
| Ireland | Revenues / Payments | 883 | 233  63  107  86 | 0.5% | Employees<br>Suppliers awarded contracts<br>Total Accesses | 1,406<br>581 (92.1%)<br>1,714 |
| Czech Republic and Slovakia | Revenues / Payments | 2,224 | 253  245  390  276 | 1.1% | Employees<br>Suppliers awarded contracts<br>Total Accesses | 11,307<br>258 (86.1%)<br>8,363 |
| United Kingdom | Revenues / Payments | 6,658 | 3,093  623  586  579 | 0.4% | Employees<br>Suppliers awarded contracts<br>Total Accesses | 11,307<br>7,264 (83%)<br>21,891 |
| Argentina | Revenues / Payments | 2,718 | 952  323  690  438 | 1.2% | Employees<br>Suppliers awarded contracts<br>Total Accesses | 23,241<br>1569 (76.5%)<br>21,900 |
| Brazil | Revenues / Payments | 8,926 | 4,650  1,268  3,710  956 | 0.8% | Employees<br>Suppliers awarded contracts<br>Total Accesses | 83,897<br>3675 (98.6%)<br>66,960 |
| Chile | Revenues / Payments | 1,825 | 759  348  225  240 | 1,7% | Employees<br>Suppliers awarded contracts<br>Total Accesses | 10,603<br>1705 (72.5%)<br>10,654 |
| Colombia | Revenues / Payments | 1,270 | 721  317  260  131 | 0.8% | Employees<br>Suppliers awarded contracts<br>Total Accesses | 6,348<br>1092 (78.5%)<br>11,163 |
| Ecuador | Revenues / Payments | 322 | 172  83  42  30 | 0.8% | Employees<br>Suppliers awarded contracts<br>Total Accesses | 1,136<br>393 (65.2%)<br>3,806 |
| USA & Puerto Rico | Revenues / Payments | 121 | 50  3  0  38 | 0.0% | Employees<br>Suppliers awarded contracts<br>Total Accesses | 908<br>241 (87.7%)<br>n.a. |
| El Salvador | Revenues / Payments | 117 | 49  8  15  14 | 0.7% | Employees<br>Suppliers awarded contracts<br>Total Accesses | 349<br>324 (50.1%)<br>1,202 |
| Guatemala | Revenues / Payments | 179 | 103  26  23  26 | 0.7% | Employees<br>Suppliers awarded contracts<br>Total Accesses | 3,338<br>376 (57.7%)<br>2,402 |
| Mexico | Revenues / Payments | 1,688 | 733  259  98  167 | 0.3% | Employees<br>Suppliers awarded contracts<br>Total Accesses | 20,203<br>717 (94.2%)<br>17,735 |
| Nicaragua | Revenues / Payments | 87 | 60  30  21  6 | 1.9% | Employees<br>Suppliers awarded contracts<br>Total Accesses | 311<br>264 (48.8%)<br>1,129 |
| Panama | Revenues / Payments | 130 | 78  23  41  16 | 1.0% | Employees<br>Suppliers awarded contracts<br>Total Accesses | 485<br>368 (49.9%)<br>1,532 |
| Peru | Revenues / Payments | 1,731 | 935  281  392  238 | 1.9% | Employees<br>Suppliers awarded contracts<br>Total Accesses | 15.672<br>1916 (76,4%)<br>15,917 |
| Uruguay | Revenues / Payments | 182 | 147  24  22  10 | 0.8% | Employees<br>Suppliers awarded contracts<br>Total Accesses | 644<br>719 (22.9%)<br>1,615 |
| Venezuela | Revenues / Payments | 3,832 | 1,107  426  1,092  250 | 1.5% | Employees<br>Suppliers awarded contracts<br>Total Accesses | 6,930<br>1114 (76.4%)<br>11,808 |

■ Revenues of Telefónica S.A   ■ Volume of purchases awarded   ■ Capital expenditure   ■ Tax paid   ■ Salaries

Financial data in EUR millions (revenues, personnel expenses, tax paid, purchases and investment (capital expenditure). Timing adjustments (accruals, prepaid expenses, etc.) have not been included.
Revenues: the figure for consolidated revenues refers to all the Telefónica business units in the country in question.
Revenue TEF/GDP: ratio of revenues of Telefónica S.A (contribution of the country to the consolidated revenues of the Telefónica Group) and the country's estimated GDP (Source: IMF).
Employees: consolidated data for direct employees of the Telefónica Group in the country (effective workforce as of the 31st of December 2009).
Suppliers: total number of suppliers awarded contracts. The percentage represents the percentage of locally-adjudicated purchase volume.
Accesses: equals the number of fixed and mobile accesses +broadband +pay TV (in thousands).

# 6
# 2
# Network and services technologies and infrastructures

Telefónica pressed on with its network transformation plan in 2009, a key piece in its strategy to meet the new challenges in the industry. From networks primarily designed for conveying voice to networks that provide for advanced data and video applications.

Following market trends, the competitive scenario, evolution in technology and new broadband and multimedia services the Company's customers demand, Telefónica continued making progress in 2009 in the design and implementation of its networks and service platforms across all layers of the network.

## a. High-speed fixed access

In order to obtain the highest efficiency and profitability from current infrastructure, the progressive introduction of broadband technologies on copper continued: ADSL, ADSL2+, VDSL2, etc.

Our services based on VDSL2 technology on copper have allowed us to provide high-capacity premium services for landline+broadband, landline+broadband+TV and HDTV. This has supplemented our offer of these services on fibre optic, enabling a substantial increase in the capacity available for broadband services.

It is worth highlighting the new offers that these technologies have allowed us to make available on the market. In November 2009, Telefónica launched new Trio Futura formats with speeds of 30/1 and 25/1 Mb. This service, which was launched on the market in 2008 on fibre optic, was successfully extended to VDSL in 2009, thus broadening the coverage for this type of service. Over two million homes benefited from broadband connections last year in Spain.

Trio Futura offers customers the most advanced technologies: fibre optic right into their homes (where Telefónica is the only Spanish supplier) and VDSL, with two high-speed modalities: 30/1 Mb and 25/1 Mb. We also increased the upload velocity to one mega, multiplying current ADSL speeds by three. Recently, Telefónica received line number 200 million on VDSL2 technology, supplied by Alcatel-Lucent.

A further element of continuity in 2009 was the introduction of fibre access technologies (xPON) through the implementation of a number of scenarios: fibre to the home (FTTH), fibre to the building (FTTB), fibre to the curb (FTTC), fibre to the node (FTTN), etc. This technology allows increasing access speeds up to 100 Mbps.

It is on these ever more powerful networks that the development of services such as pay TV relies. Telefónica's pay TV, marketed under the "Imagenio" brand name, is currently available to broadband customers in Spain, the Czech Republic, Brazil, Chile, Colombia and Peru.

Telefónica's transforming initiatives not only focus on high-profile new services. They also aim to satisfy the more basic needs of less favoured segments, as is the case of Project BAS (Satellite Broadband) in Peru, a digital coverage programme won by Telefónica in a public tender. The goal of the project was to provide service to isolated communities, enabling them to use communications with the ultimate aim of improving their living conditions.

## b. Transport

In order to provide more powerful services, we have strengthened the Company's transport networks, thus achieving the necessary increase in capacity. Our backbones, based on technologies as powerful as IP/MPLS (Internet Protocol/Multiprotocol Label Switching) provide full connectivity with all the other layers in the network, such as access and control. This enables us to provide support services to business and home segments (fixed and mobile).

Also in 2009, Telefónica introduced "photonic grids" as a technology concept in its operators' networks. This notion improves the quality of the service provided to customers, as it renders the transport network resistant to double and multiple failures in the fibre optic elements it includes.

## c. Core

Deployment of new generation NGN networks aimed at moving from the current switched PSTN networks to an *all*-IP architecture, so that the core of the networks will be convergent, fixed and mobile.

## d. Control

The availability of IMS (Internet Multimedia Subsystem) in most operations, which simplifies network control mechanisms, has facilitated the implementation of new services through the convergent, all-IP network.

## e. Intelligence on the network

The use of intelligent systems that help to manage network operation more efficiently, prevent fraud and over-saturation, and identify new business opportunities, is on the increase, and ultimately results in the availability of services such as M2M.

## f. Mobile Broadband

By updating our mobile networks in keeping with trends in the market, Telefónica not only seeks to meet customer demand for new services and new developments in technology. In fact, we are already preparing for the introduction of LTE (Long Term Evolution) and the great breakthrough this will mean.

The key steps taken include: progressive migration from CDMA technologies to GSM or UMTS technologies in some markets, and introducing mobile access broadband through technologies such as UMTS, HSDPA, HSUPA and HSPA+. This allows implementing new services, such as mobile TV and distribution services for the next generation of music, video and games.

The plans for extending coverage include initiatives such as the one developed by Telefónica Peru, which installed over 560,000 wireless fixed lines in 2009 as part of its Fono ya service, a cost-efficient, easy communication alternative for families that until then had no possibility of having a fixed telephone line. "Fono ya" is a wireless fixed telephony service based on cellular technology, which has allowed it to reach remote areas of the country that had no means of providing communication in the home. It is a "quick, easy and inexpensive" telephone option in which the customer purchases the service, takes it home, and can start making calls straight away. Thanks to its success, Telefónica Peru, together with Movistar, won the Entrepreneurial Creativity Award 2009 for the best Public Service.

# 6.2 Network and services technologies and infrastructures

## Base Stations and Node Bs

| Region | 3G | 2G |
|--------|------|------|
| Latin America | 12.222 | 29.355 |
| Spain | 10.523 | 18.747 |
| Europe | 18.482 | 35.579 |

■ 3G  ■ 2G
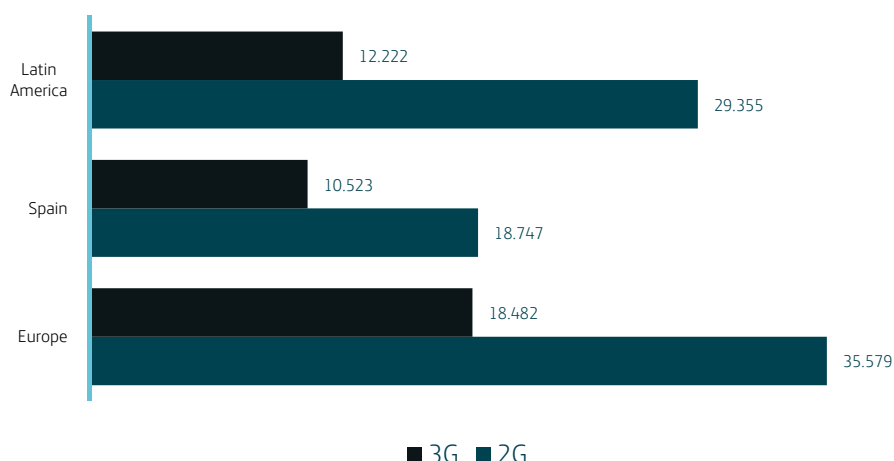
Telefónica undertook the following actions in its exploration of new technologies, such as HSPA and LTE, with a view to providing greater bandwidth mobile access:

- **HSPA**: the Company pledged to implement this technology in the countries where it operates. As at 31 December 2009, coverage had been extended to most urban and suburban areas, having increased the capacity of the network by updating its technology to the latest available versions of standards UMTS 3GPP Releases 6 and 7.

  In November 2009, Telefónica was the first Spanish mobile operator to launch fixed-rate offers, along with the first HSPA+ modem, to browse the web at speeds of up to 21 Mbps from a desktop or laptop PC. These offers were initially aimed at large corporate customers and SMEs. Later, they were also made available to self-employed and private customers. Large companies and SMEs in Madrid and Barcelona choose between two flat-rate schemes for HSPA+, depending on their individual mobile internet needs.

- **LTE**: in 2009 Telefónica devoted intense efforts to a strategy that is currently undergoing a fine-tuning process, which is the reason why no specific plans for deployment have yet been announced. These plans involve adopting a global approach to LTE, as proven by the currently advertised laboratory and field tests being carried out in Spain, Germany, the UK, the Czech Republic, Argentina and Brazil, across a number of potentially-used bands, with Alcatel-Lucent, Ericsson, Huawei, NEC, NSN and ZTE.

  Telefónica was also highly active in the main international forums, including LSTI (LTE/SAE Initiative), where it contributed the results of trials performed, with the aim of helping to promote and develop LTE. Another initiative where the Company had a preeminent role is VoLTE (voice over LTE), which seeks to produce a voice solution based on IMS. VoLTE is being increasingly adopted by the industry, displaying qualities of technological leadership that Telefónica aims to achieve.

  In the framework of these trial, in December 2009 Telefónica O2 UK and Huawei successfully carried out a live LTE (4G) technology test for the first time in the country. A maximum download speed of 150 Mb/s was reached in the Slough area, where Telefónica O2 UK has its head office.

## g. Service platforms

In 2009 Telefónica selected its solution for a global SDP (Service Delivery Platform), in the framework of its new "open, global platforms". This brings us nearer to the objective of reducing the TTM (time-to-market) of new products and services.

In the context of the global vision of platforms, it is worth mentioning Altamira, the real-time rating system, which was being implemented in all Telefónica operators during 2009. This process, which involves more than 500 people, is based on a technology developed by Telefónica R&D.

# 6.2 Network and services technologies and infrastructures

## h. Convergent solutions

In the field of convergent solutions, Telefónica R&D has created a specific platform for developing on-demand public healthcare services accessible from the mobile phone. This addresses one of the fastest growing needs in the area of e-healthcare and tele-assistance.

The platform has the following features: biometric sensors on a mobile handset, with no need for programming; standard-compatible; creation of a service container on the handset, and development of a health hazards detection system (alarms) based on a rules engine. All this will be provided across the network directly to customers' homes and mobile phones. The platform allows monitoring chronic conditions, locating users and patients, and also includes an emergency button, among other services.

One of the project's first results was the creation of the service container software. The application is installed on the user's mobile phone and enables services for location, communication and vital signs measurement (weight, blood pressure, glucose, etc.), which can be remotely deployed and managed. Another platform (framework) was also created, which allows remote deployment and management of services and devices on mobile handsets, such as the monitoring of patients with chronic conditions, people in care, and people suffering from cardiac insufficiency or diabetes. These services are easy to use, particularly by the elderly, and do not require any complex equipment. All that is needed is a mobile phone, a 3G data connection, and being registered with the relevant service.

With this product, Telefónica has a valuable opportunity to use its network to offer health-related and tele-assistance ICT services.

## i. Future

As for future developments, Telefónica's priorities are focused on:

- Developing common solutions for the home, based on a clear definition of what advanced home networks will mean.
- Making progress in broadband handset control automation and in the definition of enablers, which are necessary to offer global, secure platforms, open to application developers.
- Continuing to advance in mobile broadband, taking into account the impact of new mobile devices and considering the gradual introduction of new technologies.
- Continuing to optimise the cost of fibre deployment, ensuring that the deployed passive network is a suitable support for the technological development of fibre-based technologies.
- Defining a transport architecture that can offer sufficient capacity and quality, and is adapted to the new advanced data and video services, whose number is on the increase.

Efficiency is a fundamental objective in all these areas, as is the need to reach the market on a global scale as speedily as possible, so that customers receive the service quality and user experience they deserve.

## j. Indicators

Network Capex by region:

### Capex of Network 2009

| Region | Capex |
|---|---|
| Latin America | 2.978 |
| Spain | 1.271 |
| Europe | 1.094 |

# 6
# 3
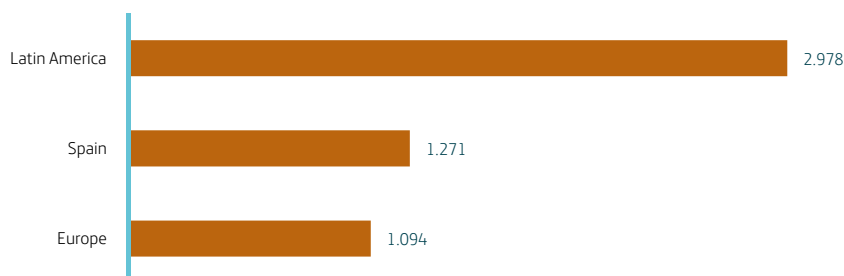
# Innovation as a mechanism for developing a global offer

As a result of the changes in the current economic environment, characterised as it is by globalisation and technological convergence, innovation has become an essential method for achieving Telefónica's targets: of increasing revenue and optimising operating costs; the optimisation of traditional sources of income through a reduction of operating costs, and the development of new innovative businesses and new products and services that are of value to our customers.

The innovation model used at Telefónica was developed based on three lines of action aimed at achieving an optimum combination of global possibilities and their application in local businesses.

- A *global innovation platform with local application in business units*; this has resulted in a series of common priority areas for innovation in the 25 markets in which Telefónica is present and a global road map of common products and services.

- *Development of capabilities that enable the achievement of long-term business opportunities*, both in traditional businesses as well as in the new adjacent businesses, through the support of R&D activities, risk capital initiatives, incubators and new vertical businesses.

- *A comprehensive response to competitors and global partners* in both the top companies in the telecommunications and internet sector as well as in small innovative companies based on emerging technologies and disruptive business models.

The guiding principles for the focus of innovation at Telefónica are as follows:

1. The main focus should be on the priorities of the business models.
2. There should be a close relationship between the strategic activity of the innovation and commercial areas.
3. There should be greater focus on quantifiable and tangible short-term impact.
4. There should be greater efficiency and effectiveness in the execution of innovation activities.
5. There should be systematic monitoring of the results and the financial return on capital and the resources invested.

## Innovation management process

The objective of Telefónica's innovation management is to ensure that there is a portfolio of projects and investments in resources with high rates of return. Thus, since June 2009, there has been a structured process with a clear assignment of leadership in the local business units in order to establish the priorities for innovation and transformation in 2010-2012 for the different innovation tools available: corporate innovation projects, venture capital operations and incubators.

During this process, the criteria for the selection of initiatives were defined and proposals were collected from different sources (strategic plans, high growth projects, documentation regarding global tendencies, proposals of local businesses and regional units, proposals from the R&D unit, opportunities for investment in venture capital projects, etc.).

The selection criteria consider aspects such as the size of the business opportunity; the support capabilities of the local and regional business units; the need for support with global Telefónica Group assets; the target timeframe for market launch; and the viability of a multi-year focus.

## 6.3 Innovation as a mechanism for developing a global offer

Based on these selection criteria, some areas for innovation were discarded and/or were reduced in priority for various reasons such as being areas without sufficient cross-region support or areas already covered by the market itself; being local business areas with a short-term timeframe for market launch; or because the road maps for global Products and Services also had a short-term launch timeframe.

This resulted in the identification and adoption of 12 Global Innovation Priorities and 18 global transformation priorities by the Operations Committee:

**The Innovation Commission**

The Innovation Commission is a non-executive body which monitors and discusses innovation in Telefónica. The Committee meets for three hours each month. The Commission has an internal operating body -the Innovation Committee- which was established with the priority objective of ensuring that the different units act as a single entity. This Committee includes representation from the three regional business units (Telefónica España, Telefónica Europe and Telefónica Latin America) and the corporate Innovation and Transformation units.

The committee's functions and responsibilities are:

* To establish the priority areas for innovation and to set the objectives of the different units of the Telefónica Group.
* To assign the resources, budgets and tools (venture capital, Incubators, R&D and Products and Services) necessary for the development of innovation initiatives and the construction of new businesses.
* To ensure solid coordination and relationships between the various innovation initiatives in different parts of the company, thereby avoiding the duplication of work and inefficiencies.
* To prevent low-performance initiatives and/or to approve divestments in venture capital companies that have ceased to be strategic.
* To monitor the results achieved with regards to the key objectives and indicators set for innovation initiatives in the Telefónica Group, reporting periodically to the Operations Committee.

## An organisational system designed to make optimum use of the Group's levers for innovation

### a. Research and Development (R+D)

Telefónica considers that R&D is still the necessary catalyst for the most ambitious technological innovation: that which achieves differentiation and leadership.

In the course of 2009, Telefónica's total investment in technological innovation (R&D&i) amounted to 4,291 million euros. Of this amount, the amount spent on R&D was 693 million euros, which represents an increase of 4% on 2008. Around one third of this activity was carried out by Telefónica R+D, the Group's research and development unit.

Within this total investment, the Company committed 70 million euros to "applied research". This activity, all of which was carried out by Telefónica R+D, focuses on conceptualising and developing the new services and networks of the future. Some of the specific areas in which work has been done include the development of mobile broadband; the evolution of information systems; internet and multimedia applications; localisation services; healthcare services, etc.

These applied research activities have resulted in the development of prototypes and the launch of a number of pilot studies with real users. Moreover, during the last year, Telefónica R+D registered 57 patents in different areas related to information and communication technologies.

The remaining 623 million euros of R&D investment was mostly used in the development of new products, services and management systems, as well as in introducing substantial improvements to those already in existence. A major part of this effort was carried out in collaboration with leading companies in each sector or through promoting service development initiatives with third parties in an "open innovation" model. Examples of such cooperation in developing systems include the the Morpheus Platform (a free software community with more than 60 projects in 2009) and "Movilforum" (which has more than 50 partners and celebrated its 8th anniversary in 2009), together with its recent new formats: "Open Movilforum" (for developers rather than companies) and "Movilforum-Apple" (specifically for this supplier).

# 6.3 Innovation as a mechanism for developing a global offer

One new development in 2009 was the launch of the "Movistar Developers Platform" in Mexico, the first web community in Latin America for the creation of innovative products and services.

During the last year, Telefónica also made considerable efforts in technological innovation for the roll out of networks and services developed as part of its R&D activities. This investment amounted to some 3,598 million euros, and focused on two main areas: the performance of activities related to the roll out and launch of new products and services, and the implementation of fixed and mobile broadband networks in the countries in which Telefónica operates.

## Telefónica's open innovation network

| Telefónica R&D + Telefónica, S.A. | | Business Units |
|---|---|---|
| **Research**<br>• Applied research activities.<br>• Participation in public R&D programmes and technology platforms.<br>• Collaboration with universities. | **Development**<br>• Development of new products and services.<br>• Living Labs.<br>• Collaboration with leading companies. | **Innovation**<br>• Launch of new products and services.<br>• Corporate Innovation: Venture Capital; Corporate Innovation Programme; Employee Ideas and strategic alliances.<br>• Acquisition of technology |
| **Research:**<br>70 million euros | **Development:**<br>623 million euros | **Innovation:**<br>3,598 million euros |
| **Total: 4,291 million euros** | | |

## b. Global Products and Services

The generation of a catalogue of global products and services based on the application of a series of operational principles supported by the Competition Centres (CCs) specialised in certain types of products, services and solutions.

There are 4 operational principles: developments by global units; dedicated resources and specific management rules; clear budgeting of expenses and investments; and alignment of global and local objectives and incentives.

A new structure for Competition Centres was approved in July 2009:

- People-oriented Competition Centres: Mobile Data Group (MDG) in Telefónica Europe.
- Home-oriented Competition Centres: IPTV (Telefónica España) and the Digital Home in Telefónica, S.A.
- Company-oriented Competition Centres: Corporate ICT in Telefónica España
- Transverse Competition Centres providing technological support to all other Competition Centres: New Access Services (NAS) in Telefónica España.
- Global project: Open Telefónica in Telefónica, S.A.

The goal of the Global Products and Services Development unit is to identify new products, services and applications and to develop them on a unified basis for all the markets in which the Company operates. It achieves this through the Competition Centres: these are global teams which are dedicated to the performance of specific projects by segment and service type.

**Click here for more information on Telefónica's global products and services.**

**Basic Home Station**

The Basic Home Station is a new concept in user terminals for ADSL (*router*) customers which the Digital Home Competition Centre has designed to provide a technological leap forward for Telefónica's customers.

One factor which differentiates this product from its predecessors is the improvement in the user experience through a simple user interface and attractive design. Its functionality includes increased WiFi coverage using 802.11n and sharing printers and USB hard drives. It also encourages users to take advantage of the full range of Movistar coverage by connecting the equipment to a USB modem with 3G connectivity.

In addition, as part of our strategic alliance and memorandum of understanding (MoU) with China Unicom, the Digital Home Competition Centre has aligned the business and technical requirements of the two companies in order to enter the market through the joint purchase of equipment amounting to a total of 8 million units.

**Prototype content distribution service**

In 2009, there was an exciting development in the content distribution business with a change in our customer's consumption habits, in addition to the technological development of new over-the-top (OTT) video solutions which are less CapEx intensive than current systems.

Telefónica R+D has developed a prototype content distribution service through its corporate innovation projects and the drive of business units led by the Digital Home Competition Centre.

This service, which is currently being prepared for roll out, will make it easy for customers with a broadband connection to access the best of Telefónica's audiovisual content. For example, they will be able to hire (and buy) films and TV series at very competitive prices using a very simple remote control, and they will be able to enjoy these immediately on their TVs. They will also be able to access internet content such as weather forecasts, news, etc, and personal photos and videos which at the moment are restricted to computers. This will be achieved with a carefully designed user experience which has been tested on customers in Telefónica R+D's usability laboratories.

Pre-launch trials have been carried out and have been very well received by the public; the first commercial launches are expected for late 2010.

## c. New businesses

This area is an additional opportunity for Telefónica to contribute to the maintenance and growth of existing businesses. It includese-Health, Financial Services, e-Learning, e-Travel and Security. The first two of these enable leveraging of the potential technological discontinuities generated by increased purchasing power in new areas adjacent to our traditional business. The cases of e-Learning, e-Travel and Security, however, contribute to the growth of existing business lines.

New businesses involve the management of E2E ("*Enterprise to Enterprise*") global initiatives in order to support the fulfilment of objectives for the generation of new income; contribute to the definition of Telefónica Group's global product line; align the business requirements with commercial models; enable the construction of a platform for sharing knowledge; promote global commercial alliances; capture opportunities for investment in risk capital projects and incubators; and acquire capabilities that result in reduced "*time to revenues*" (time taken to generate revenue).

### e-Health

The e-Health corporate unit was created in late 2008 based on strategic analysis of new business areas where Telefónica could contribute value in the countries where it operates. In this analysis, *e-Health* was identified as an opportunity in the healthcare sector.

Our technology partners, both suppliers and medical specialists who work to achieve solutions to improve treatments for patients, their quality of life and monitoring, are a key element in the development of such services. As a result, Telefónica is a collaborating partner in the "Continual Health Alliance", an open, not-for-profit coalition working to improve the quality of personal health care, which works with the United Nations Office for Partnerships and private institutions to find solutions to the problems of the 21st century, such as, in this case, healthcare.

In addition, Telefónica is also part of the Ambient Assisted Living programme, a European initiative which uses new technology to improve quality of life for the elderly.

The *global breath initiative* divides products, services and categories into three areas:

- Information and Communication Technologies (ICT): consisting of all the services which provide technological and communications infrastructure adapted for health services.

- Telemedicine: this includes services which directly help both healthcare professionals and patients. This includes monitoring of patients with chronic conditions, tele-recuperation and medical tele-care, which has been developed with CISCO. This area provides services which help healthcare professionals to do their jobs. One of these is "Colabor@", a pioneering tool developed by Telefónica R+D which helps healthcare professionals to share medical results, including scans, TACS, electrocardiograms, videos and photos, remotely with other doctors in real time.

- Tele-assistance: these services are designed for people with disabilities and the elderly who require special assistance to increase their safety and quality of life. These include fixed format solutions, such as home automation, and mobile solutions, which enable increased autonomy and freedom through geolocation systems.

In 2009, Telefónica's main initiatives were:

- Spain: The "Colabor@" tool is being implemented in a number of hospitals throughout the country: Hospital del Mar (Barcelona), Torrevieja Hospital (Alicante) and the USP Hospital chain. In addition, monitoring services are provided for patients with chronic conditions, such as that at the Hospital del Mar (Barcelona); and the "Rehabitic" (tele-recovery) project at the Torrevieja (Alicante), Esperanza (Barcelona) and Son Llatzer (Mallorca) Hospitals. Fixed tele-assistance services are also being developed.

- Europe: For several years, Telefónica O2 United Kingdom has been developing products and services which help patients, users and professionals. This is the case of the Lone Worker initiative which provides security for health service professionals who travel. Mobile tele-assistance will be one of the Company's priorities in 2010, and one of the main focuses for *e-Health* in the country. Furthermore, in 2008 Telefónica O2 Czech Republic provided hosting and maintenance for an electronic prescription application for the Czech Medicines Management Office (SKUL).

- Latin America: in this region health service infrastructure is being fully modernised with highly qualified personnel. Telefónica is working with professional and public sector administrations on this process through initiatives such as: the tele-presence service between the Hospital Garrahan (Buenos Aires) and the Neuquén Paediatrics Hospital, and the implementation of the "Colabor@" solution for doctors in Chile's national health system.

**Click here to find out more about *e-Health*.**

**Financial Services**
In 2009, Telefónica worked to develop financial services using mobile phones.
The main characteristics of this new service are as follows: offering people the chance to access financial services, such as savings and loans; enabling people to have access to their personal funds in a secure location; providing detailed information on all transactions carried out, enabling better control; and making it possible to receive these services at low cost.

As a result of this work, Telefónica has signed an agreement with Trivnet to offer these financial services using mobile phones in Latin America. Users of this service will be able to make transfers, use e-commerce, pay bills and carry out mobile banking operations. The Company has also developed close relations with banks, service integrators, service and security providers and commercial networks.

In Europe, the UK also developed consumption control plans in 2009. One example of this is the '*O2 Money Card*'. Through an agreement with NatWest bank, Telefónica O2 UK has launched its first prepay finance card, which offers users the ability to control their spending, having access to their account balance in real time through alerts. This concept is based on the idea of cost control and freedom offered by not having contracts or a pre-established payment system.

**Mobile Banking (Colombia)**

Since the end of 2008, Telefónica and the Inter-American Development Bank have been involved in a mobile banking pilot project for coffee growers, in collaboration with the Colombia Federation of Coffee Growers and the Banco de Bogotá. This project was announced at the 50th Assembly of Inter-American Development Bank Governors, and generated 1,300 text message transactions in its first month.

Colombia is the third largest coffee exporter and has over 500,000 coffee growers. This pilot project will enable its users to carry out financial operations using their registered coffee grower cards, enabling them to make payments and request cash in commercial establishments. The card can also be used to consult coffee prices, balances and the most recent credits to the card.

The first beneficiaries of this scheme have been the towns of San Gil, Río Sucio, Socorro and Quinchía, which benefited 5,000 coffee growers in 2009.



### e-Learning

Telefónica Learning Services - until recently known as Educaterra - has 9 years' experience in the market and over 150 customers, including private companies and public bodies. Whilst Spain has been its main focus to date, the objective now is to extend the presence of these services to all the countries in which Telefónica operates, spreading its ICT services and the solutions it offers to its large customers and SMEs.

This activity covers three separate markets:

- Corporations and public administration authorities, including:

  - Online and mixed (classroom and *online*) training on a wide range of subjects: including ICT and *online* literacy, languages, management and business skills, technical training and customised training for organisations (products and services, application simulators, etc). One example of the potential for *online* training in Spain is the case of the Correos post office, which trained 50% of its postal delivery staff (60,000 postal delivery workers) using *e-Learning* in 2009. Other examples of custom-designed training programmes include the National Statistics Institute (INE), which used this method to train 500 census takers about the new rural census; Amadeus, which trained 15,000 travel agencies in *ticketing*; and Endesa, which provided a course on diversity to 3,000 of its managers.

  - SAS ("Software as a Service") sales using the "Formación a+" platform. Telefónica *Learning Services* provides comprehensive training services through its platform which offers personalisation of the *look and feel* of the customer's environment, content integration, management of training processes, integration with customer's HR and ERP systems, together with maintenance services, telephone help lines for learners, tutoring, certification and many others.

  - Through its *uLearning* ("Ubiquitous Learning") content factory, the Company has developed in excess of 10,000 hours of online multimedia multimedia content (based on flash, video, audio, avatars, etc.) for a range of devices (eBook, TV, internet and mobile phone).

# 6.3 Innovation as a mechanism for developing a global offer

- Universities and other educational institutions which perform a range of activities:

    - Virtual campuses.
    - Virtualisation of university and master's degrees.
    - Training trainers in the use of ICT in teaching their subjects, which has been applied mainly in Regional Education Departments.

- The home market: Telefónica Learning Services provides a range of online master's and postgraduate degree programmes with certification from prestigious universities such as the Camilo José Cela University and the Politécnica University of Catalonia.

### e-Travel

Rumbo, which is jointly 50% owned by Telefónica and Orizonia, was created in 2000 and is currently active in Spain, Portugal, Argentina, Brazil, Colombia and Venezuela. The two basic pillars of the success of Rumbo are technological innovation and quality of service. This is clearly demonstrated in its results: 2.7 million passengers in 2009; 1.8 million registered customers; over 13 million monthly visits to its website; and more than 80 million page views per month.

Highlights of the past year include: the launch of Rumbo Negocios (http://negocios.rumbo.es), a specialist web portal for business travel; the agreement signed with GEBTA Spain, the main Spanish travel agency consortium; adaptation of the portal to new market requirements; and the addition of over 20,000 videos of hotels.

## d. Venture Capital

Telefónica's venture capital activities are managed through a fund that invests in companies which are considered likely to contribute strategic business for the Group. Its objectives are to make strategic priorities viable that would otherwise not be possible due to the immaturity of technology or services; to accelerate entry into specific areas of innovation; and to acquire knowledge in new technologies and/or emerging businesses. Venture capital activities include identifying innovative companies in centres of innovation around the world (e.g. Silicon Valley, Israel etc.) in order to take minority stakes; to manage the portfolio with internal sponsors, and to negotiate and reach agreements relating to new developments and to take shareholdings in new opportunities.

The search for companies is structured by, and benefits from, a plan of common objectives with a number of leading global venture capital funds, such as Sequoia, Benchmart, and Draper Fisher Yurvetson.

Example of strategic investments in previous years are "Amobee" (for the "Mobile Advertising" business), "GestureTek" (technology for the recognition of postures and gestures in video), "Loomia" (technology for the recommendation of online content based on customer behaviour), "Kyte" (providing an online platform for the generation of content by users) and "Eventful" (an online platform for discovering, promoting, sharing and creating worldwide events such as concerts, sport events, etc.).

# 6.3 Innovation as a mechanism for developing a global offer

**ASSIA**

In 2009, Telefónica invested 5 million Euros in ASSIA. Assia focuses on DSM1 technologies and has more than 200 patents. DSM technology makes it possible to increase the quality and scope of DSL services over traditional paired copper networks through automated and proactive reduction of interference. It also increases data traffic capacity and scope and improves line quality, thus reducing calls to the helpline and increasing customer satisfaction. So far, Telefónica has carried out successful tests in Germany and in Brazil. Further tests will shortly be carried out in Spain and the Czech Republic.

Investment in Assia provides Telefónica with preferential access to its products, technology and knowledge, the possibility of influencing its development plan, price setting rights, exclusivity rights and a seat as an observer on the Management Committee.

"ASSIA is proud of having Telefónica as a strategic investor and an observing member on its Management Board. ASSIA considers Telefónica to be one of the global leaders in telecommunications innovation and it hopes to be able to roll out its solutions through the Group and to combine innovation efforts to increase the global leadership of the Telefónica Group's broadband DSL networks".(John. M. Cioffi, CEO of ASSIA).



## e. Optimisation of income by adopting internal best practices

The sharing of best practices among business units provides another lever for effective innovation in Telefónica, allowing for the immediate application of local profits and increasing these profits with lower investment of resources in implementation.

**Setting ADSL prices in Venezuela**

This practice involves changing from an indiscriminate offer of traffic volume to a customised offer based on the customer's needs; this makes it possible to maintain service profitability and the standards of quality established for other segments.

As a result, *"heavy users"* -a small percentage of customers (3%) who generate up to 85% of traffic on mobile networks- can take advantage of a "download" offer which includes "P2P". The structure of this offer distinguishes three functions: "Download", "Connection" and "Browsing", based on the combination of three parameters: traffic, speed and applications.

This strategy was first applied in Venezuela, and is currently being adopted as best practice in all countries promoted by the *Broadband Council*, an internal Company body with representatives of all three regions which shares and analyses the Group's broadband experience in order to identify and promote best practices.

# 6.3 Innovation as a mechanism for developing a global offer

### f. Incubators

The incubator initiative focuses on looking within Telefónica to support the entrepreneurial skills of the Company's employees, providing their new ideas with the resources required to bring them to fruition. The incubators make innovation more democratic, taking advantage of the diversity and knowledge of Telefónica's more than 255,000 thousand employees. Anybody in the company with a good idea and an entrepreneurial spirit can develop a new business.

**NFC technology**

NFC (*Near Field Communication*) technology enables mobile phones to be used as a form of payment, enabling customers to have a credit card in their mobile phones and to make payments quickly and easily.

The incubator funds assigned to this project have enabled a user-friendly interface to be developed for mobile phones which makes it easier for customers to manage their cards, and have also enabled pilot studies to be carried out in a number of countries in order to perfect the technology and test it in the real situations where it might be used.

***Hybrid CDN***

The CDN initiative has four simultaneous objectives. Faced with the explosion in video traffic on the internet, the CDN proposes a management model for such traffic which optimises the use of internet resources, minimising the impact of this traffic on existing infrastructure. It also allows Telefónica to engage in the *content delivery market.* In addition, it makes it possible to offer a quality of service for our broadband customers which sets us apart for both content managed by Telefónica and OTT content. Finally, it enables us to achieve a strategic position in the new world of HD video.

The €500k funds assigned to the project in 2009 made it possible to develop the CDN technology in-house (T R+D) and to roll out a pilot study at 60 points in 10 countries, involving the participation of *TIWS*, T R+D, the Argentina, Chile, Peru, Brazil and Colombia business units and the leadership of the corporate infrastructure area. This pilot is fully operational and supported events such as the *"Leadership Conference"* in Miami, in addition to delivering content to customers such as iRTVE (Spanish radio and television corporation). The estimated commercial launch date for the service is the third quarter of 2010.

### g. Strategic Alliances

Telefónica recognises that innovation cannot be limited to internally developed technologies, products and services, and that it is essential that it is open to ideas developed outside Group companies. At the same time, it is also important to recognise the potential contribution of the Group's assets and resources for innovative companies, if they are leveraged in a combined and coordinated way.

This openness to collaboration with third parties is particularly important in the case of dynamic and highly attractive business opportunities, as Telefónica may not have the assets and capabilities required to provide a fully effective offer for the market. Such areas include, for example, the content business, where the presence of established international leaders makes it necessary to collaborate in providing content to customers using Telefónica's systems; internet businesses, where there are a huge number of global technological start-ups; consumer electronics; and emerging businesses created by comprehensive connectivity.

With this in mind, the Group has created its Strategic Alliances Department, which supports business units in identifying and negotiating collaboration agreements in these areas with third parties.

Telefónica's vision for Strategic Alliances is to create value jointly with leading companies by reducing time-to-market in launching new and differentiated products, and by leveraging joint economies of scale. We are therefore pragmatic in defining alliances: alliances must entail commitment (all of the parties must contribute resources and know-how), privileges (the parties offer terms that would not be available otherwise) and a long-term outlook. This results in the alliances established being sustainable irrespective of the commercial agreements negotiated.

***Corporate Content Unit***

The alliance strategy for content aims to maximise commercial benefits and to build strategic alliances.

With regards to the maximisation of commercial benefits, the activities are focussed on:

- Centralised negotiations with multi-territory and multi-platform suppliers:

    - Negotiation of rights for the different types of content (e.g. High Definition channels for "*Pay TV* systems; development of the current "*Mobile Music*" services to move from an "*All you can*

# 6.3 Innovation as a mechanism for developing a global offer

eat" model to an "*All you can keep*" model; negotiations with TV programmers to offer television over the internet financed by advertising);

- Launching new television services via mobile phone in the Telefónica Europe business units based on interregional agreements between Latin America and Europe.
- Extension of content agreements with corporate suppliers to new regions and systems developing global agreements.

- Exploiting the economies of scale of the Telefónica Group through:

  - economic terms and conditions,
  - ease of use of the content and flexibility of marketing,
  - development of new business models,
  - obtaining synergies between the various Group operators.

- obtaining key "Premium" content (e.g.: *Champions League*, Olympic Games, etc.).

The following activities have been carried out to develop strategic alliances with the main content providers:

- Proactive collaboration with content providers to define and roll out integrated offers of new content-based services across the Group's various business units (e.g. the launch of an integrated range of products for music over ADSL in Telefónica Latin America and Telefónica Europe).

- Modification of display windows for film premieres in new online systems and forms of distribution (e.g.: making the window for *Video-on-Demand* for *Set-Top-Box* and PC more similar to that for traditional *Home Video* DVD).

- Collaboration in the design of global marketing campaigns for the promotion of major artists.

- Joint work with the major audiovisual content production studios to identify fiscal formulas for the (promotion) production of films which make it possible to consolidate existing relationships.

Finally, the Corporate Content Unit performs these functions and activities in close and fluid relation with all the Group's business units, acting as a knowledge centre for negotiations and specific content, providing:

- Transfer of best practices among Group operators.

- Development of a Global Content Strategy for the Telefónica Group.

**Corporate Internet Group**
The Corporate Internet Group acts at two levels: developing strategic agreements with the major internet suppliers known as GYM (Google, Yahoo and Microsoft), and alliances with emerging new players (e.g. Amazon, Facebook, Myspace, Wikipedia, Twitter, etc.).

In the first case, the agreements are aimed at objectives such as:

- Increasing Telefónica's own portfolio of internet services to provide the services most in demand among our customers, such as search engines, instant messaging, email, etc.

- Identifying new business opportunities for Telefónica based on agreements with GYM which provide substantial improvements in both commercial terms and in response times.

- Defining and proposing alternative models for cooperation with key strategic partners (e.g. OHA Android, Yahoo! Mobile Search, Microsoft @Net).

- Encouraging business units to develop global internet agreements to cover strategic and operational needs, promoting innovation in the dynamic environment of the internet.

- Implementing existing agreements with business units in order to position Telefónica as a desirable strategic partner.

The strategy followed for emerging players in the internet ecosystem aims to:

- Complement the portfolio of our services through alliances with emerging internet brands in areas such as social networks, video, music, messaging, etc.

- Structure and negotiate innovative convergent internet services using the mass distribution capacity of Telefónica's systems (fixed-line broadband, mobile phones, IPTV, Internet TV) through alliances with such companies, for example:

  - Negotiating integration of services such as SMS/MMS into Social Networking services (e.g.. Facebook, Twitter, etc.).
  - Actively participating in "*m-Commerce*" through agreements with industry leaders (e.g.. Amazon, eBay, etc.).
  - Analysing interest in other service categories and initiating appropriate talks with suitable partners (e.g. social gaming, LBS, social networking sites, etc.).

- In addition, the Corporate Internet Group plays an active role in the global analysis of the industry, and supports local initiatives by operators for the growth of the internet in certain areas such as:

  - New devices (such as eReaders and Consoles)
  - New services (such as MVoIP and Application Stores/Widgets)

## h. Acquisitions

Telefónica regards acquisitions as an additional point of entry into emerging technologies with a view to developing adjacent businesses. This is demonstrated by the acquisition of Jajah in 2009.

**Telefónica acquires Jajah, a leading IP communication company**

In 2009, Telefónica announced the acquisition of Jajah, an innovative leader in the communications sector based in Silicon Valley, California and Israel, for 145 million euros ($207 million).

Jajah provides services to millions of people in 200 countries; its services are integrated into everyday applications such as instant messaging and social networking and are also offered direct to consumers. Its business solutions include comprehensive IP communication services for the whole organisation, irrespective of location or the device used.

Trevor Healy, CEO of Jajah, explains: "*this is an exciting agreement between a young and innovative company and one of the largest integrated telecommunications companies in the world. Together we hope to be able to create the next generation of communication*".

# 6
# 4

# Responsible investment

The Socially Responsible Investments that were in the Company's retirement pensions on 31 December 2009 are invested both in the Telefónica Spain Employees Fund (ETE) and in the Fonditel B pension fund, which includes employees from the Group's subsidiary countries in Spain.

The ETE and Fonditel B funds combined had 28.52 million euros invested in social housing developments for rent, 4.44 million euros in forestry investments and 6.53 million euros in renewable wind energy investments at the end of last year. A total of 23.77 million euros was invested in external funds of funds with ISR assessment criteria, of which 7.81 million euros were funds focused on companies that are committed to good management practices, 5.28 million euros in several funds of an ecological nature, and finally, 10.68 million euros in two funds that invest in companies related to the sustainability of water resources.

The sum of all these ISR reaches a total amount of 63.25 million euros, which is 1.88% of the net equity of the two pension funds at the end of the year.

In 2009, Fonditel E.G.F.P., the fund management agency that manages the pension funds of the Telefónica Group, participated in the creation of the Spanish Socially Responsible Investment Forum, SpainSif, an institution whose aim is to promote and have knowledge of the social responsibility of investments. In 2010, the fund management company is considering signing the United Nations PRI, principles for responsible investment.

# 7

## Awards and Distinctions

# 7    Awards and Distinctions

## Corporate Responsibility Strategy

- Telefónica became world leader of the Dow Jones Sustainability Index (DJSI) in the telecommunications sector.
- Telefónica once more maintained its position in the FTSE4Good sustainability index .
- Telefónica came top in the "Monitor Empresarial de Reputación Corporativa" (MERCO - Corporate reputation business monitor) corporate reputation ranking.
- Telefónica leads the field, for the third year running, in the following categories: "Most strategically-minded company in Spain", "The company with the best international reputation, projection and presence", "Most sensitive company with respect to Latin America" and "Company with the clearest and strongest corporate strategy", according to the results of the *Key Audience Research* (KAR) 2009 study, prepared by the market research organisation, IPSOS.
- Telefónica SP was singled out for praise by the Brazilian magazine *Dinheiro* in the sector rankings it publishes annually and which recognise the companies which have excelled in their financial activities and human resources practices, innovation, quality control, and Corporate Social Responsibility and Governance.
- For the second year in a row, Movistar Ecuador obtained the number one position in the second annual General Rumiñahui Awards for best practices in Corporate Responsibility.

## Excellence in business

### Customers

- Once again, Telefónica was the highest rated operator, both as a supplier of products and services and for the value-for-money it offers, according to the "3rd Annual Study on Internet Perceptions in Spain" as carried out by the Asociación de Internautas (Spanish Internet users' association), based on 50,000 interviews with members of the web-browsing community.
- Movistar, Telefónica's mobile phone brand in Spain, received the "Best commercial strategy" award from the magazine "Dirigentes".
- Terra was named "Best website" in the Tecnet 2009 Awards presented by the Júbilo Group (Planeta) in Spain. According to the organisation which awarded the prizes, Terra was recognised for being *"a benchmark for Spanish-language Internet websites and its marked diversity of content and quality services, contributing to the development of the Information Society".*
- Atento España received three "CRC Gold Awards" in the *Call Centre & CRM Solutions* section in the following categories: "Best customer loyalty operation", "Best sales-reception operation" and "Best telecommunications service".
- Telefónica 1004 Spain Customer Attention operators received the "Premio Fortius" award from Altitude Software and the Asociación Española de Expertos en Centros de Contacto con Clientes (AEECCC - the Spanish Call Centre Experts' Association).
- Telefónica O2 Ireland received the "Marketing Team of the Year" and "Best public relations campaign" prizes for its music section The O2, awarded by the Irish Institute of Marketing.
- Telefónica O2 UK headed the satisfaction ranking in broadband, according to J.D. Power & Associates.
- For the second year running Telefónica O2 UK won the National Customer Service Award for the best customer complaints handling team.

### Employees

- Telefónica Spain was voted second in the *"Great Place to Work" ranking* prepared in Spain.
- Telefónica Ecuador, Uruguay and Venezuela came first in the *Great Place to Work rankings* prepared in those countries.

- Telefónica O2 Germany came first, and Telefónica O2 Ireland second, in the Best Place to Work ranking in their respective countries.
- Telefónica was ranked as the best Spanish company to work for by *Actualidad Económica* magazine
- For the third year running, Telefónica Spain featured in the Spain 2009 Top Employers *ranking*, a study carried out by the CRF Institute.
- The Vivo (Brazil) programme "Vivo para el Cliente" (Vivo for the customer) was recognised by *the Global People Initiative* and the GSM Association for its successful business practices, allowing innovation and creativity within the human resources strategy.

## Shareholders

- Telefónica was the only Spanish company in the ranking of the world's most admired companies, published by the US magazine *Fortune*. It ranked fifth.
- Telefónica ranked number 32 among the world's best companies, according to the international *ranking* which the prestigious US economic magazine *Business Week* produces every year.
- Telefónica also received the Extel prize, awarded by analysts in the City of London, in recognition of the attention the Company pays to its shareholders and analysts.

# Honest and transparent management

- Telefónica Colombia came third in the Transparency Index for Public Service Companies led by Transparencia por Colombia with the support of the AVINA Foundation and the Embassy of the Netherlands.
- Telefónica Peru received the recognition of the Lima Stock Exchange for the second year in succession, with special mention made of its compliance with the principles of Corporate Governance for Peruvian companies.
- Movistar Ecuador received the "Merit of Honour for Good Anti-Corruption Working Practices" awarded by the Provincial Government of Pichincha.
- Telefónica offers the best internet access value for money in Spain, according to the first study carried out by the Asociación de Internautas.
- Telefónica continued to lead the market in terms of quality and offering the best quality-to-price ratio, according to the Seventh Quality and Price Operator Observatory carried out by the Spanish Consumers' Union.
- Telefónica was once again the most-trusted operator by users, according to a series of interviews undertaken by the Spanish Consumers Association.

# Contribution to progress

- The Telefónica Accesible initiative won an AUTELSI (Asociación Española de Usuarios de Telecomunicaciones y de la Sociedad de la Información - Spanish association for telecommunications users and for the information society) award for the best "Project for the Development of the Information Society".
- The National Union of the Blind of Peru recognised Fundación Telefónica for its ongoing work and support for disabled people, especially children and young people, through the application of New Information and Communications Technologies.
- Telefónica O2 Ireland won a prize in the Sustainable Energy Ireland Awards, in category B (Pioneer Projects in Renewable Energies), for the installation of the country's first self-sustainable base station.
- Telefónica Spain also received ASIMELEC's Environmental Award 2009 for its contribution to the environment and the sustainable use of Information and Communications Technology in the country.
- Fundación Telefónica was given the Universal Accessibility award by the DFA Aragon Foundation for its contribution to better accessibility through ICT for its RETADIS (National Network of Computers Adapted for Disabled People) social project.

# Social and cultural activities

- Telefónica Peru was recognised by the United Nations Development Programme (UNDP) and the International Labour Organisation (ILO), for its actions in support of the eradication of child labour in the country.
- Telefónica and the Fundación Telefónica received the Pacto Mundial Perú: Ética y Liderazgo Empresarial ("Peru World Compact - Ethics and Corporate Leadership") award for the work the company and Foundation have undertaken to eradicate child labour through the Proniño programme.

- The Proniño programme was presented in Washington with the second prize in the Corporate Citizen of the Americas Award, held annually by the Foundation for the Americas.
- Fundación Telefónica was given the 2009 Award for Entrepreneurial Innovation, by the daily newspaper Cinco Días, doyen of the Spanish financial press, for its EducaRed-Proniño Transfer Network Project.
- The Fundación Telefónica was recognised by the Foundation Against Drug Addiction (FAD), for its permanent support for drug education in Spain. The award marking this recognition was presented by Her Majesty Queen Sofía of Spain.
- Fundación Telefónica España received the Aragon Medal of Education for its project designed to introduce information and communications technology into the field of education.
- Eventos Magazine applauded the event "48 Hours with Telefónica", which was held in Spain in June, for its commitment to the environment.

# Communication and dialogue
## Annual Corporate Responsibility Report

- Telefónica came second in "The Good Company Ranking", a study which evaluates the Corporate Social Responsibility of 90 European companies, carried out by Kirchhoff Consult AG.
- Telefónica won the "3rd Annual Spanish Corporate Sustainability Report Award", presented by Instituto de Censores Jurados de Cuentas de España and Asociación Española de Contabilidad y Administración de Empresas, two national auditing and accountancy associations.
- Telefónica was recognised as the company with the best and strongest digital communication strategy at the annual "Best of PR" awards, presented by the prestigious *online* publication PR Noticias.
- The Telefónica Peru "Conéctame" (Connect me) programme was recognised as one of the best Corporate Responsibility programmes in South America and one of the best new telecommunications service products on a global level at the 2009 *International Business Awards* (Stevies). These awards have been called the "Oscars of the Business World" by the New York Post.

## Management and leadership

- César Alierta, Chairman of Telefónica, received the TIEPOLO Award from the Spanish and Italian Chambers of Commerce, for Telefónica's leading role in an ever more globalised economy.
- César Alierta was named one of the forty most influential people in the mobile phone industry by the UK magazine Mobile Communications International (MCI).
- Telefónica also received the "Company with a Future" award by Dinero magazine in recognition of the leadership that the Company has consolidated over the years.
- Telefónica received an award for District C, the Company's headquarters in Madrid designed by the architect Rafael de la Hoz, from the Asociación Española de Dirección Integrada de Proyecto (AEDIP), the Spanish project management association.
- Telefónica O2 UK became the first telecommunications company in the country to attain the BS 25999 certificate.

# 8

2009 milestones –
Challenges for 2010

# 8 2009 milestones – Challenges for 2010

# 2009 Milestones:

*Management achievements of the Telefónica Group in the area of Corporate Responsibility in 2009.*

Year by year, Telefónica evaluates the degree of achievement of the goals established in the field of corporate responsibility.

| 1. Corporate Social Responsibility (CSR) and Business Principles | | |
|---|---|---|
| **Milestone** | **Degree of fulfilment** | |
| Training on Business Principles | 😐 | In 2009, over 70,200 employees received training in Business Principles, representing 57% of the workforce. |
| Continue to promote dialogue practices with employees as to our Business Principles. | 😊 | Numerous communications and dialogue initiatives have been undertaken with employees regarding Business Principles: These include interviews, questionnaires, dialogue etc. |
| The development and implementation of policies based on the Business Principles and development of CR plans in each country. | 😊 | In 2009 work began on identifying the risks associated with our Business Principles in each of the Group's operations, defining local and corporate CSR plans for purposes of mitigation. |

## 2. Customers

| Milestone | Degree of fulfilment | |
|---|---|---|
| Achieve a level of 7.24 in Customer Satisfaction Index (CSI) | 😐 | In 2009, the Customer Satisfaction Index remained stable with respect to 2008, standing at 6.98 points. |
| Implementation of Compliance Programmes regarding Competition Law | ☹️ | Throughout 2009 we continued with the progressive implementation in the Group companies of the online course on competition law. In Latin America, the course was revised and adapted to meet local needs and respective legislation. The course is currently being launched in Mexico, Uruguay and Venezuela, and before the end of 2010 it is planned for launch in most countries, including Argentina, Colombia, Chile and Peru. |
| Deploy the ICT Responsible Use strategy for children and teenagers | 😐 | All European countries have carried out the developments necessary to block child pornography URLs, and in Latin American countries the necessary tests were carried out to begin blocking. |
| | ☺️ | 2009 saw the release of the results of the study carried out by the Interactive Generations Forum in Spain, these being published in the book "The Interactive Generation in Spain". The book was presented on 23 November. |
| | ☺️ | An initiatives map was drawn up, identifying weak points to be strengthened in each country and business of the company, to enable actions in response. |

## 3. Employees

| Milestone | Degree of fulfilment | |
|---|---|---|
| Achieve 71% in the Index | ☺️ | The company's commitment to achieving improved satisfaction, and the commitment of its employees, is reflected in the ICC, which stood at 73%, 4 p.p. higher than in 2008 |
| Diversity Project | 😐 | 2009 saw work on defining the strategy for developing the diversity project in Telefónica. Likewise, it is worth highlighting the progress made in one of the key indicators, the number of female managers, which increased to 20.7% (4.1 p.p. more than in 2008). |
| Health and Safety | ☺️ | 2009 saw an improvement in the methodology applied to the collection of information on the Group, maintaining the objective of reducing accident rates by 4% in three years (based on 2008 data). |

**4. Suppliers**

| Milestone | Degree of fulfilment | |
|---|---|---|
| Extension of Business Principles to the Supply Chain | ☺ | Telefónica undertook 840 HR and Health and Safety audits in Latin America on "high risk" suppliers, establishing improvement plans. |
| | ☺ | Convergence with the corporate model of the risk-assessment process of the supply chain at Telefónica O2 United Kingdom. |

**5. Society**

| Milestone | Degree of fulfilment | |
|---|---|---|
| Labour Integration Rules for the Disabled | ☺ | Meeting the indicator on the integration in the workplace of the disabled, in line with the Group's internal regulations, 165.5%. |
| Reach 120,000 children and teenagers in the core idea of full protection under the Proniño programme | ☺ | In the area of Social Programmes for Children run by Fundación Telefónica, at the end of 2009 the Proniño programme managed to reach the total of 163,900 children and teenagers in school and out of child labour in Latin America, representing growth of 52%, more than double that envisaged. |
| Digital Inclusion in Latin America | ☺ | 2009 saw the deployment of more than 84 initiatives aimed at reducing gaps in economy, education, geography, disability and heath in Europe, Spain and Latin America, with an investment of XXXX. |
| Improve Reputation in the eyes of the General Public | ☺ | Telefónica continues to work to reduce the lead of the best competitor in each country in the most critical dimensions that form part of the RepTrak model Index in all countries where it operates, having already achieved this goal in Germany, Chile, Spain and Venezuela |

## 6. Environment

| Milestone | Degree of fulfilment | |
|---|---|---|
| **Environmental Management System** | | |
| Implementation of the global Environmental Management System at 50% of operations | ☺ | During 2009 the global Environmental Management System was implemented in the operations of Telefónica in Spain and design work was started for its implementation in Europe and certain Latin American countries. |
| Implementation of the Environmental Behaviour Index at 70% of our operations | ☺ | This year's report saw Group companies attain 100% in environmental performance. |
| Environmental certification of District C | ☺ | In 2009 the Environmental Management System implemented in District C was certified by an external organisation. 12,000 Company employees work in District C. |
| **Climate Change Office** | | |
| Conduct energy audits at all the Group's operations and carry out external verification of the carbon footprint | ☺ | 2009 saw the carrying out of the energy and emissions audit of the 2007 and 2008 series, by the E&Y Auditor Group. |
| Decrease electricity consumption by 30% in networks by 2015 in comparison to 2007 | ☺ | We continued to work on the implementation of the manual of best practices in energy efficiency in the Group using the measurement. |
| 10% reduction in electricity consumption in offices by 2015, compared with 2007. | ☺ | 2009 saw the encouragement of home working by group employees, with awareness raising campaigns on efficient energy use. |
| Define the renewable-energy strategy for the Telefónica network | ☺ | The renewable energies strategy has become associated with meeting the goal to reduce the electrical consumption of the Telefónica Group, with an emphasis on the deployment of base stations in Latin America. |
| Take into account the energy-efficiency differential in the procurement decision of products. | ☺ | 2009 saw development of the Low Carbon Purchase Standard for the Telefónica group, identifying the need to include energy attributes when evaluating the total price of the solution purchased - TCO (*Total Cost of Ownership*). |

# Challenges for 2010:

*Establishing new challenges that will enable us to build sustainable long-term relations with all our Stakeholder Groups.*

The challenges for 2010 are established based on the three strategic pillars that define Telefónica's management of Corporate Responsibility.

| Risk management | |
|---|---|
| Business Principles Office | Continuing with the implementation of Business Principles through online training (with the attainment of the goal of 80% employees trained), communication with employees through the various internal channels of the Group and the holding in different countries of panels and meetings with employees. |
| Identify risks linked to Business Principles. | The setting up of a process for the identification and evaluation of risks associated with Business Principles, within the corporate risk management framework. The drawing up of an economic quantification of the risks associated with Business Principles. |
| Corporate Responsibility Policies | With a view to mitigating and reducing possible risks associated with Business Principles, Telefónica has established a number of policies: **Integrity**: Complete the Corporate Governance policies to address situations in which integrity may be under threat: conflict of interest, donations to political parties, etc.… **Suppliers**: Promote socially responsible management in the supply chain, focusing on labour-intensive suppliers in Latin America and on manufacturers in Europe. **Privacy and data protection**: Audits of critical aspects of privacy and data protection, establishing action plans for each business line. **Adult content**: Implement opt-in tools for access to adult content for pre-paid and own online portals; and opt-out in contract. **Responsible Advertising**: Review and adapt the Policy to the new Brand model. **Health and Safety**: Actions aimed at achieving a joint vision of health and safety in the workplace for the entire group were carried out by the Business Principles Office. **Diversity**: Actions aimed at achieving a joint vision of diversity for the entire group were carried out by the Business Principles Office. **Electromagnetic Emissions**: Together with other companies in the sector, position ICT as a safe driver of economic and social development. **Human Rights**: Carry out a mapping of aspects associated with our operation that might place respect for human rights at risk, and define the associated Policy. **Environmental Management System:** Drawing up a plan for the implementation of the global Environmental Management system for each company in the Group. The end of 2010 will see the implementation of SGA standards in the companies which are currently externally certified – Spain, United Kingdom, Germany, Ireland, Czech Republic, Argentina (mobile), Peru (mobile), Ecuador, Colombia (mobile) and Mexico-. The process will be completed in 2012 for the remaining companies. |

## Management of opportunities

**Accessibility of ICT**

Accessibility of products and services Accessibility and disability as growth challenges

Consolidation of the Telefónica Accesible program in Spain to meet requests from the Fundación Centac and other associations in the field of disability and dependency.

**GREEN ICT**

Positioning of Telefónica as a company in favour of a low carbon economy.

Making Telefónica a pioneering ICT company, by extending the energy efficiency culture internally and externally, assuming the commitment to reduce emissions by strategic sectoral organisations such as GeSI, ITU, ETNO, among others.

Reduction of energy consumption from the activities of the company itself, and consequently Greenhouse Gas Emissions (GGE)

Reduction of energy consumption through the implementation of energy efficiency plans in the context of operations, as well as the use of renewable energy in networks and offices; inclusion of energy efficiency in purchasing and the encouragement of new ways of working with employees and the use of ICT to promote sustainable mobility programs.

Telefónica has set itself the goal, before 2015, of electricity consumption on its network becoming 30% more efficient, and 10% that of its offices.

Promotion and development of products and services that encourage energy efficiency in other sectors of the economy such as the electrical sector, transport and construction

Development of ICT solutions with energy efficiency potential aimed at customers in the residential segments and companies on a global level, through the development of strategic alliances based on innovation and the commitment of promoting a low carbon economy.

## Public-private partnerships

Digital diaries: Spain, Latin America and Europe

Design and implementation of conversational and inclusive processes that encourage and boost the development of digital diaries in regions.

Round-table dialogues

Development of specific committees on issues on the Public Agenda, facilitating the creation of eco-systems formed by *stakeholders.*

Encouragement of the use of tools that provide 2.0 communication as an efficient means of relating with *stakeholders.*

# 9

## Scope of the report

# 9

## 1

# Country CR reports

In 2010, Telefónica will publish 18 country CR reports:

- **Spain**: an executive report printed in Spanish and Catalan is published.

- **Europe**: Germany, Ireland and the United Kingdom publish online reports. The operation in the Czech Republic has drawn up an integrated annual report in printed version, and an *online report.*

- **Latin America**: in line with local interests, Latin American countries publish reports in printed format and online. These reports are published in Spanish and, for Brazil, in Portuguese.

The process for drawing up local CR reports is coordinated as follows:

- From the Corporate Responsibility department of the Telefónica Group, support is given to regional and local CR teams (Spain, Europe and Latin America), and and informs them of the steps necessary to publish their local CR report.

- Countries collaborate actively in the process of collecting information, and country indicators to improve the quality and consistency of the information reported in the Corporate CR report.

- Likewise, the Corporate Responsibility department of the Telefónica Group advises countries on how to manage the most relevant or material aspects for its local stakeholders, and how to correctly implement the methodology relating to dialogue with stakeholders developed by Telefónica.

In terms of verification, Telefónica establishes a clear and specific route for all local reports. Said phase or route comprises three stages:

- In its first year of publication, the CR report is not verified subject to any standards.
- In its second year of publication, the CR report is verified subject to the Global Reporting Initiative (GRI).
- In its third year of publication, the CR report is verified subject to the Global Reporting Initiative (GRI) and AA1000AS (AccountAbility) standards.

Currently, all CR reports are in the third phase, except for El Salvador, Guatemala, Nicaragua, Panamá and Uruguay, which are in the second phase. All reports are audited by Ernst & Young.

# 9
## 2
# Principles for preparing the 2009 Annual CR Report

# 9.2.1 According to Global Reporting Initiative (GRI)

## 9.2.1.1 Contents

This 2009 Annual CR Report has been drawn up using the general G3 principals required by the Global Reporting Initiative (GRI). In this chapter we will give a brief explanation of how the GRI-G3 reporting principles have been applied when it comes to drawing it up, detailing the principles for determining content, and the principles to ensure its quality.

With the aim of guaranteeing a balanced and reasonable presentation of the performance of the organisation, the contents the report should include need to be determined. This should be carried out taking into account both the experience and purpose of the organisation as well as the interests of its stakeholders. Both points of reference are important when it comes to deciding on that which should be included.

**Materiality**: The information contained in the report should cover those aspects and indicators that reflect significant social, environmental and economic impacts of the organisation or those that might have a substantial impact on the evaluations and decisions of stakeholders. In this way, in 2009 Telefónica carried out a materiality analysis, developing a system which includes both the internal and external aspects described below (Note:

- External factors:

    - Interest/ main aspects relating to sustainable development and indicators suggested by stakeholders: dialogue with stakeholders for the preparation of the report and materiality analysis with stakeholders.

    - Main future issues and challenges in the sector, as reported by counterparts and competitors: use of the GRI sectoral telecommunications supplement.

    - Laws, regulations, international agreements or relevant voluntary agreements of strategic importance for the organisation and its stakeholders: Communication of Progress on the UN Global Compact. Information on compliance with legal aspects in different countries.

    - Risks, impacts and opportunities that affect sustainability and which can be reasonably estimated: analysis of opportunities and corporate responsibility risks as the first phase of the CR, ITC and Millennium Goals (ODM) management model.

# 9.2 Principles for preparing the 2009 Annual CR Report

- Internal factors:

  - **Main values of the organisation, policies, strategies, operative management systems, goals and targets:** Chapter which describes the CR strategy set up in the company and Business Principles.

  - **The interests/ expectations of stakeholders that have contributed to the success of the organisation:** dialogue with stakeholders for the preparation of the report. Analysis of materiality carried out with stakeholders.

  - **Important risks for the organisation:** chapters match Business Principles with each group and matter of interest.

  - **Critical factors which make the success of the organisation possible:** chapter on Telefónica and description of the organisations within the Telefónica Annual Report.

  - **Main skills of the organisation, and how they contribute or could contribute to sustainable development:** various chapters of the report reflect the contribution of the company to sustainable development, such as for example in the chapter of "ITC as a lever for social inclusion".

(**Note**: Tests recommended by the GRI-G3 in grey, response from Telefónica in blue).

**Inclusivity of stakeholders:** The reporting organisation should identify its stakeholders and describe in the report how it has met their reasonable expectations and interests.

- **The organisation may describe those stakeholders to whom it deems itself responsible:** the entire structure of the report is based on priority matters for each stakeholder group.

- **The contents of the report are based on the results of the processes of inclusion and participation of the stakeholders used by the organisation in its current activities, as required by the legal and institutional framework in which it operates:** the report includes the recommendations made by stakeholders in the different studies, surveys and dialogue panels held by Telefónica in their relationship with same.

- **The contents of the report are based on the results of the processes of inclusion and participation of stakeholders carried out specifically for the report:** the contents of the entire report are based on the results of the materiality exercise carried out with stakeholders.

- **The process of inclusion and participation of stakeholders who provide information on decisions about the report are consistent with the focus and scope of the report:** the dialogue process implemented in Telefónica uses the RepTrak model, in which monthly surveys are carried out among the general public.

(**Note**: Tests recommended by the GRI-G3 in grey, response from Telefónica in blue).

**Sustainability context:** the reporting body must present its performance within the broadest context of sustainability

- **The organisation presents its understanding of the meaning of sustainable development, and includes it in the issues covered in the report, using available and objective information, as well as measurements of sustainable development:** presentation of the role of Telefónica as a driver for economic, technological and social progress. Telecommunication and sustainable development articles (case studies).

- **The organisation presents its performance within a broader context, in respect of sustainable development conditions and objectives, as reflected in publications of recognised prestige, on a local, regional, global or sectoral level:** it includes key sustainable development issues (GRI, sectoral supplement, dialogue with stakeholders, etc.) but not quantitative data and targets.

- **The organisation presents its performance, seeking to communicate the scale of its impact and its contribution in the corresponding geographical areas:** local CR reports in each country.

- **The report describes the relationship between issues of sustainability and the organisational strategy, long term risks and opportunities, including issues relating to the supply chain:** chapter on Suppliers.

## 9.2 Principles for preparing the 2009 Annual CR Report

(**Note**: Tests recommended by the GRI-G3 in grey, response from Telefónica in blue).

**Exhaustivity:** coverage of indicators and material aspects, and the definition of the scope of the report, should be sufficient to reflect significant social, economic and environmental impacts, and to enable stakeholders to appraise the performance of the operation during the period covered by the report.

- The report is drawn up by taking into account the entire chain of entities. both *upstream* and*downstream* of the organisation in the economic cycle, and covers and prioritises that information deemed to be material, based on the principles of materiality, the sustainability context and participation of stakeholders: the report takes into account the entire value chain, and gives some issues a greater priority than others (the execution and management of materiality).

- The report includes all entities that meet the criteria of being under significant control or influence by the reporting organisation, unless stated to the contrary: escription of the information scope included in the report.

- The information included in the report includes all significant actions or events that may have taken place in the period covered by the report, as well as reasonable estimates of the future impact of past events, as long as such impacts can be reasonably foreseen and might become inevitable or irreversible: the report includes a historical set of quantitative impact data, but does not include projections from this data set.

- The report also includes relevant information that might influence or provide information to stakeholders when it comes to making decisions and assessments, or which might reflect significant social, environmental or economic impacts: Analysis of materiality with respect to the opinion of stakeholders and AA1000 verification. In the same way as stakeholders requested more information than that in the 2008 report, the same may occur in 2009.

(**Note**: Tests recommended by the GRI-G3 in grey, response from Telefónica in blue).

## 9.1.1.2 Quality

This section contains the principles that guide decisions when it comes to ensuring the quality of information, including its correct presentation. Decisions related to the processes of preparing the information in a report must be consistent with these principles. All of this is essential for effective transparency. The quality of information allows stakeholders to make an adequate and reasonable assessment of performance.

**Balance:** the report should reflect the positive and negative aspects of the performance of the organisation to enable a reasonable assessment of general performance

- The report includes both negative and positive results and aspects. Both the executive summary and the expanded report seeks to meet this demand: an example is the publication of compliance figures with the goals set in the 2008 report and an explanation for the breach, if any.

- The information in the report is presented in a format which allows the user to see positive and negative performance trends on an annual basis: the report has a wide range of graphs and data tables. Likewise, this year has seen continued efforts to show the comparability of historic data, although this has not been achieved in all cases (due to the change in the Telefónica organisational structure, meaning, in many cases, that the series of historic data is meaningless). Also, 2009 again saw the presentation in both the executive report and this expanded report as well as the CR ATLAS, key CSR indicators.

- The focus on the different aspects of the report is in proportion to their relative materiality: both the executive and expanded report try to include the questions that are most relevant to the company's stakeholder groups, the first focusing on material inter-sectoral issues while the second includes all material inter-sectoral, sectoral and local issues.

(**Note**: Tests recommended by the GRI-G3 in grey, response from Telefónica in blue).

**Comparability:**

- The report and the information it contains may be compared on a yearly basis: the expanded report contains comparable information through graphs and tables. Likewise, the CR ATLAS favours the comparability of the indicators deemed to be most relevant to the management of CR in Telefónica.

## 9.2 Principles for preparing the 2009 Annual CR Report

- Performance can be compared with the corresponding benchmark organisations (comparative analysis): the benchmarks are not included in the report. The report follows the GRI-G3 guide.

- Any significant variation between information periods vis a vis cover, scope, duration of the period or information included in the annual report may be identified and explained: all data included in the report has its frame of reference clearly identified.

- As long as they are available, the reporting organisation applies generally accepted protocols for collection, appraisal and presentation, including technical GRI Technical Protocols for the indicators contained in the guide:the technical protocols recommended by GRI-G3 have been used.

- The report uses, whenever available, GRI sectoral supplements: the sectoral supplement for the telecommunications sector has been used.

(**Note**: Tests recommended by the GRI-G3 in grey, response from Telefónica in blue).

**Accuracy:** the information contained in the report must be precise and sufficiently detailed to ensure that the various stakeholders in the organisation can assess the performance of the reporting organisation

- The report indicates which data has been measured: see the GRI tables in this report.

- The data measurement techniques and calculation bases used are described adequately, such that they are reproducible with similar results: explanation of most information consolidation processes.

- The margin of error for quantitative data is such that it does not have a substantial impact on performance conclusions: decisions have been taken in respect of decisions on the scope and process of consolidating information to seek to minimise the margin of error in respect of the data supplied. Likewise, Telefónica has set up information consolidation systems which are helping to eliminate errors in the process of collecting and consolidating information.

- The report indicates which data has been estimated, and which hypotheses and techniques have been used to generate those estimates or the reference where the corresponding information can be found: explanation of most information consolidation processes.

- Qualitative declarations in the report are valid in line with the other information presented and other available evidence: the report has been verified by Ernst & Young, with the scope described in its report.

(**Note**: Tests recommended by the GRI-G3 in grey, response from Telefónica in blue).

**Frequency:** information is presented in time and in accordance with a regular schedule, such that stakeholders can take decisions with adequate information.

- The information in the report is disclosed soon after the period reported on: the report is published in the six months after the end of the financial year.

- The collection and publication of main performance data is consistent with the schedule for the drawing up of the sustainability report: data is collected once the financial year being reported on has come to an end.

- Information in reports (included those published in web format) clearly indicates the period it refers to, when they were updated, and when the latest updates were made: all CR reports are available on the website, clearly indicating which financial year each of them corresponds to.

(**Note**: Tests recommended by the GRI-G3 in grey, response from Telefónica in blue).

**Clarity:** information must be presented in a way which is comprehensible and accessible to the stakeholders who are to use the report

- The report contains the level of information necessary to meet the informative needs of users of same, but should not be excessively and unnecessarily detailed: an executive report is drawn up and presented in an extended format in digital version (PDF) on the website.

# 9.2 Principles for preparing the 2009 Annual CR Report

- **Users of the report can find the specific information they are seeking without having to make too much effort, helped by data tables, maps, links and other mechanisms:** the report was drawn up taking into consideration the recommendations on the presentation of information made by stakeholders. Nevertheless, Telefónica is continuing to work on improving access to information within the report.

- **The report avoids technical terms, acronyms, slang or other content that might be unknown to stakeholders, and includes explanations (whenever necessary) in the relevant section or its corresponding glossary:**one of the premises followed when drafting it is that there are clarifications of all content.

- **Data and information in the report is available for the different stakeholders, including those with specific accessibility needs (different skills, language, technology, etc.):** the report is published in its executive and expanded version in two languages (Spanish and English). As part of Telefónica's commitment so that this CR report can be accessible to all, the expanded version may be read by people with visual impairment thanks to our collaboration with the company Technosite from the Fundosa Group (ONCE).

(**Note**: Tests recommended by the GRI-G3 in grey, response from Telefónica in blue).

**Reliability/ verification:** the information and procedures followed when preparing a report must be collected, recorded, compiled, analysed and presented in such a way that they can be subject to examination, establishing the quality and materiality of the information

- **The scope and the extent by which the report has been externally checked is identified**: information on the scope of the report, and dialogue with stakeholders on the report.

- **The organisation can identify the original source of all the information contained in the report:** the traceability of the information has been checked in the process of drawing up and verifying the report through a sample of the information supplied. Said was carried out mainly by the external report auditor.

- **The organisation can justify the reliability of hypotheses or the complex calculations carried out:** reliability declarations of information sources are implicit in the inclusion in the report of all information.

- **The report has a declaration from those responsible for the information or original data, attesting to its reliability and accuracy, within acceptable margins of error:** the report credits state that the Department of Reputation, Environment and Corporate Identity is the unit responsible for the contents and preparation of the report.

(**Note**: Tests recommended by the GRI-G3 in grey, response from Telefónica in blue).

# 9.2.2 According to AA1000 (APS)

The AA1000AS (2008) was drawn up with the aim of "guaranteeing the quality of reporting on sustainability in the organisation and the processes, systems and skills that are used as a basis for its implementation by every part of the organisation". Thus, the audit carried out by Ernst & Young was carried out pursuant to the following principles, defined by Standard AA1000 ASS (2008):

**Inclusivity**: refers to the participation of stakeholders in the development and achievement of a responsible and strategic approach to sustainability: the following mechanisms were used in 2009:

## Employees

**Index of Employee Satisfaction and Commitment**
Telefónica continues to support the satisfaction and commitment of its professionals. The holding of an annual survey aimed at all professionals in the workforce has as its goal the analysis of their satisfaction levels and commitment to the company. This survey records length of service in the company, a valuation of efforts and willingness to share their experiences in Telefónica with their workmates.

The Employee Satisfaction Index (ICC) is the average of favourable responses ("I agree" and "I totally agree") to the 33 questions asked in the annual survey, in which all Telefónica employees participate.

In 2009, and for the third year in a row, the same questionnaire was applied to all companies in the Group to measure the satisfaction and commitment of its employees. This has made it possible to assess any changes and compare consolidated data for all regions. It is an online tool which enables the comprehensive management of the commitment: it measures its development, facilitates communication of results to the employee himself and enables managers to monitor improvement plans: overall and individual.

A total of 90,407 employees from 76 companies participated in the survey, an increase of 2.7 percent over the previous year, bringing participation to 73%. Much of this increase is due to the participation of Telefónica España, with an increase of 4.7 p.p. over 2008.

**Other tools for dialogue with employees**

- "Dialogue on Business Principle" by Telefónica in Ecuador is the first dialogue with employees in this area. Employees were selected at random and instructed to identify clear mechanisms for raising awareness and communication of the Business Principles of Telefónica, and its application on a day to day basis.

**Click here** for more information on Telefónica's dialogue with its employees

## Customers

**Customer Watchdog Service (SDC)**
The Customer Watchdog Service" takes note" of possible improvements based on customer complaints. In this way areas that require change are passed on to departments.

In Spain,in 2009, the Customer Defence Service handled 5,161 cases, 63% more than in 2008, continuing the positive development of this service since it was launched.

Telefónica is the only telecommunications operator in Spain to voluntarily create such a body; it is independent of the business areas and has powers to make binding decisions. The CO  reports regularly to Telefónica S.A.'s Board of Directors'  Service Quality and Customer Service Committee.

In 2009, most of the cases it dealt with related to billing, with service maintenance being another recurring theme. Of all the complaints received, the Customer Ombudsman Service accepted 63%, and of the cases completed so far, 80% have had a favourable outcome for the customer (75% up on 2008).

As well as dealing with complaints, the CDS investigates causes to identify areas for improvements to processes that can be passed on to business units and, regularly, to the Quality Committee. In 2009, the Service its analysis focused on issues such as managing complaints, telesales and specific products, such as the Holiday Line.

The SDC also works on these fronts:

- It intensified meetings with public bodies on both a national scale (e.g. the General Department of the National Consumer Affairs Institute) and on a regional scale.
- The sharing with other countries where the group has a presence, such as Argentina, Mexico and Chile, its experience in Spain to spread best practice.
- It increased its participation in user forums and consumer bodies.

**The Telefónica SP Ombudsman**
Telefónica SP created its Ombudsman in Brazil in 1994 to help customers to report incidents when they feel that the response from the Company's normal channels is not satisfactory.

In 2009, the service received 146,749 complaints, compared to 165,103 in 2008. An enormous amount of work was required by the Customer Ombudsman in order to resolve these issues, and to identify the most important ones and report them to the Company's management in order to improve procedure, etc.

**Dissatisfaction monitoring centre (CSI)**
In 2009, Telefónica España continued to expand its *CSI (Centro de Seguimiento de la Insatisfacción - Dissatisfaction Monitoring Centre)*, which was created in July 2008 to contact customers who, having been dealt with by a telephone operator, are still in some way dissatisfied, or who make repeated calls to the call centre.

At the end of 2009, the CSI team had 200 employees, compared to 73 in July 2008. In addition to traditional telephone assistance tools, the Centre also has a number of specific tools. This resulted in a total of 368,731 (relating to 321,262 customers) fixed line telephony issues being resolved in 2009, compared to 142,000 in 2008. The most common issues related to billing, faults and service provision.

The CSI was set up as part of the 1004 telephone service operated by the Company on behalf of domestic customers and it works in collaboration with other areas such as Operations, Invoicing, Complaints and Information Systems amongst others. This collaboration takes place through the Quality Committee, which also enables the CSI to report areas for improvement and deficiencies which it identifies in the course of its work, and which it considers need to be addressed in order to contribute to transforming the Company. In 2009, it made over 200 proposals for changes and/or improvements to processes.

For 2010, Telefónica España's goal is to continue strengthening the CSI so it can deal with one hundred percent of dissatisfied customers who call 1004; and for it to become the sole point of aces in the Residential Sector in Spain and consequently deal with all dissatisfactions in a convergent way (fixed and mobile).

The CSI Model has been exported to other Customer segments and to Telefónica Peru and Telefónica Móviles España for the Domestic segment.

Accordingly, in Peru Infrared 2009, the Integral Solutions Area (in Spanish, ASI) implemented a back-office service that processed dissatisfied customer claims (residential and business) through the 104 *call centre* or through visits to the multi-centres.

In July, the team of the ASI - comprising 28 specialist advisors - began dealing with repeated calls relating to pending Multi product orders more than 10 days old. A few months later, it took on customers showing high levels of dissatisfaction with the service they received from the *call centre*. Thus, in 2009 it managed the complaints and repeated calls of over 80,000 customers.

The aim for 2010 is to change the management model to expand the scope of the ASI and reach more customers. Indeed, it will include the review of bills to prevent any possible claims. The aim is also to implement a Learning Model to identify opportunities for improvement in the internal processes that have a direct effect on customers and present them to the Quality Committee to guarantee their implementation.

For its part, Telefónica O2 United Kingdom has a Complaints Team, which assumes responsibility for the incidents that cannot be resolved by the call centres. It investigates the complaints and contacts customers to solve them.

The team comprises 55 employees: 13 of them are focused on legal issues, relations with regulatory bodies, the *Ombudsman* in the United Kingdom, etc. Added to these are the "specialist teams" comprising 30 experts who can resolve issues with broad band, handsets, smartphones, etc. Finally, a group of 12 employees perform qualitative analyses and identify the causes behind the claims. This latter team manages the process called "My contribution (Mi contribución), which makes it possible to automatically inform the business of anything that might affect its customers.

**Other tools for "listening" to the customer**

- **"We're listening to you":** this initiative enables senior Telefónica España managers to listen to customers and employees in call centres, shops, homes, etc. Also, so that employees can actively listen to customers who callcall centres, we have set up the so-called "Voice of the Customer" lounge (Sala de Voz del Cliente)".

- **"The customer's voice":** Telefónica Telecom Colombia created space on its Board of Directors to listen to its customers. Their opinions are passed on once a month by those who are in permanent contact with users in *call centres*, stores, the technical department, etc..

- **"Face-to-face with the customer":** developed in Brazil, this programme introduced ten different transactions to 488 Telefónica (Telesp) and TVA executives (commerce transactions, telesales, commercial service, technical service and Regional Operations and Supervision Centre, among others) so that they could listen to users and live the customer's experience to identify new improvements.

- **"I live for the customer":** in this programme, employees of the Brazilian operator Vivo, senior managers and strategic suppliers experience customer service in person in shops and call centres, as well as corporate customer service, over three days. The participants then work on opportunities for improvement with the Executive Committee. This programme won an award at the 2009 Mobile World Congress.

- **"60 minutes with the customer"**: programme implemented in Venezuela, in which employees witnessed the service given to users at the Service Centres.

- **Voz del cliente Report (*Voice of the customer*):** Telefónica O2 Ireland produced two monthly reports: The Voice of the customer report and the Talk2O2 report, an online portal for users, which were distributed to all corporate departments, senior managers and board members. They were also discussed at monthly meetings of the Customer and Operations Committee.

- **"Lucy":**Two years ago, Telefónica O2 United Kingdom launched this virtual assistant, to provideonline help, answering queries or facilitating the best means of communication when personalised attention is necessary. In 2009, "Lucy" on average had 1,000 conversations per day with users.

- **"Chat Centre"** with the aim of providing customers with 24h service 365 days a year. In 2009 Telefónica Móviles Nicaragua presented its new self-management service called Chat Center". This chat can answer queries, carry out procedures and deal with user complaints.

- In April 2009, Telefónica España created the **"Official Image Forum"**, where customers of its Imagenio pay-TV service can communicate with, and be heard by, the Company. On completion of this report it had 4,420 users and had recorded 26,576 messages since its launch. Customer have show high satisfaction levels with this initiative, which also helps the company identify areas for improvement. In 2010, Telefónica intends to continue consolidating foroimagenio.com and to open new forums for other products.

**Dialogue with consumer associations**
As a result of its aim to establish a fluid and constructive dialogue with the society it services, Telefónica maintains permanent contact with the main associations in the telecommunications and business sectors, as well as with consumer and user associations, enabling an improvement of general wellbeing trough the use of more innovative products and services suited to social concerns and requirements.

On the one hand, and with the aim of contributing to the development of the company and the technological and economic sectors of the countries it has a presence in, Telefónica plays a proactive role in the most notable associations in the telecom and business sectors, in Spain and abroad, so it can analyse and discuss differing viewpoints on the hot topics of the day, at the same time as reaching joint positions with other companies and institutions to enable the permanent improvement of Spanish telecommunications. This is carried out through active participation in the managing bodies of associations as well as the different committees and working groups that are set up, enabling the

# 9.2 Principles for preparing the 2009 Annual CR Report

sharing of best practice and the exchange of training and information in technical issues, management and advanced economics, etc.

On the other hand dialogue with consumer and user associations is carried out through a single, bi-directional channel with the main entities of this nature, national and regional, which are responsible for passing on to the different units and business lines of the Telefónica Group the questions and concerns that are raised, as well as showing these bodies the innovations and offers of the operator, thus helping to improve information on the market in a direct and transparent way.

Through this relationship Telefónica obtains extremely valuable information on the perception that consumers have of its activities, as well as an expert opinion on the usefulness to customers of its products and services, their quality and opportunities for improvement. For their part, these associations have access to first hand information that is of interest to its members, as well as events organised by the company hosting the leading experts in fields related to Telefónica's business, contributing to more effective relationships. There will also be training and informative activities on technologies, products and services, as well as their correct use and social impact, enabling companies in the Group to design solutions adapted to the needs of specific groups.

**Brazil**

In 2009, Brazil held an intense process of dialogue under conditions of maximum transparency when the authorities prohibited the sale of ADSL (Speedy). After the Agencia Nacional de Telecomunicaciones (ANATEL) temporarily suspended sales of Speedy in June 2009, due to a serious of network paralyses over a period of less than a year, and an increase in customer service complaints, Telefónica involved its various services in the setting up of the measures provided for in the Broadband Improvement Plan delivered to ANATEL. The first meeting brought together chairmen from 13 of Telefónica's largest suppliers with the chairman of the Telefónica Group in Brazil and other company directors.

Likewise, the chairman of Telefónica in Brazil met with the Chairman of the Telecommunications Union of the State of São Paulo (Sintetel) and other union leaders, and summarised the situation facing the company at that time, described the impact it would have and presented an action plan.

With the aim of getting to know and establishing a relationship with, users of social networks, in Telefónica held a debate between seven of the biggest Brazilian bloggers in the technology service and the Executive Director of Telefónica's Residential segment. The meeting lead to the adoption of measures by Telefónica to improve its services, and the launch of new products, and also gave participants the opportunity to chat to upper management in an open and transparent way.

The result of this pioneering initiative was the recognition of participants of social networks, who felt the meeting was a positive event, praising the transparency of the company and spontaneously promoting Telefónica's new multimedia device, Orby.

**Click here for more information** on Telefónica's dialogue with its customers.

## Shareholders

The Company has a range of tools and channels of communication in order to ensure our principles of transparency and equality in its relations with more than 1.4 million shareholders (data at 31 May 2009)

Private shareholders have access to a free customer service line. In 2009, a total of 73,881 calls were received, up 7.27% on 2008 at an average of 6,157 calls a month.

Likewise, through the website (www.telefonica.com/accionistaseinversores), shareholders have access to the Annual Report and Corporate Responsibility Report, as well as information on the activities of the company, strategy and stock market position. The Shareholder Corner section offers small investors an interactive personalised area, providing shareholders with the possibility of asking queries and making suggestions through their personal mailbox, and being notified of any relevant facts, dividends, the General Shareholders Meeting and other financial information, directly to their mailbox. In this respect, it is worth mentioning the over 3,400 queries received through accion.telefonica@telefonica.es and dealt with from the Shareholder's Office throughout 2009.

Shareholders have the right to attend the General Shareholders Meeting, where they can vote and ask questions of the company's upper management.

They can also attend the conferences and public forums that Telefónica participates in. In 2009, the Shareholder's Office attended fairs at the Madrid (Bolsalia) and Barcelona (Borsadiner) stock markets, with their own stand, personally dealing with all queries and suggestions from the shareholders attending both events.

**Click here for more information on Telefónica's dialogue with its shareholders.**

## Suppliers

**Training**
In 2009, Telefónica launched two e-Learning training modules, which presented environmental and social aspects to be taken into account to ensure responsible buying. It also held a training workshop in Shenzhen, China which was attended by over 200 people from Chinese companies which supply the ICT sector.

**Workshops**
3. Working with the Company Forum, since 2007 the Group has been holding Corporate Social Responsibility workshops for small and medium companies, to show how these concepts impact their day to day reality. Last year workshops were held in Ecuador, Mexico and El Salvador.

**Other tools for dialogue with suppliers**

- In 2009, Telefónica O2 Germany held a dialogue with its most important suppliers (covering up to a total of 20% of its purchasing volume). This dialogue developed on the basis of the companies Business Principles, but also included environmental issues, as well as general purchasing guidelines. The objective for 2010 is to increase the percentage of suppliers covered by this dialogue to 50%.

**Click here for more information on Telefónica's dialogue with its suppliers.**

## Authorities and public institutions

**Aragon 4.0.**
Aragon 4.0 can be defined as a meeting point and forum for ideas on the role that Information and Communication Technology will be required to play as vital tools for innovation and modernisation of health systems, and to guarantee their sustainability.

As became clear at the "*e-Health Week 2010*" conference held in March 2010 in Barcelona, under the auspices of the Spanish Presidency of the European Union, the European Commission worked on the development of *e-Health*, considered to be the greatest challenge facing European health systems, helping with its implementation and laying down various guidelines through the *e-Health Action Plan* and *e-Health Policy and Research* programs.

**Other tools for dialogue with public authorities**

- In Spain, the main bodies that Telefónica deals with are Local Councils, Autonomous Communities, the National Government, etc. Telefónica maintains close contact with the people in these bodies who are responsible for telecommunications, R&D, innovation and consumption, and with any bodies which wish to develop e-administration. Telefónica also has close relations with the national regulators for the sector, which are obviously very important to the Company.

- In Europe, the Company's activity focuses mainly on the European Commission, Parliament and Council. Telefónica's Permanent Representative Office in Brussels is responsible for pursuing this work with these three bodies (and other European sectoral associations).

- The main bodies involved in Latin America are the Organisation of American States (OAS), CITEL and REGULATEL. Telefónica has two offices in the United States (Washington DC and New York), the main responsibility of which is to increase the public presence of the Company in the country by building relationships with key parties in order to understand and be involved in debates on the regulatory, economic and social agenda.

- Finally, globally, the Telefónica Group has direct relations with a number of different institutions. These include the International Telecommunications Union (ITU), which is part of the United Nations; the United Nations (UN) itself for issues not covered by the ITU, such as the Global Compact initiatives and the *Internet Governance Forum*

# 9.2 Principles for preparing the 2009 Annual CR Report

(IGF); and the Organisation for Economic Co-operation and Development (OECD), with which it is involved on issues relating to the telecommunications sector.

**Click here** for more information on
**Telefónica's dialogue authorities and public institutions.**

## Society

**RepTrak Model for the Corporate Reputation Forum**

Since 2005, Telefónica has been measuring society's opinion through the RepTrak model for the Corporate Reputation Forum. The RepTrak model is based on the *Pulse* index which explains the emotional perception that society has of the company, and explains this through 26 rational variables that can be summarised in 7 dimensions. This tool is used by operators to measure public perception in the United Kingdom, Germany, Ireland, the Czech Republic, Spain, Argentina, Brazil, Colombia, Chile, Mexico, Peru, Venezuela, Ecuador and Central America.

**Other tools for dialogue with society**

- On 30 November 2009, and at the proposal of mobile operators signatories to the "Code of Conduct for Spanish mobile operators to encourage the responsible use by minors of new mobile services and content", representatives of the ombudsmen and child protection agencies from different autonomous regions, as well as the SETSI and INTECO were invited to hear about and discuss the lines of action/ commitments contained in the code, as well as to establish a line of cooperation/ dialogue to enable the exchange of best practice and facilitate the development of actions aimed at the safe and responsible use of new technologies by minors.

**Click here for more information on Telefónica's dialogue with society.**

**Click here for more information on Telefónica's dialogue with consumer associations.**

**Click here for more information on Telefónica's dialogue with opinion leaders.**

**Click here for more information on Telefónica's dialogue with multistakeholders.**

# 9.2 Principles for preparing the 2009 Annual CR Report

**Relevance:** by which the company determines the relevance or importance of an issue to stakeholders. This should be carried out through a process of incorporation of information and the analysis of the correct sources, in a specific period: Telefónica has drawn up a materiality matrix that shows the material aspects for both external and internal stakeholders in the company.

### 2009 Corporate Responsibility Report materiality table
### Identification of matters deemed relevant to Telefónica and its Stakeholder Groups



**Impact on Interest Groups** (vertical axis)

**Impact on Strategy** (horizontal axis)

- Availability and service quality
- Data Protection
- Child protection
- ICT products and services - Efficiency
- Diversity
- Business Principles
- Digital inclusion and accessibility
- Energy efficiency
- Prices and tariffs
- Environmental and performance compliance
- Privacy
- Responsible purchasing
- Resource consumption
- Freedom of association and social dialogue
- Corruption and bribes
- Flexible working
- Job creation
- Responsible advertising
- Taxes
- Community investment
- Compliance with regulatory bodies and competitor guidelines
- Response capacity with natural disasters
- Responsible online presence
- Supplier training
- Security and Health
- Attracting and retaining talent
- Security and risks on line
- Intellectual property
- Commitment in paying suppliers
- Corporate Governance
- Pension Plans
- Purchasing system

Legend:
- Employee Relations
- Employee Relations
- Integrity and transparency
- Customers
- Use of ICTs
- Relations with the Community, Governments and Regulators
- Access to ICTs
- Environment and Climate Change

## 9.2 Principles for preparing the 2009 Annual CR Report

**Response capacity:** given the objectives and expectations of the stakeholders and proper and timely reporting of the plans sent to them: Telefónica responds to requests from stakeholders by establishing milestones and goals of the company in terms of sustainability, which are published in its annual CR report (see both chapters).

Likewise, Telefónica publishes CR reports in 18 countries wit the aim of responding to requests from stakeholders through an easily accessible channel (see the first chapter of this section).

Finally, the company has developed a specific response for employees: in a company with over 257,000 professionals, the challenge is **to build a single, motivated and committed team which is focused on the customer and on our business objectives.** This is why the company wants to make the most of the **diversity** it boasts as a result of its presence in 25 countries, its 8 different languages, 21% of female professionals (52% if Atento is taken into account), 1,420 disabled people, etc..  The goal is to continue increasing the **commitment** of the team (the Working Climate and Commitment Index has improved 7 points over the last 3 years) to become leaders in Employee Experience.

In order to achieve this, Telefónica has designed a **new Value Proposal for Employees**. This is based on eight main planks: A single team, Leadership, Communication, Development, Recognition, Innovative Spirit, The Best Place and Customer Commitment. We share a goal: *"To become the best global communications company in the digital world"* and a vision: *Making it possible to turn possibilities into reality, with the goal of creating value for customers, employees (EVP), society, shareholders and partners on a global level.*

**Click here for more information on the new employee promise.**

# 9
# 3

## Scope of consolidating information

Telefónica is a global company with a presence in 25 countries and over 260 million customers. Over 257,000 professionals and 30,000 suppliers work for the company. It is important that the Annual CR Report clearly describes the scope of the operations that have been considered, such that stakeholders get an accurate image of the performance of the company in CR.

Since the publication of the first Corporate Responsibility Report in 2002, Telefónica has always presented itself to its stakeholders as a multi-national company. This is why, since the first report, details on its operations outside Spain have always been included.

### Corporate Reports (2002-2009)
### Local CR Reports in the various countries

- Spain (since 1999)
- Germany (since 2006)
- Ireland (since 2006)
- United Kingdom (since 2006)
- Czech Republic (since 2006)
- Argentina (since 2006)
- Brazil (since 2003)
- Colombia (since 2006)
- Ecuador (since 2006)
- El Salvador (since 2006, CR report for Central America)
- Guatemala (since 2006, CR report for Central America)
- Mexico (since 2006)
- Nicaragua  (since 2006, CR report for Central America)
- Panama (since 2006, CR report for Central America)
- Peru (since 2003)
- Uruguay (since 2009)
- Venezuela (since 2006)

# 9
# 4

# Information consolidation procedure

The 2009 Annual Corporate Responsibility Report contains economic, environmental and social information from all countries in which the company operates.

Telefónica has set up an online system for coordination of CR information. This system stores information from each individual corporate system and therefore enables the data for each of the countries in which the Group operates to be analysed. The start up of this corporate system will help meet the recommendations for improvement made by the external auditors of the report; "Strengthen the systems established to manage traceability of data provided". Following this recommendation, in 2009 all operations in Spain, Europe and Latin America have reported the information necessary to draw up this report through this system.

With respect to the origin of information for each chapter of this 2009 online CR report:

- Economic and financial: comes from the same sources that prepare the information included in the Annual Report for shareholders and investors. For this type of information, the scope covers all companies of the Group, as it has been consolidated in financial statements.

- Corporate governance and shareholders: comes from the same sources that prepare the information included in the Annual Report for shareholders and investors. For this type of information, the scope covers the Telefónica Group.

- Innovation is consolidated through the Telefónica S.A. corporate innovation department in collaboration with Telefónica R+D. The source of data on investment in innovation comes from purchasing systems, and is consolidated without the application of any proportionality criteria. As this involves economic data, the scope corresponds to that for economic information.

- Customers: comes from the quality and operation systems of Telefónica España, Telefónica Latinoamérica and Telefónica Europe. Information is presented in an individualised way for each operation, and if there is any consolidation, this is carried out using income as a proportionality factor.

- Employees: comes from Human Resources management systems, and this report refers to people rather than the equivalent employment figure, which is normally used in financial reports. In those cases where the information is presented as consolidated, the number of employees is used as the proportionality factor. This chapter includes the entire economic scope of the Telefónica Group.

- Environment and Climate Change: comes from the Environment and Operations departments of each country. This type of information is obtained from online questionnaires and other types of computer formats which are available in the different companies and countries. The information is consolidated by simple addition and, in the case of climate change, takes into account the emission factors of the GHG Protocol. This chapter includes the fixed and mobile operators within the scope of the Telefónica Group, also including District C and Telefónica R+D. It does not include Atento.

# 9.4 Information consolidation procedure

- Suppliers: comes directly from the contract award system through the purchasing departments. The consolidation of information is carried out without the application of any criterion as a proportionality factor, the information being presented by countries or business lines. This chapter includes the entire economic scope of the Telefónica Group.

- Digital inclusion: comes from the quality control, operation and regulation systems of Telefónica España, Telefónica Latinoamérica and Telefónica Europe. The scope also includes R+D and the initiatives of Fundación Telefónica that encourage digital inclusion in society.

- Social Action: comes from Fundación Telefónica, ATAM and the sponsorship units of Telefónica España, Telefónica Latinoamérica and Telefónica Europe. Only economic data is consolidated, being aggregated by simple addition.

- When drawing up this report, the news published in the company's internal communications media is used. It is considered that all information that can be provided in CR reports must have been notified to employees, as a guarantee that the information is relevant.

# 9.4.1 Basic scope of the 2009 report

The Annual Corporate Responsibility Report includes the fixed and mobile telecommunications services controlled by Telefónica in the different countries it operates in:

- Spain (fixed/ mobile)

- Europe:
    - Germany (mobile)
    - Ireland (mobile)
    - United Kingdom (mobile)
    - Czech Republic (fixed/ mobile)

- Latin America:
    - Argentina (fixed/ mobile)
    - Brazil (fixed)
    - Chile (fixed/ mobile)
    - Colombia (fixed/ mobile)
    - Ecuador (mobile)
    - El Salvador (mobile)
    - Guatemala (mobile)
    - Mexico (mobile)
    - Nicaragua (mobile)
    - Panama (mobile)
    - Peru (fixed/ mobile)
    - Uruguay (mobile)
    - Venezuela (mobile)

**Note:** Does not include (except where expressly mentioned) Vivo (Brazil) as it is a non controlled "Joint venture". Neither does it include operations of China Netcom or Telecom Italia.

# 9.4.2 Exceptions to this scope

The analysis of the impact of the respective business lines on its stakeholder groups concludes that it is the fixed and mobile telephony units that have a much more tangible impact on its stakeholders.

There are some telephony operators whose operation is not included in the report due to the fact that the proportion of shareholders is lower than 50%:

- Vivo: mobile telephony company in Brazil managed as a *"Joint venture"* with Portugal Telecom at 50%. Since 2004 this public company has published its own Corporate Social Responsibility report.
- Meditel: ""Joint venture" with Portugal Telecom, in which Telefónica holds 32.18%.
- China Netcom: a company in which Telefónica has a strategic stake of 5.38%.
- Portugal Telecom, in which Telefónica holds a stable stake of 9.86% of its capital.
- Telecom Italia: a company in which Telefónica has a strategic stake of 10.36%.

According to the criterion of relative impact, the Telefónica Content units (Endemol, Telefe, Telefónica Servicios de Música o Telefónica Servicios Audiovisuales), Atento, Telefónica I+D and T-Gestiona are not included in the report, unless explicitly mentioned or if reference is made to the group. Other companies on which Telefónica does not report are Lycos Europa (32.1%) and Amper (6.10%).

However, an analysis has been carried out for each stakeholder to see whether there are units within the Telefónica Group which might have a significant impact, resulting in the following:

- Telefónica I+D in the innovation chapter.
- Atento in the employee chapter.
- Fundación Telefónica and ATAM in the company's share capital.
- Telefónica S.A. as the corporate centre in the chapters on shareholders and resources.

# 9
# 5

# Communication on Progress on the Global Compact

Telefónica signed up to the Global Compact Principles in 2002. Since then, the company has reported annually on its commitment to this initiative, on the application of the 10 Principles and on the evaluation of the results obtained in policies applied to achieve these Principles.

In 2004, the United Nations Global Compact office released the Integrity Measures. These measures intend to safeguard the credibility of the initiative and the companies which have signed up to the Compact. Thus, companies which have signed up to the 10 Global Compact Principles are asked to make public the "Communication on Progress", this is, to disclose in their Annual Reports, websites or in any other way the implementation of these Principles in their corporate strategy.

Communications on Progress must include the following three elements:

• A statement expressing continued support for the Global Compact in the letter or delivery or a statement of message from the CEO or equivalent.
• A description of practical actions taken by participants to implement the Global Compact principles in the preceding fiscal year.
• A measurement of results obtained or expected, using whenever possible indicators or systems such as those developed by the GRI (Global Reporting Initiative).

The declaration of continuity is contained in the letter signed by the Telefónica chairman which opens this 2009 CR Annual Report. The description of practical measures and the quantification of results is presented throughout the Progress Report.

Telefónica wished to take one further step, as an example of transparency, and in 2009 it focused its model report on these principles. Thus this report contains a specific section on progress in the last year in compliance with the 10 principles of the Global compact.

**For more details on the information and indicators associated with compliance with the Principles, click here or consult the GRI tables and the verification of same (click here).**

# 9
# 6

# Contribution to the Millennium Development Goals

The report published in 2009 by the United Nations on Millennium Goal Objectives (MGO) highlighted positive movements in some of the Millennium Declaration goals, signed in 2000.

Recently there has been significant progress in some of these goals. For example, extreme poverty in developing regions represents just over a quarter of the world population (compared with almost half in 1990). Likewise, great achievements have been made in education and meeting the goal relating to drinking water supplies.

Despite these achievements, in the last year the global economic crisis has led some to fear that this positive trend will be halted, making it more complicated to make progress with each of the eight Millennium Development Goals by the agreed date. In this respect, Ban Ki-Moon, General Secretary of the United Nations, stated that: *"The global community cannot forget the poor and the vulnerable. We need to strengthen global cooperation and solidarity and redouble our efforts to reach the Millennium Goals and drive forward a broader development agenda".*

For yet another year, in 2009 the Telefónica group worked towards meeting the Millennium Goals.

The company maintains its commitment by broadcasting these eight challenges, as well as raising awareness in the company of the need to cooperate if they are to be achieved. In this respect, as a member of the Corporate Reputation Forum, it continues to participate in the communications program "2015: A better world for Joana", and which it has been a member of since its launch in 2007. 2009 saw the restructuring of the campaign's website.www.2015unmundomejorparajoana.com, with the aim of making it more participative, making the most of the benefits provided by social networks for greater dissemination and cooperation between all.

Also, Telefónica seeks to contribute directly to the development of the economies it operates in. Accordingly, through the different initiatives described throughout this 2009 Annual CR Report, we are trying to show how Information and Communications Technologies (ICT) form part of the solution, contributing, year after year, to achieving the goals set by the United Nations.

# Goal 1:
## Eradicate extreme poverty and hunger

**Challenge:** Halve the proportion of people who earn less than 1 dollar a day between 1990 and 2015

**Challenge:** Achieve full employment, productivity and decent jobs for all, including women and young people.

Financial support for individual or group initiatives that promote positive changes to their environment, such as social projects through the program "It's Your Community". Since its creation in 2007, Telefónica O2 United Kingdom has donated 1.9 million pounds to 2,353 projects (UK).

**Click here for more information.**

Income Generation Program, the aim of which was to contribute to the social and economic development of Proniño mothers of children and teenagers, training them in entrepreneurship and how to manage a micro-company (GUA).

**Click here for more information.**

**Challenge:** Halve the percentage of people suffering from hunger between 1990 and 2015.

Collaboration with the Professional Football League (PFL) and the United Nations Organisation for Agriculture and Food (FAO) in the day of Professional Football against hunger, with the aim of collecting funds via SMS for the development of TeleFood microprojects throughout the world (SPA).

**Click here for more information.**

# Goal 2:
## Achieve universal primary education

**Challenge:** Ensure that all children in the world are able to complete primary education by 2015

Proniño, an initiative by Fundación Telefónica seeking to eradicate child labour in Latin America through quality, sustained and sustainable schooling of thousands of children and teenagers. In 2009 the programme directly benefited 163,900 minors (ARG, BRA, CHI, COL, ECU, ESA, GUA, MEX, NIC, PAN, PER, URU and VEN).

**Click here for more information.**

EducaRed - the Fundación Telefónica project intended to promote ICT inclusion in schools, with the aim of contributing to enriching teaching methods, promoting learning and contributing to quality education (ARG, BRA, CHI, COL, SPA, MEX, PER and VEN).

**Click here for more information.**

# Goal 3:
## Promote sexual equality and female autonomy

**Challenge:** Preferably by 2005, eliminate gender inequality in primary and secondary education, and by 2015 at all levels of education.

Diversity project, which In its second year became the framework through which the concept of diversity was implemented within the Company through awareness raising actions and internal integration policies (GLO).

**Click here for more information.**

# Goal 4:
## Reduce infant mortality

**Challenge:** Reduce child mortality among under 5's by two thirds between 1990 and 2015

Roll out the "Responsible Purchasing" project, the aim of which is to guarantee that there is no child labour involved in the Supply Chain or forced work or risky working conditions (GLO).

**Click here for more information.**

Participation in the National Program for the Progressive Eradication of Child Labour on waste tips, as well as other situations with a high human risk that infringe the fundamental rights of children, such as health (ECU).

**Click here for more information.**

# Goal 5:
## Improve maternal health

> **Challenge:** Reduce maternal mortality by three quarters between 1990 and 2015.

> **Challenge:** Achieve universal access to reproductive health services by 2015.

Actions to promote health and risk prevention at work through preventative gynaecological and breast examinations for women aged over 35 (SPA).

**Click here for more information.**

# Goal 6:
## Combat HIV/AIDS, malaria and other diseases

> **Challenge:** Halt and have begun to reduce the incidence of malaria and other serious diseases by 2015.

ATAM - a social project of the Telefónica Group and its workers (employees, pensioners and early retirees), whose main aim is to prevent situations where disability is an issue and provide services that help disabled people integrate into society (SPA).

**Click here for more information.**

Renewal of the Co-operation Agreement with the Asociación Española Contra el Cancer (Spanish Cancer Association), to facilitate the incorporation of new technologies in their day-to-day operations (SPA).

**Click here for more information.**

Telefónica O2 Ireland, collaboration with Irish Autism Action for the fourth year running, an organisation that tries to improve the lives of autistic people and their families. In 2009, we collaborated in collecting funds, volunteering and product innovation (IRL).

**Click here for more information.**

Development, through the Telefónica Chair of Navarra University, of a system for notifying and monitoring mammograms, for the prevention of breast cancer (SPA).

**Click here for more information.**

# Goal 7:
## Guarantee environmental sustainability

> **Challenge:** Incorporate the sustainable development principles in national policies and programmes and reduce the loss of natural resources.

Participation in external working groups such as GESI, ETNO and ITU, which foster the development of public policy in the area of ICT and climate change at world level (GLO).

**Click here for more information.**

Setting up of the Environmental Management System, designed to conform with ISO 14001 standard, sets out the common directives applicable to all Group companies (GLO).

**Click here for more information.**

Telefónica also took part in the ITU Kiosk, which was organised as part of the World Climate Change Summit held in Copenhagen in December (GLO).

**Click here for more information.**

The carrying out of actions that involve responsible consumption of water as well as the installation of savings devices, studies of the areas of greatest consumption and internal awareness raising campaigns (GLO).

**Click here for more information.**

Participation in the global "Earth Hour" campaign organised by the WWF, through which citizens, companies and institutions come together to decide that between us it is possible to fight climate change (ECU, SPA).

**Click here for more information.**

The commercialisation, in 2009, of the Sony Ericsson Naite handset from the GreenHeartTM range, with one of its main attributes being the reduction of its carbon footprint by 15% (GER, IRL and UK).

**Click here for more information.**

Promoting to companies on a global level products and services for energy efficiency and the reduction of costs and Co2 emissions, such as remote working (GLO).

**Click here for more information.**

Receiving the environmental management certificate for District C, the company's Madrid headquarters, having met the international standard ISO 14001:2004, awarded by AENOR (SPA).

**Click here for more information.**

**Challenge:** by 2010, considerably slow down bio-diversity loss

Collaboration in the Global Campaign "Plant for the Plant" of the UNEP (UN Environmental Program), its aim being the planting of 7 billion trees by the end of 2009 (SPA).

**Click here for more information.**

In synergy with "Reforestamos México" (let's reforest Mexico), the holding of a reforestation day with the support of Telefónica volunteers, involving the planting of trees in the Nevado de Toluca (MEX).

**Click here for more information.**

Holding of the World Beach Day, with a day spent cleaning coastal beaches, rivers, lakes and lagoons (VEN).

**Click here for more information.**

Electronic billing for customers, with the aim of using ICT to avoid the consumption of natural resources like paper (GLO).

**Click here for more information.**

**Challenge:** Halve the proportion of people without sustainable access to drinking water and basic sanitation services by 2015.

Launch of the Efecto Eco campaign, developed alongside the NG WWF WWF España, to encourage habits which better respect the environment within the context of the company, through specific initiatives focused on paper consumption, waste management (ECU, SPA).

**Click here for more information.**

# Goal 8:
## Foster a world development association

**Challenge:** Co-operate with the private sector to provide access to information and communication technologies.

**Geographical divide**

Rural Broadband service, thanks to which a large number of homes in Spain get access to broadband through ADSL, LMDS/Wimax or satellite technologies (SPA).

**Click here for more information.**

"Cobertura 2009", which aimed to expand mobile coverage to the entire country thanks to the 339 base stations installed (ECU).

**Click here for more information.**

"Puentes de Comunicación" project which, since it began in 2006, has aimed at achieving mobile coverage throughout the country (CHI).

**Click here for more information.**

Participation in the "Second Biannual Plan", which seeks to expand and replace Social Telephony Networks (COL).

**Click here for more information.**

'Integrame' Project: public-private partnership to develop telecommunications services in rural areas with high levels of poverty (PER).

**Click here for more information.**

"Broadband in Schools" project, which provides broadband services to municipal, state and federal schools free of charge (BRA).

**Click here for more information.**

"Satellite Broadband". This project enables local people to create businesses through telephone boxes and public telephones (PER).

**Click here for more information.**

# 9.6 Contribution to the Millennium Development Goals

**Economic divide**

Development of fixed line and mobile phone services for people on lower incomes, giving them adequate control over their consumption, for example "Micro-top ups" (LATAM).

**Click here for more information.**

Discount programs for the unemployed, self employed and SMEs, which benefited more than 115,000 customers and almost 5,600 businesses (SPA).

**Click here for more information.**

Access to internet for those previously excluded thanks to the "Free Broadband" project, which benefited 4,000 people in 2009 (CHI).

**Click here for more information.**

"Movistar en casa" project, which brought fixed telephony services within the reach of the poor (MEX).

**Click here for more information.**

"Fono ya", wireless fixed telephony service aimed at homes in lower social and economic segments, who do not have a fixed telephone at home, for just one sol a day (PER).

**Click here for more information.**

**Training divide**

"Conéctame" project, which seeks to reduce the literacy divide and bring ITC closer to rural communities with little access to these services (PER).

**Click here for more information.**

"Fundación Telefónica Classrooms". This project aims at strengthening, through the use of ICT, the teaching and learning processes of teachers and members of communities which are affected by child labour (LATAM).

**Click here for more information.**

"Digital Community", project in collaboration with ST. Andrews Resource Centre, the aim of which is to help provide telecom services to people of all ages (IRL).

**Click here for more information.**

Participation in the Interactive Generations forum, a project which seeks to promote the responsible use of new technologies by children and teenagers (LATAM).

**Click here for more information.**

# 9.6 Contribution to the Millennium Development Goals

## Disability divide

Participation in the "Simplit" initiative, which awards the first certificate ensuring that products are easy to use, comfortable and intuitive, designed for use by older people (SPA).

**Click here for more information.**

Fostering and developing products and services to improve access to ICT by the disabled (BRA, CZE, IRL and SPA).

**Click here for more information.**

Development, in collaboration with the National Association for the Deaf, of the tele-interpretation platform that provides communication between the hard of hearing and the hearing (SPA).

**Click here for more information.**

Intermediation centre, the aim of which is to facilitate telephone communication for people with hypoacusia or speech problems (ARG).

**Click here for more information.**

Development of software for the Iphone that helps children with autism communicate through images (IRL).

**Click here for more information.**

## Health divide

Development of remote medicine services, which directly help medical professionals, with projects such as "Colabor@", and patients through remote, high definition monitoring or diagnostic services . (CHI, SPA).

**Click here for more information.**

Remote services aimed at the elderly or the disabled, whether fixed, at home, or mobile, providing them with greater independence (SPA).

**Click here for more information.**

Program providing Social Assistance for Gender Violence, which provides victims with rapid help and protection thanks to new telecommunications technologies, 24 hours a day throughout the whole year (SPA).

**Click here for more information.**

ARG: Argentina; BRA: Brazil; CHI: Chile; COL: Colombia; ECU: Ecuador; ESA: El Salvador; SPA: Spain; GER: Germany; GLO: Global; GUA: Guatemala; IRL: Ireland; LATAM: Latin America; MEX: Mexico; NIC: Nicaragua; PAN: Panama; PER: Peru; UK: United Kingdom; CZE: Czech Republic; URU: Uruguay; VEN: Venezuela.

# 9 7

# Validation of the 2009 Annual CR Report

Verification of reports provides credibility, rigour and transparency, making them a key instrument for knowing the shortcomings of management systems and policies.

For the fourth year in a row, Telefónica asked Ernst & Young to audit its Annual Corporate Responsibility Report on the basis of standards AA1000 (according to the principles of materiality, relevance and exhaustiveness) and GRI-G3. Likewise, it asked Ernst & Young to verify each of the statements made in the CR report. Likewise, for the third year in a row, social and cultural action data was verified on the basis of the LBG standard.

With respect to the verification work carried out:

- The CR information published by Telefónica in Spain and Latin America was audited by Ernst & Young, based in Madrid, the financial auditors of the company, who spent over 5,725 hours reviewing the traceability of information and holding interviews with management.

- The published content making reference to Telefónica O2 Europe was verified by Ernst & Young UK, as part of the verification of the CR reports of United Kingdom, Germany, Ireland and Czech Republic.

The level of application of this report vis a vis standard GRI was A+ GRI Checked.

The most notable milestones of the process were:

- Over 400,000 euros invested in the verification process.
- Simultaneous verifications in 17 different countries over more than 5 weeks.
- Over 5,725 hours of verification by Ernst & Young.
- Participation of Ernst & Young teams from three different geographical areas (Spain, Europe and Latin America)
- Participation of Corporate Citizenship and Mas Business to validate LBG data

Ernst & Young gives its independent opinion on the report by the Telefónica Group in its audit declaration. This report likewise saw the publication of a series of observations corresponding to verification AA1000 and compliance with the three principles of materiality, integrity and response capacity in this standard.

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## INDEPENDENT REVIEW OF THE 2009 TELEFONICA GROUP CORPORATE RESPONSIBILITY ANNUAL REPORT

To the Telefonica S.A. Human Resources and Corporate Reputation Committee

### Scope of the Work

We have reviewed the information included in the Telefónica Group (hereinafter Telefónica) 2009 Annual Corporate Responsibility Report available at www.telefonica.es/rc2009, and its compliance with the following:

- The Global Reporting Initiative (GRI) Preparation Guide for Sustainability Reports, version 3.0 (G3), for Telefónica, worldwide.

- The principles stated in the AA1000 APS 2008 issued by AccountAbility (Institute of Social and Ethical Accountability) for the business activities of Telefónica in Spain, Argentina, Colombia, Chile, Peru, Brazil, Mexico, Venezuela, Ecuador, United Kingdom, Ireland, Czech Republic and Germany.

The preparation of the attached 2009 Annual Corporate Responsibility Report, as well as the information contained therein, is the responsibility of the governing bodies and management of Telefónica. Telefónica governing bodies and management are also responsible for defining, adapting and maintaining the management systems and internal controls from which the information is obtained. Our responsibility is to issue an independent report based on the procedures applied in our review.

### Criteria

Our review work has been carried out in accordance with:

- Performance Guidelines for Corporate Responsibility Report Reviews issued by the Institute of Spanish Chartered Accountants (ICJCE).
- Regulation ISAE 3000 - Assurance Engagements Other than Audits or Reviews of Historical Financial Information issued by the International Auditing and Assurance Standard Board (IAASB) of the International Federation of Accountants (IFAC),
- Regulation AA1000 – AccountAbility Assurance Standard 2008 regarding type 2 assurance engagements.

The review scope is in accordance with the following criteria:

- Reasonable level of assurance in accordance with ISAE 3000 which corresponds to high level of assurance according to regulation AA1000 AS (2008) regarding the application, within the preparation, of that set out within the GRI Guide concerning the drawing up of Sustainability Reports as well as indicators marked in the attached Annex 1 as "high level".
- Limited level of assurance (limited review) in accordance with ISAE 3000 which corresponds to moderate level of assurance according to regulation AA1000 AS (2008) regarding indicators marked in the attached Annex 1 as "moderate level" as well as all other information with the exception of "energy" indicators as highlighted within the aforementioned Annex I and regarding the application of the principles of AA1000 APS (2008).

### Conducted Procedures

Our review work consisted in making enquiries to Corporate Management as well as to the management of the different business units which took part in the preparation of the 2009 Corporate Responsibility Annual Report, applying certain analytical procedures and performing review tests on sample basis as described below:

1. More than 100 interviews with senior executives and personnel from the Corporate Responsibility areas of Telefónica, S.A. and a selection of executives and key personnel from the fixed and mobile business lines in Spain, Argentina, Colombia, Chile, Peru, Brazil, Mexico, Venezuela, Ecuador, United Kingdom, Ireland, Czech Republic and Germany and Telefónica Foundation. The aim was to understand how the objectives and Corporate Responsibility policies are taken into account, put into practice and integrated into the strategies of Group entities.

2. Review of relevant information, such as the minutes of Telefónica, S.A. Board Meetings or Human Resources and Corporate Reputation Committee meetings when matters related to Corporate Responsibility have been discussed.

3. Review of the main processes and systems through which Telefónica has set up its commitments with interest groups, as well as the coverage, relevance and integrity of the information included within the 2009 Corporate Responsibility Annual Report.

4. Review of structure and contents suitability of the 2009 Telefonica Corporate Responsibility Annual Report in accordance with that set out within the GRI Guide, G3.

5. Selective testing of the quantitative information of the indicators included in the 2009 Corporate Responsibility Report and accurate compilation regarding the data provided by information sources. Review testing has been defined for the purpose of providing the levels of assurance set out in the criteria and detailed in Annex I.

These procedures have been applied to the information drawn up within the 2009 Corporate Responsibility Annual Report. Annex I sets out the procedures used for each indicator.

### Independence

We have performed our work in accordance with the standards of independence required by the Code of Ethics of the International Federation of Accountants (IFAC).

**EY ERNST & YOUNG**

**Conclusions**

As a result of the 2009 Corporate Responsibility Annual Report revision, it is stated that:

- The report has been prepared in accordance with the Sustainability Report Guidelines of the Global Reporting Initiative (GRI) as indicated by the organisation itself. Furthermore, the indicators identified in Annex I as "high level" have been, in all material respects, reliably and accurately prepared.

- No aspect has been identified that world make us believe that the rest of the information and indicators (with the exception of "energy" indicators) included within the aforementioned Annex I contain significant errors, or that the report has not been prepared in accordance with the principles set out in regulation AA1000 APS (2008) issued by AccountAbility, defined as:

  ✓ **Inclusiveness**: The Company maintains mechanisms to identify interest groups and to identify and understand interest group expectations, as set out in chapters "Communication with Interest Groups" and "2009 RC Annual Report Preparation Principles".

  ✓ **Relevance**: The Company undertakes an analysis to select significant aspects to be included within the report, as set out in chapter "Sector Dialogue and Company Focus".

  ✓ **Responsiveness**: The Company maintains mechanisms to design, develop, evaluate and communicate responses to the main expectations of the interest groups which are set out within the evaluation of the "2009 Milestones" and the acceptance of the "2010 Challenges".

**Recommendations**

We have also submitted to the Management of Telefónica, S.A. our recommendations regarding areas of improvement in relation to the implementation of the principles of regulation AA1000 APS (2008) and of the main identified interest groups. The most significant recommendations are as follows:

a) **Inclusiveness:**

To continue the progressive extension of the dialogue and communication model with interest groups to all countries where activity is undertaken.

b) **Relevance:**

Even though there has been a reduction in the number of reported indicators, through carrying out a materiality study Telefonica has been able to adapt the information provided within the 2009 Corporate Responsibility Annual Report to the most relevant aspects of its business.

c) **Responsiveness:**

Through carrying out an objective assessment and by publishing planned challenges within the 2009 Corporate Responsibility Annual Report, Telefonica sets out its commitment to respond to interest group expectations. Our recommendation is for greater clarity regarding the process of defining objectives in order to be able to directly align these objectives to interest group expectations.

Furthermore, set out below is a series of recommendations regarding actions relating to the different interest groups:

**1) Clients:**

The unification process regarding the different criteria used when measuring specific significant indicators relating to "customer care" should continue. Information regarding "claims and complaints" should also continue to be increased.

**2) Suppliers:**

During 2009, Telefonica began the integration of German, Irish and UK purchasing processes and has consolidated the supplier evaluation processes. Our recommendation is to continue the homogenization processes and improve objectives relating to the compliance of payment deadlines.

**3) Environmental:**

In general, during 2009, environmental data controls were improved. Our recommendation is to improve the scope of information concerning indicators which gather together different types of data (for example: other office waste). Water consumption data could also be improved as gathering this data is complex due to the different types of Telefonica buildings.

**4) Employees:**

"Diversity" projects should move forwards, focusing on measurable objectives. Information systems for "health and safety" indicators should be improved.

**5) Society:**

During 2009 Telefónica has continued to strengthen its commitment to society at large, increasing the number of "Proniño" programme beneficiaries by 40%. Our recommendation is to continue to strengthen its commitment to in the area of "accessibility".

This report has been prepared solely for the Telefonica Human Resources and Corporate Reputation Committee, in accordance with the terms of our engagement letter.

ERNST & YOUNG, S.L.

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000-59

(Free translation from the Original Report on Independent Review in Spanish dated 23rd June 2010. In case of any discrepancy, the Spanish version always prevails)

2

# 9.7 Validation of the 2009 Annual CR Report.

**EU ERNST & YOUNG**
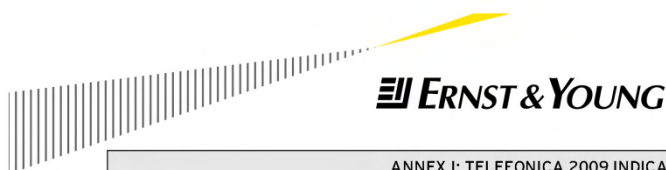
| ANNEX I: TELEFONICA 2009 INDICATORS TABLE |
|---|

| Economic performance indicators | | | | |
|---|---|---|---|---|
| Indicator description | Ref. GRI | Scope | Verification procedure | Verification level |
| Revenues | EC1 | G | CA | High |
| Revenues over GDP | EC1 | G | CA | High |
| Salaries | EC1 | G | CA | High |
| Capex | EC1 | G | CA | High |
| Taxes | EC1 | G | CA | High |
| Innovation Technology investment | EC1 | G | CA | High |
| Social Cash Flow | EC1 | G | CA | High |

| Social performance indicators | | | | |
|---|---|---|---|---|
| **Employees** | | | | |
| Indicator description | Ref. GRI | Scope | Verification procedure | Verification level |
| People in post | LA1 | G | FE | High |
| No. part-time employees | LA1 | G | FE | High |
| No. permanent employees | LA1 | G | FE | High |
| Number of teleworkers | LA1 | G | FE | High |
| Number of new hires | LA2 | G | FE | High |
| Number of departures | LA2 | G | FE | High |
| Employee turnover | LA2 | G | FE | High |
| Employees covered by collective bargaining agreements | LA4 | G | FE | High |
| Total no. training hours per year | LA10 | G* | FE | High |
| Total training expenses | LA10 | G* | FE | High |
| No. women | LA13/LA1 | G | FE | High |
| No. women (Directors) | LA13 | G | FE | High |
| No. Directors | LA13 | G | FE | High |
| No. employees with disabilities | LA13 | G | FE | High |
| Average employee age | LA13 | G | FE | High |
| Minimum company/country remuneration ratio | EC5 | G | FE | High |
| Seniority | | G | FE | High |
| Global employee engagement score | | G | SI/FE | High |

| Health and Safety | | | | |
|---|---|---|---|---|
| Indicator description | Ref. GRI | Scope | Verification procedure | Verification level |
| Injury rate | LA7 | G | SI/FE | Moderate |
| Occupational disease rate | LA7 | G | SI/FE | High |
| Lost day rate | LA7 | G | SI/FE | Moderate |
| Absentee rate | LA7 | G | SI/FE | Moderate |
| Number of fatalities | LA7 | G | SI/FE | High |

| Customers | | | | |
|---|---|---|---|---|
| Indicator description | Ref. GRI | Scope | Verification procedure | Verification level |
| Customer Satisfaction Index | PR5 | GT | SI | High |
| Number of customers | PA4 | GT | SI/CA | Moderate |
| Market share | PA4 | GT | CO | Moderate |
| Population mobile phone coverage rate | PA4 | GT | CO | Moderate |
| Broadband penetration rate | PA4 | GT | CO | Moderate |
| No. pre-pay customers (Fixed & Mobile) | PA5 | GT | CO | Moderate |
| Public phones | PA4 | GT | CO | Moderate |
| No. of customers with e-billing | | GT | SI/CO | Moderate |
| Total no. customer complaints | | GT | SI/FE | Moderate |

| Suppliers | | | | |
|---|---|---|---|---|
| Indicator description | Ref. GRI | Scope | Verification procedure | Verification level |
| Total supplier spend | EC1 | GT | SI/FE | High |
| Total spend locally awarded | EC6 | GT | SI/FE | High |
| Total no. suppliers | | GT | SI/FE | High |
| Purchasing volume negotiated by eSourcing | | GT | SI/FE | High |
| Purchasing volume negotiated by auction | | GT | SI/FE | High |
| Total no. local suppliers | LC01 | GT | SI/FE | High |
| Total no. suppliers by range | LC02 | GT | SI/FE | High |

3

# 9.7 Validation of the 2009 Annual CR Report.

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| Corporate Responsibility | | | | |
|---|---|---|---|---|
| Indicator description | Ref. GRI | Scope | Verification procedure | Verification level |
| Employees completing Business Principles training | HR3/SO3 | GT | FE | High |
| Incidents registered through confidential help facility related to corruption incidents | SO4 | GT | SI | High |
| Incidents registered through confidential help facility related to discrimination incidents | HR4 | GT | SI | High |
| Number of staff dismissed due to breach of our Business Principles | HR4 | GT | SI | High |
| No. of legal actions for anti-competitive behavior upheld against us. (started) | SO7 | GT | DE | Moderate |
| No. of legal actions for anti-competitive behavior upheld against us. (completed). | SO7 | GT | DE | Moderate |
| Monetary value of legal actions for anti-competitive behavior upheld against us. | SO8 | GT | DE | Moderate |
| No. incidents and monetary fines upheld against us concerning marketing communications, including advertising. | PR6/PR7 | GT | DE | Moderate |
| No. of substantiated complaints from regulatory bodies regarding customer privacy | PR8 | GT | DE | Moderate |
| Monetary valueof substantiated complaints from regulatory bodies regarding customer privacy | PR8 | GT | DE | Moderate |
| Society | | | | |
| Indicator description | Ref. GRI | Scope | Verification procedure | Verification level |
| Total community investment | EC1 | GT | SI / FE | High |
| Total cash donations | EC1 | GT | SI / FE | High |
| Total value in-kind donations | EC1 | GT | SI / FE | High |
| Total time in paid hours | EC1 | GT | SI / FE | High |
| Management costs | EC1 | GT | SI / FE | High |
| LBG Categories | EC1 | GT | SI / FE | High |
| Education and young people | EC1 | GT | SI / FE | High |
| Health | EC1 | GT | SI / FE | High |
| Economic development | EC1 | GT | SI / FE | High |
| Environment | EC1 | GT | SI / FE | High |
| Arts / culture | EC1 | GT | SI / FE | High |
| Social welfare | EC1 | GT | SI / FE | High |
| Emergency relief | EC1 | GT | SI / FE | High |
| Others | EC1 | GT | SI / FE | High |
| Total cash investment in digital inclusion projects | EC1 | GT | SI / FE | High |
| Total number of beneficiaries | EC1 | GT | SI / FE | High |
| Number of "pronino" beneficiaries | EC1 | GT | SI / FE | High |
| Number of schools | EC1 | GT | SI / FE | High |
| Number of NGOs | EC1 | GT | SI / FE | High |
| Number of corporate volunteers | EC1 | GT | SI / FE | High |
| Net costs of universal service obligations. | IO2 | GT | SI / FE | Moderate |
| Enviromental performance indicators | | | | |
| Indicator description | Ref. GRI | Scope | Verification procedure | Verification level |
| Environmental Objectives | | GT* | SI/FE | Moderate |
| White paper consumption (Billing) | EN1 | GT* | SI | Moderate |
| White paper consumption (Offices) | EN1 | GT* | SI | Moderate |
| Recycled paper consumption (Billing) | EN2 | GT* | N/A | Moderate |
| Recycled paper consumption (Offices) | EN2 | GT* | SI/FE | Moderate |
| Water consumption | EN8 | GT* | SI | Moderate |
| Number of Administrative environmental proceedings | EN28 | GT* | DE/FE | Moderate |
| Monetary value of Administrative environmental proceedings | EN28 | GT* | DE/FE | Moderate |
| Number of Administrative environmental proceedings (ultimately effective) | EN28 | GT* | DE/FE | Moderate |
| Sheet sanctions | EN 28 | GT* | DE/FE | Moderate |
| Paper waste (offices) (Kg) | EN22 | GT* | SI/FE | Moderate |
| Other offices waste (Kg) | EN22 | GT* | SI | Moderate |
| Cable waste (Kg) | EN22 | GT* | SI/FE | Moderate |
| Other network waste (Kg) | EN22 | GT* | SI | Moderate |
| Non hazardous waste sent to recycling (Kg) | EN22 | GT* | SI | Moderate |
| Hazardous waste sent abroad for treatment under Basilea agreement (Kg) | EN22 | GT* | SI/FE | High |
| Battery waste (network) | EN22 | GT* | SI/FE | High |

-4

# 9.7 Validation of the 2009 Annual CR Report.

**ERNST & YOUNG**

| Indicator description | Ref. GRI | Scope | Verification procedure | Verification level |
|---|---|---|---|---|
| Oil waste | EN22 | GT* | SI | Moderate |
| Other hazardous Waste | EN22 | GT* | SI | Moderate |
| Hazardous waste sent to recycling (Kg) | EN22 | GT* | SI / FE | High |
| Electric and electronic waste (offices) | EN22 | GT* | SI | Moderate |
| Electric and electronic waste (clients) | EN22 | GT* | SI / FE | High |
| Electric and electronic waste (operations) | EN22 | GT* | SI | Moderate |
| Number of Electric and electronic equipment has been reused | EN27 | GT* | SI | Moderate |
| Electric and electronic equipment sent to recycling (Kg) | EN22 | GT* | SI / FE | High |
| Number of environmental impact assessments | EN12/EN14 | GT* | SI / FE | High |
| Number of electromagnetic fields measures | EN14/IO05 | GT* | SI / FE | Moderate |
| Number of electromagnetic fields measures planned | EN14/IO05 | GT* | SI / FE | Moderate |
| Number of shared sites | EN 26/IO 8 | GT* | SI | Moderate |
| Number of noise measures | EN14/EN26 | GT* | SI / FE | High |
| Number of noise measures planned | EN14/EN26 | GT* | SI | Moderate |
| Number of fuel deposits | EN 26 | GT* | SI / FE | Moderate |
| Number of fuel accidents (spills) | EN 23 | GT* | SI | Moderate |
| Volume of spilled fuel | EN 23 | GT* | SI | Moderate |
| Number of environmental Sponsorships | EN30 | GT* | SI / FE | High |
| Total no. Environmental training hours for employees (onsite) | EN14 | GT* | SI / FE | High |
| Total no. Environmental training hours for employees (e-learning) | EN14 | GT* | SI | Moderate |
| Total no. Environmental training hours for suppliers | EN14 | GT* | SI / FE | High |
| Environmental Sponsorships investments | EN30 | GT* | SI / FE | Moderate |
| Revenues generated from Waste | EN30 | GT* | SI / FE | Moderate |
| Waste management expenses | EN30 | GT* | SI / FE | Moderate |
| Environmental impact assessments investment | EN30 | GT* | SI / FE | Moderate |
| Electromagnetic fields measurements investments | EN30 | GT* | SI / FE | Moderate |
| Electromagnetic fields measurements expenses | EN30 | GT* | SI / FE | Moderate |
| Visual impact works investments | EN30 | GT* | SI / FE | High |
| Noise impact works investments | EN30 | GT* | SI / FE | Moderate |
| Environmental maintenance expenses | EN30 | GT* | SI / FE | Moderate |
| Environmental repair expenses | EN30 | GT* | SI / FE | Moderate |
| Other environmental expenses | EN30 | GT* | SI / FE | Moderate |
| Environmental investments to compliance with legal requirements | EN30 | GT* | SI / FE | Moderate |
| Gas consumption for Telefonica Fleet | EN3 | GT* | SI / FE | Moderate |
| Diesel oil consumption for Telefonica Fleet | EN3 | GT* | SI / FE | Moderate |
| GLP gas consumption for Telefonica Fleet | EN3 | GT* | SI / FE | High |
| Bio Ethanol consumption for Telefonica Fleet | EN3 | GT* | SI / FE | High |
| Natural gas consumption for Telefonica Fleet | EN3 | GT* | NA | Moderate |
| Number of Business trips by aeroplane (national trips) | EN3 | GT* | SI | Moderate |
| Number of Business trips by aeroplane (inter-continental trips) | EN3 | GT* | SI | Moderate |
| Number of Business trips by train | EN3 | GT* | SI | Moderate |
| Number of cars rented out (work purposes) | EN3 | GT* | SI | Moderate |

| Energy | | | | |
|---|---|---|---|---|
| Indicator description | Ref. GRI | Scope | Verification procedure | Verification level |
| Natural gas consumption in operations | EN3 | GT* | CD | N/A |
| Natural gas consumption in offices | EN3 | GT* | CD | N/A |
| Consumption of diesel for operating building air conditioning (central and mixed) | EN3 | GT* | CD | N/A |
| Diesel consumption for air conditioning and plumbing (hot water) in offices | EN3 | GT* | CD | N/A |
| Consumption of diesel generators at base stations | EN3 | GT* | CD | N/A |
| Number of generators at base stations | | GT* | CD | N/A |
| Consumption of diesel generators in offices | EN3 | GT* | CD | N/A |
| Number of generators in offices, call centers and stores | | GT* | CD | N/A |
| Consumption of diesel generators operating in buildings (central and mixed) | EN3 | GT* | CD | N/A |
| Number of generators in buildings in technical buildings (switches, power and DPCs) | | GT* | CD | N/A |
| Fluorinated gas emissions estimated from charges | EN19 | GT* | CD | N/A |

5

# 9.7 Validation of the 2009 Annual CR Report.

**ERNST & YOUNG**

| Indicator description | Ref. GRI | Scope | Verification procedure | Verification level |
|---|---|---|---|---|
| Number of teams with loads of fluorinated or susceptible of having loads. | EN19 | GT* | CD | N/A |
| Volume of fluorinated gases in teams. | EN19 | GT* | CD | N/A |
| Power consumption in base stations | EN6 | GT* | CD | N/A |
| Power consumption in base stations directly billable | EN4 | GT* | CD | N/A |
| Power Consumption operating buildings (central and mixed) | EN4 | GT* | CD | N/A |
| Power Consumption directly billable technical buildings | EN6 | GT* | CD | N/A |
| Power consumption in office buildings | EN6 | GT* | CD | N/A |
| Power Consumption offices directly billable | EN6 | GT* | CD | N/A |
| Self-generated renewable energy consumption in network (mobile and fixed) | EN6 | GT* | CD | N/A |
| Sales of renewable energy generated, the electricity market | EN6 | GT* | CD | N/A |

### LETTERING USED FOR VERIFICATION PROCEDURES AND SCOPE

| | | | | |
|---|---|---|---|---|
| Verification procedures | CA | Verification with the audited Consolidated Annual Accounts. | IP | Resistance of the quantitative and/or qualitative data with the public information reported by the Telefonica Group to the markets or in own pages of Internet. |
| | SI | Verification with internal information systems. | DE | Obtaining of express declaration of juridical services of Telefonica companies. |
| | FE | Verification with external sources | CD | Review consistency with 2008 figures |
| | CO | Verification whit Official bodies declarations (CNMV, CMT, others). | N/A | Not applied |

| SCOPE | | | |
|---|---|---|---|
| GT | Telefónica Group (Atento´s activities not included) | G | Global (Atento´s activities included) |
| GT* | Telefónica Group (Atento´s activities and VIVO not included) | G* | Global (Atento´s activities included and VIVO not included) |

6

## 9.7 Validation of the 2009 Annual CR Report.

It is worth highlighting the fact that in 2007 Telefónica adopted the international LBG (London Benchmarking Group) methodology to better assess its social and cultural actions.

The model envisages four types of initiatives according to the level of motivation:

- One-off contribution: the one-off support of a wide range of social causes as an answer to the needs and requests of charitable and social action organisations; it can take place through collaborations by the company, its employees, its customers and its suppliers.
- Social investment: the long-term strategic commitment to collaborating with communities so as to support the range of social initiatives chosen by the company that are aligned with its corporate interests and the improvement of its reputation.
- Business-aligned initiatives: those initiatives of social interest aimed at directly boosting the company's business by promoting its corporate identity and brand image.
- Compulsory contributions: those contributions or activities in communities carried out as a result of legal, regulatory or contractual requirements. Not included for the purposes of comparison between members (LBG).

Once classified by type, each initiative can be individually analysed within the LBG matrix (contribution/achievement/impact) framework in order to attempt to quantify both the immediate achievements of the contribution and the impact it has on the community and the business.

**Click here for more information on the LBG methodology.**

## LBG Assurance Statement – Telefónica

Corporate Citizenship has been asked to provide assurance on Telefónica's application of the LBG measurement model for the year to 31st December 2009.

The LBG model helps businesses to improve the management, measurement and reporting of their corporate community investment. It moves beyond charitable donations to include the full range of contributions (in employee time, in-kind, and in cash) made to community causes, and assesses the actual results for community and business.

Telefónica is a founding member of LBG España (the Spanish LBG group) and is actively driving forward the measurement of community investment in Spain in collaboration with MAS Business, which manages LBG España, and other member companies.

Our work has been limited to assuring the correct application of the LBG model. This is the third year that Telefónica has used the LBG model and in our opinion, it continues to show that it understands the LBG model and that it applies its principles to the measurement of community activities at home and abroad. In our commentary we review some of the developments in the data this year and identify some improvements that can be made as the company develops its application of the model in future.

### Commentary

**Data scope and capture**

Telefónica's community data is currently compiled from four distinct sources: the Telefónica Foundation, the community activities of Telefonica O2 Europe, the cultural and social sponsorships of its operations around the world and the activities of ATAM funded by Telefónica to support disabled people. Last year we noted that data for each source is compiled separately using different systems and that some data providers had been able to supply a greater depth of detail than others about the nature of their contributions. It is encouraging to note that, despite distinct practical challenges in applying a uniform system across the company, the information on the inputs made by each source continues to be sufficient to establish a good understanding of the overall contributions from the four sources.

However, our review did show that there are three areas where Telefónica may currently be under-reporting its contributions and which may enable more

comprehensive representation of the company's activities if addressed in future. These are:

- **Contributions from other sources** – Findings from our review suggest that parts of the business outside the four core source areas also engage with and contribute to community organisations. In future, Telefónica should review these activities to establish whether any of them should also be reported as part of the company's community activity

- **In-kind contributions** – While some reporting of contributions of the company's products and services is made, our review suggests that there may be activities taking place where the company incurs costs in contributing its products and services to support the community, which are not currently captured. Telefónica should identify the activities where these contributions may be being made and ensure that it captures the cost to the company

- **Employee time** – Similarly, the data suggests that the community activities of employees during paid working time may be under-reported (e.g. employees' engagement in Telefónica Foundation activities). Again Telefónica should identify the activities where these contributions may be being made and ensure that it captures the cost to the company

**Impact of contributions**

It is encouraging that there is a drive to assess and evaluate the achievements of several of Telefónica's core community projects, particularly those of the Telefónica Foundation (e.g. EducaRed and Proniño). A significant amount of data is gathered to understand and to demonstrate the results of such projects. However, assessment is not consistently applied across the company and a future challenge continues to be to quantify the achievements of more of its contributions in terms of additional resources attracted (leverage), community benefits and the business case (outputs and impacts), so that a clear assessment of the overall impact of Telefónica's investment into the community can be achieved.

Telefónica should investigate how to share best practice across the business to encourage wider output and impact assessment. Its involvement in LBG España's working group to address this issue in 2010 is to be commended. We look forward to seeing the results of this work begin to show in next year's data.

*Corporate Citizenship*

Corporate Citizenship
www.corporate-citizenship.com
May 2010

# 9

## 8 Areas involved in supplying the information for the 2009 Annual CR Report

Telefónica would like to offer its thanks for the collaboration and availability of all departments involved in the preparation of the 2009 Annual Corporate Responsibility Report, both in terms of collecting information as well as their work of verifying it in collaboration with external auditors.

The following departments were involved in the preparation of the report:

- Driving Force for Progress (Finance, Consolidation, Management Control, Tax, Compliance, Innovation, Telefónica R&D, Institutional Relations, Information Systems, Investor Relations, etc.).

- Customers (Corporate Commercial Development, Quality, Marketing and Customer Service by business lines, Legal Secretary General, Communication, Security, etc).

- Shareholders (Shareholders' Office, Investor Relations, Legal Secretary General, Internal Audit, etc.).

- Employees (Corporate Human Resources, Human Resources of business lines, Joint Health and Safety department, Communication, Security, Fundación Telefónica, ATAM, Fonditel, etc.).

- Society (Strategy and Management Control of business lines, Institutional Relations, Management Control, Compliance, Fundación Telefónica, ATAM, sponsors, etc.).

- Environment (Environment for business lines, Internal Audit, Reputation and Corporate Social Responsibility, etc.).

- Suppliers (Purchasing, Audit, Treasury Office, Reputation and Corporate Responsibility, etc.).

- Media (Communication).

- Coordination and other chapters: Corporate Reputation, Identity and Environment Department.

Finally we wish to highlight the work of the corporate responsibility managers in each of the countries that Telefónica works in. These teams are not only responsible for the publication of their local reports, but also coordinate the supply of information and its verification.

# 9

## 9 GRI Tables

For the fourth year running, Telefónica is publishing its 2009 Annual Corporate Responsibility Report according to standard G3 of the Global Reporting Initiative (GRI), and continues to be an "organisational stakeholder" in this organisation.

The annual CR Reports corresponding to 2006, 2007, 2008 and 2009 have been verified by a third party vis a vis G3 principles. As in the last year, our CR 2009 Report is GRI "in accordance" with an A+ rating.

| Indicators | Covered in the 2008 CR Report | Covered in the 2009 CR Report | Covered in the 2009 CR Report | Covered in the RC Web/ Atlas | Data unavailable | Not applicable/ relevant | Reference pages | |
|---|---|---|---|---|---|---|---|---|
| **GRI3 Profile** | | | | | | | **2009 CR Report** (or an explanation for the omission of the indicator) | **Annual Report 2009** |
| **1. Strategy and analysis** | | | | | | | | |
| 1.1 Statement by the top decision maker of the organisation (general manager, CEO or equivalent) on the relevance of sustainability for the organisation and its strategy. | X | X | X | | | | 8-9 | 4-7 |
| 1.2 Description of the main impacts, risks and opportunities. | | | X | | | | | 17-43 |
| **2. Profile of the organisation** | | | | | | | | |
| 2.1 Name of the organisation. | X | X | X | | | | 8-9 | 4-7 |
| 2.2 Main brands, products and/or services. | | | X | | | | | 36-37 |
| 2.3 Operational structure of the organisation, including the main divisions, operational entities, subsidiaries and joint ventures. | | | X | | | | | 12-13 |
| 2.4 Location of the organisation's headquarters | | | | X | | | www.rcysostenibilidad-telefonica.com | |
| 2.5 Number of countries in which the organisation operates and the name of the countries in which its activities are significant or specifically relevant to the sustainability aspects discussed in the report. | | | X | | | | | 10-11 |
| 2.6 Nature of ownership and legal structure. | | | X | | | | | 12-15 |
| 2.7 Markets served (including geographical breakdown, sectors supplied and types of customers/beneficiaries). | | | X | | | | | 10-11 |
| 2.8 Dimensions of the reporting organisation | | | X | | | | | 10-11 |
| 2.9 Significant changes in the period covered by the report in size, structure and ownership of the company, including | X | X | | | | | | 325-329 |
| 2.10 Prizes and awards received in the reporting period, Period covered by the information contained in the report (for example, fiscal year, calendar year24). | X | X | | X | | | 299-301 | |

# 9.9 GRI Tables

| GRI3 Profile | Covered in the 2008 CR Report | Covered in the 2009 CR Report | Covered in the 2009 CR Report | Covered in the RC Web/ Atlas | Data unavailable | Not applicable/ relevant | 2009 CR Report (or an explanation for the omission of the indicator) | Annual Report 2009 |
|---|---|---|---|---|---|---|---|---|
| **3. Parameters of the Report** | | | | | | | | |
| **3.1** Period covered by the information contained in the report | X | X | | | | | 325-327 | |
| **3.2** Date of the most recent previous report (if any). | X | X | | | | | 325 | |
| **3.3** Report presentation cycle (annual, biannual, etc.). | X | X | | | | | 325 | |
| **3.4** Contact for issues regarding the report or its content. | X | | | X | | | www.rcysostenibilidad.telefonica.com/blogs | |
| **3.5** Definition process for the report contents. | X | X | | | | | 311 | |
| **3.6** Scope of the report (e.g. countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers) | X | X | | | | | 325-329 | |
| **3.7** Indicate the existence of limitations in the scope or cover of the report. | X | X | | | | | 329 | |
| **3.8** The basis for including information in the case of joint ventures, subsidiaries, leased facilities, subcontracted activities and other entities that may have a significant effect on the comparison between periods and/or organisations. | X | X | | | | | 325-329 | |
| **3.9** Data measurement techniques and bases for calculations, including the underlying hypotheses and techniques | X | X | | | | | 325-329 | |
| **3.10** Description of the potential effect of re-statement of information from previous reports, as well as the reasons for such re-statement (such as mergers and acquisitions, changes in reporting periods, nature of business or evaluation methods). | X | X | | | | | 325-329 | |
| **3.11** Significant changes relative to previous periods in the scope, cover or valuation methods applied in the report. | X | X | | | | | 325-329 | |
| **3.12** Table indicating the location of the basic Content of the report. | X | X | | | | | 1-4,351 | |
| **3.13** Current policy and practice regarding the request for external verification of the report | X | X | | | | | 340-349 | |
| **4. Governance, commitments and participation of Stakeholders** | | | | | | | | |
| **4.1** The governance structure of the organisation, including the committees of the highest governance body responsible for tasks such as defining the strategy or supervising the organisation. | | | X | | | | | 12-15 |
| **4.2** It must be specified whether the president of the highest governance body also occupies an executive position (and if so, the function in the organisation and the reasons that justify this). | | | X | | | | | 14-15 |
| **4.3** In organisations with a unitary management structure, the number of members of the highest governance body who are independent or not executive must be specified. | | | X | | | | | 14-15 |
| **4.4** Mechanisms used by shareholders and employees to notify recommendations or indications to the executive body. | X | | X | X | | | www.telefonica.com/es/about.telefonica/html/publicaciones | 14-15 |
| **4.5** Link between the income of the members of the highest governance body, senior management and executives (including agreements for leaving) and organisation performance (including social and environmental performance). | X | | | X | | | www.telefonica.com/es/about.telefonica/html/publicaciones | |

# 9.9 GRI Tables

| Indicators<br><br>GRI3 Profile | Covered in the 2008 CR Report | Covered in the 2009 CR Report | Covered in the 2009 CR Report | Covered in the RC Web/ Atlas | Data unavailable | Not applicable/ relevant | 2009 CR Report (or an explanation for the omission of the indicator) | Annual Report 2009 |
|---|---|---|---|---|---|---|---|---|
| **4.6** Procedures implemented for preventing conflict of interest in the highest governance body. | X | | | X | | | www.telefónica.com/es/about.telefónica/html/publicaciones | |
| **4.7** Procedure for determining the skills and experience required of members of the highest governance body in order to guide the organisation's strategy in social, environmental and economic aspects. | X | | | X | | | www.telefónica.com/es/about.telefónica/html/publicaciones | |
| **4.8** Mission and value statements developed internally, codes of conduct and principles relevant for economic, environmental and social performance, and their state of implementation. | X | X | | X | | | 122-132 www.telefónica.com/es/about.telefónica/html/publicaciones | |
| **4.9** Procedures of the highest governance body for supervising the identification and management by the organisation of the economic, environmental and social performance, including related risks and opportunities, as well as adhesion or compliance with standards agreed at an international level, codes of conduct and principles. | | | | X | | | www.telefónica.com/es/about.telefónica/html/publicaciones | |
| **4.10** Procedures for assessing the own performance of the highest governance body, particularly regarding economic, environmental and social performance. | | | | X | | | www.telefónica.com/es/about.telefónica/html/publicaciones | |
| **4.11** Description of how the organisation has adopted a precautionary approach or principle. | X | X | | | | | 122-132 | |
| **4.12** Social, environmental and economic principles or programs developed externally, as well as any other initiative that the organisation subscribes or approves of. | X | X | | X | | | 122-132,170-176,180-184,221-235,241-278[1] | |
| **4.13** Main associations to which it belongs (such as sector associations) and/or national or international bodies that the organisation supports and | X | X | | | | | 170-171,242-244,232[2] | |
| **4.14** List of stakeholder groups that the organisation has included. | X | X | | | | | 18 | |
| **4.15** Basis for identifying and selecting stakeholder groups which the organisation is committed to. | X | X | | | | | 18 | |
| **4.16** Approaches used to include stakeholder groups, including frequency of participation by types and categories of stakeholder. | X | X | | | | | 14-17,18,72-75 | |
| **4.17** Main concerns and issues of interest arising from participation in the groups of interest and the manner in which the organisation responded to them in the creation of the report. | X | X | | | | | 14-17,18-30,72-75[3] | |

[1]122-132 Telefónica Group Business Principles.170-176 Use of information and communication technologies in Telefónica Group. 180-184 Relations with the Community in Telefónica Group. 221-235 Access to information and communication technologies in Telefónica Group. 241-278 Environment and Climate Change in Telefónica Group.

[2]170-171 Alliance and Colaborations with third parties related to the use of information and technologies in Telefónica Group. 242-244 Alliance and Colaborations with third parties related to Environment and Climate Change in Telefónica Group. 232 Alliance and Colaborations with third parties related to people with disabilities in Telefónica Group.

[3]14-17 Stategy for preparing the CSR Report 2009. 18-30 Main actions on dialogue with stakeholders in Telefónica Group. 72-75 What is relevant to Telefónica Group.

# 9.9 GRI Tables

| Indicators | Covered in the 2008 CR Report | Covered in the 2009 CR Report | Covered in the 2009 CR Report | Covered in the RC Web / Atlas | Data unavailable | Not applicable / relevant | 2009 CR Report (or an explanation for the omission of the indicator) | Annual Report 2009 |
|---|---|---|---|---|---|---|---|---|
| **Economy** <br> **Performance indicators** | | | | | | | | |

**Disclosure of Management Approach**

Provides a detailed management report on the elements described below in relation to the following economic aspects: economic performance, market presence and indirect impact of Telefónica. Direct economic value generated and distributed, including income, operating costs, employee salaries, donations and other investments in the community, undistributed profits and payments to suppliers of capital and governments.

For more information: www.telefonica.com/rc08 and www.rcysostebilidad-telefonica.com

| Indicator | Description | 2008 | 2009 | 2009 | RC Web | Data unav. | N/A | Ref. pages | AR 2009 |
|---|---|---|---|---|---|---|---|---|---|
| **EC01** | Direct economic value generated and distributed in society | X | X | | | | | 185,280-281 | |
| **EC02** | Financial consequences for the organisation's activities relating to climate change | X | X | | | | | 245-250 | |
| **EC03** | Coverage of the organisation's defined benefit plan obligations | X | X | | | | | 88-90 | |
| **EC04** | Significant financial aid received from governments | X | X | | | | | 226-227 | |
| **EC05** | Range of relations between the initial starting salary and the minimum local salary in places where significant operations are carried out | | | | | | X | | |
| **EC06** | Policy, practices, and proportion of expenses corresponding to local suppliers | X | X | | | | | 280-281 | |
| **EC07** | Proportion of upper management coming from the local community | X | X | | | | | 80-81 | |
| **EC08** | Development and impact of investments in infrastructure and services rendered mainly for the benefit of the public | X | X | | | | | 282-285 | |
| **EC09** | Understanding and description of significant indirect economic impact | X | X | | | | | 280-281 | |

# 9.9 GRI Tables

Note We do not report those indicators which, after our materiality analysis process, have been identified as aspects which are irrelevant to our business

| Indicators<br><br>**Human Rights<br>Performance indicators** | Covered in the 2008 CR Report | Covered in the 2009 CR Report | Covered in the 2009 CR Report | Covered in the RC Web/ Atlas | Data unavailable | Not applicable/ relevant | Reference pages<br><br>**2009 CR Report**<br>(or an explanation for the omission of the indicator) | **Annual Report 2009** |
|---|---|---|---|---|---|---|---|---|
| **Disclosure of Management Approach**<br>We provide a detailed report on Telefónica's management vis a vis compliance with human rights issues: investment and service hiring practices, non discrimination, collective bargaining and freedom of association, the elimination of child labour, control mechanisms to eradicate forced labour, practices and procedures for the logging of claims and complaints, security policies and the rights of indigenous people.<br><br>For more information: www.telefonica.com/rc08 and www.rcysostebilidad-telefonica.com | | | | | | | | |
| **HR1** Percentage and total number of significant investment agreements that include human rights clauses | X | X | X | | | | 122-132 | |
| **HR2** Percentage of major distributors and contractors that have undergone screening on human rights. | X | X | X | | | | 37,115 | |
| **HR3** Total hours spent training employees in policies and procedures related to those aspects of human rights which are relevant to their activities, including the percentage of employees trained | X | X | X | | | | 33,125 | |
| **HR4** Total number of discrimination complaints | X | X | X | | | | 53,122-132 | |
| **HR5** Activities of the company in which the right of freedom of association and the use of collective bargaining could involve significant risks | X | X | X | | | | 122-132,96 | |
| **HR6** Identified activities that bring a potential risk of the exploitation of child labour | X | X | X | | | | 50,114-119 | |
| **HR7** Identified activities that bring a potential risk of incidents of forced labour | X | X | X | | | | 114-119 | |
| **HR8** Percentage of security personnel who have been trained in the organisation's human rights policies or procedures | | | | | X | | | |
| **HR9** Total number of incidents related to violations of the rights of indigenous people, and measures adopted | | | | | X | | | |

Note We do not report against this indicator as our materiality process has determined that it is not relevant or significant for our business

# 9.9 GRI Tables

| Indicators<br><br>**Labour practices and dignified work**<br>**Performance indicators** | Covered in the 2008 CR Report | Covered in the 2009 CR Report | Covered in the 2009 CR Report | Covered in the RC Web/ Atlas | Data unavailable | Not applicable/ relevant | Reference pages<br><br>**2009 CR Report**<br>(or an explanation for the omission of the indicator) | **Annual Report 2009** |
|---|---|---|---|---|---|---|---|---|
| **Disclosure of Management Approach**<br>Provides a detailed management report on the elements described below in relation to the following labour aspects: employment, labour relations, health and safety, training and education and diversity and equality of opportunity.<br><br>For more information: www.telefonica.com/rc08 and www.rcysostebilidad-telefonica.com | | | | | | | | |
| **LA1** Breakdown of employees | X | X | X | | | | 78-81 | |
| **LA2** Total number of employees and average rotation of employees | X | X | X | | | | 78-81,84 | |
| **LA3** Social benefits for full time employees | X | X | | | | | 88-90 | |
| **LA4** Percentage of employees covered by collective bargaining agreement. | X | X | | | | | 41,96 | |
| **LA5** Minimum notice period/s for organisational changes | X | X | | | | | 81 | |
| **LA6** Percentage of all employees that are represented on the joint management-employees health and safety committees | X | X | | | | | 100 | |
| **LA7** Absenteeism rates, occupational illness, days lost and the number of fatal accidents in the workplace | X | X | X | | | | 101-102 | |
| **LA8** Programs of education, training, advice and prevention and control of risks applied to employees | X | X | | | | | 97-101 | |
| **LA9** Health and safety matters covered by formal agreements with unions | X | X | | | | | 100 | |
| **LA10** Average training hours a year by employee | X | X | X | | | | 45,84-87 | |
| **LA11** Programs for skills management and ongoing training that encourage the employability of employees, and which support them in managing the end of their professional careers | X | X | X | | | | 85 | |
| **LA12** Percentage of employees that receive regular evaluations of professional performance and development. | X | X | | | | | 83 | |
| **LA13** Make-up of the Corporate Governance and Workforce bodies, broken down by gender and age group | X | X | X | | | | 53,80-81 | |
| **LA14** Relation between the base salaries of men and women, broken down by professional category. | | | | | X | | | |

Note We do not report against this indicator as our materiality process has determined that it is not relevant or significant for our business

# 9.9 GRI Tables

| Indicators | Covered in the 2008 CR Report | Covered in the 2009 CR Report | Covered in the 2009 CR Report | Covered in the RC Web/ Atlas | Data unavailable | Not applicable/ relevant | Reference pages | |
|---|---|---|---|---|---|---|---|---|
| **Environment**<br>**Performance indicators** | | | | | | | **2009 CR Report**<br>(or an explanation for the omission of the indicator) | **Annual Report 2009** |

**Disclosure of Management Approach**

Provides a detailed management report on the elements described below in relation to the following environmental aspects: materials, energy, water, biodiversity, emissions, waste, products and services, compliance with legislation, transport, etc.

For more information: www.telefonica.com/rc08 and www.rcysostebilidad-telefonica.com

| | | Col1 | Col2 | Col3 | Col4 | Col5 | Col6 | 2009 CR Report | AR 2009 |
|---|---|---|---|---|---|---|---|---|---|
| EN01 | Materials used, by weight or volume. | X | X | | X | | | 271-272, 278 | |
| EN02 | Percentage of recycled materials used. | X | X | | X | | | 271-277, 278 | |
| EN03 | Direct energy consumption by primary source. | X | X | | X | | | 245-246, 278 | |
| EN04 | Indirect energy consumption by primary source. | X | X | | X | | | 245-246, 278 | |
| EN05 | Energy savings due to conservation and efficiency improvements. | X | X | | X | | | 245-246 | |
| EN06 | Initiatives to provide efficient products and services vis a vis energy consumption, or based on renewable energies and reductions in the consumption of energy as a result of such initiatives. | X | X | | X | | | 246-251 | |
| EN07 | Initiatives to reduce the indirect consumption of energy and reductions achieved with such initiatives. | X | X | | X | | | 245-246, 251 | |
| EN08 | Total water withdrawal by source. | X | X | | X | | | 271-272, 278 | |
| EN09 | Water sources that have been significantly affected by water collection. | | | | | | X | | |
| EN10 | Percentage and total volume of recycled and re-used water. | | | | | | X | | |
| EN11 | Description of adjacent land, or land located within natural protected areas, or unprotected areas with significant biodiversity | | | | | | X | | |
| EN12 | Description of the most significant impacts on biodiversity located within natural protected areas, or unprotected areas with significant biodiversity | X | X | | X | | | 263-270, 278 | |
| EN13 | Protected or restored habitats. | X | X | | X | | | 263-270, 278 | |
| EN14 | Present and future strategies and actions for managing impact on biodiversity. | X | X | | X | | | 263-270, 278 | |
| EN15 | Number of species, broken down by their risk of extinction, included on the red list of the IUCN and national lists, and whose habitats are in areas affected by operations according to the threat level of the species. | | | | | X | | | |
| EN16 | Total direct and indirect greenhouse gas emissions by weight. | X | X | | X | | | 245-246, 278 | |
| EN17 | Other direct and indirect greenhouse gas emissions by weight. | X | X | | X | | | 245-246, 278 | |
| EN18 | Initiatives to reduce greenhouse gas emissions and the reductions achieved. | X | X | | X | | | 245-251, 278 | |
| EN19 | Emissions of substances that destroy the ozone layer, by weight. | | X | | | | | 273-274 | |
| EN20 | NO, SO and other significant air emissions by type and weight. | | | | | | X | | |
| EN21 | Total use of waste water, according to nature and destination. | | | | | | X | | |
| EN22 | Total weight of waste by type and disposal method. | X | X | | X | | | 274-278 | |
| EN23 | Total number and volume of significant accidental spills. | X | X | | X | | | 264 | |
| EN24 | Weight of waste transported, imported, exported or processed, and which is considered to be dangerous according to the classification of the Basel Convention, appendices I, II, III and VIII, and percentage of waste transported internationally. | X | X | | X | | | 274-278 | |

## 9.9 GRI Tables

| Indicators | Covered in the 2008 CR Report | Covered in the 2009 CR Report | Covered in the 2009 CR Report | Covered in the RC Web/ Atlas | Data unavailable | Not applicable / relevant | 2009 CR Report (or an explanation for the omission of the indicator) | Annual Report 2009 |
|---|---|---|---|---|---|---|---|---|
| **Environment** **Performance indicators** | | | | | | | | |
| **EN25** Identification, size, status of protection and biodiversity value of water resources and related habitats affected significantly by water spills and runoff water from the reporting organisation. | | | | | | X | X | |
| **EN26** Initiatives to mitigate environmental impacts of products and services, and extent of reduction of this impact. | X | X | | X | | | 256-261, 264-270 | |
| **EN27** Percentage of products sold, and their packaging materials, which are recovered at the end of their useful life, by category. | X | X | | X | | | 256-261, 277- 278 | |
| **EN28** Cost of significant fines and the number of non pecuniary penalties for breaches of environmental rules | X | X | | | | | 255 | |
| **EN29** Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations. | | | | | | X | | |
| **EN30** Total environmental protection expenditure and investments by type. | X | X | | X | | | 278 | |

Note We do not report against this indicator as our materiality process has determined that it is not relevant or significant for our business

# 9.9 GRI Tables

| Indicators<br><br>**Society**<br>**Performance indicators** | Covered in the 2008 CR Report | Covered in the 2009 CR Report | Covered in the 2009 CR Report | Covered in the RC Atlas | Data unavailable | Not applicable/ relevant | Reference pages<br><br>**2009 CR Report**<br>(or an explanation for the omission of the indicator) | **Annual Report 2009** |
|---|---|---|---|---|---|---|---|---|
| **Disclosure of Management Approach**<br>Provides a detailed report on Telefónica's management vis a vis compliance with societal issues: society, corruption, public policy, compliance, competition laws, etc.<br><br>For more information: www.telefonica.com/rc08, www.rcysostebilidad-telefonica.com and www.fundacion.telefonica.com | | | | | | | | |
| **SO1** Nature, scope and effectiveness of programs and practices to evaluate and manage the impact of operations on communities | X | | X | | | | http://www.telefonica.com/ext/rc08/atlas rc/flashmap_es.html | |
| **SO2** Percentage and total number of business units analysed with respect to risks relating to corruption. | | | | | X | | | |
| **SO3** Percentage of employees trained in anti-corruption policies and procedures in the organisation. | X | X | X | | | | 33,125-127 | |
| **SO4** Actions taken in response to incidents of corruption | X | X | X | | | | 68,129-130 | |
| **SO5** Position on public policies and participation in the development of same, and lobbying activities. | X | X | | | | | 210-216 | |
| **SO6** Total value of contributions - financial and in kind - to political parties or related institutions | X | X | | | | | 131 | |
| **SO7** Total number of actions on issues relating to monopolistic actions and those against free competition, and their results. | X | X | | | | | 210-216 | |
| **SO8** Pecuniary value of the contributions in kind or in cash to political parties or related institutions | X | X | | | | | 131 | |

Note We do not report against this indicator as our materiality process has determined that it is not relevant or significant for our business

# 9.9 GRI Tables

| Indicators<br><br>Product responsibility<br>Performance indicators | Covered in the 2008 CR Report | Covered in the 2009 CR Report | Covered in the 2009 CR Report | Covered in the RC Web/ Atlas | Data unavailable | Not applicable/ relevant | Reference pages<br><br>2009 CR Report<br>(or an explanation for the omission of the indicator) | Annual Report 2009 |
|---|---|---|---|---|---|---|---|---|
| **Disclosure of Management Approach**<br>Provides a detailed report on Telefónica's management vis a vis compliance of issues relating to the company and Telefónica customers: health and safety of customers, labelling of products and services, publicity, privacy of data and compliance with regulations in this area.<br><br>For more information: www.telefonica.com/rc08 and www.rcysostebilidad-telefonica.com | | | | | | | | |
| **PR1** Phases of the life cycle of products and services, in which an evaluation is carried out so that any necessary improvements can be made, the impact of same on the health and safety of customers. | X | X | | | | | 155-158 | |
| **PR2** Total number of incidents relating to the impact of products and services on health and safety during the life cycle | X | X | | | | | 155-158 | |
| **PR3** Types of information on products and services required by procedures and regulations in force | X | X | | | | | 155-158 | |
| **PR4** Total number of breaches of regulations and voluntary codes relating to information and labelling of products and services | | | | | | X | | |
| **PR5** Policies related to customer satisfaction, including results of customer surveys. | X | X | | X | | | 33,144-148 | |
| **PR6** Programs on compliance with laws or agreement with voluntary standards and codes mentioned in marketing promotions, including advertising | | | | | | X[1] | | |
| **PR7** Total number of incidents resulting from breaches of regulations on marketing communications, including advertising, promotion and sponsorship. | | | | | | X[2] | | |
| **PR8** Total number of duly supported claims relating to respect for privacy and the personal data of its customers. | X | X | | | | | 33 | |
| **PR9** Cost of those significant fines resulting from the breach of regulations in relation to the supply and use of the organisation's products and services | X | X | | | | | 33 | |

Note We do not report against this indicator as our materiality process has determined that it is not relevant or significant for our business

[1] This indicator was deemed to be "irrelevant" at a consolidated level. It is reported in local corporate responsibility reports

[2] No such incidents have been reported in the Telefónica Group

## 9.9 GRI Tables

| Indicators<br><br>**Telecom Sector Supplement:**<br>**Technology Applications**<br>**Performance indicators** | Covered in the 2008 CR Report | Covered in the 2009 CR Report | Covered in the 2009 CR Report | Covered in the RC Web/ Atlas | Data unavailable | Not applicable/ relevant | **2009 CR Report**<br>(or an explanation for the omission of the indicator) | **Annual Report 2009** |
|---|---|---|---|---|---|---|---|---|
| **IO01** Investments in the development of telecommunication networks by country/ region. | X | X | | | | | 280-281 | |
| **IO02** Net costs of universal service obligations. | X | X | | X | | | 225 | |
| **IO03** Practices that ensure the health and safety of personnel working on the installation and maintenance of antennae, base stations and other facilities. | X | x | | | | | 97-101 | |
| **IO04** Compliance with ICNIRP standards relating to greenhouse gas emissions generated by handsets. | X | X | | | | | 266 | |
| **IO05** Compliance with ICNIRP standards with reference to MF emissions emanating from base stations. | X | X | | X | | | 266-268,278 | |
| **IO06** Practices and polices established vis a vis the Specific Absorption Rate (SAR) of handsets. | X | X | | | | | 266 | |
| **IO07** Description of policies and practices in relation to the location of antennas. | X | X | | X | | | 264-270,278 | |
| **IO08** Number and percentage of locations that share and recycle structures | X | X | | | | | 264,265,278 | |

# 9.9 GRI Tables

| Indicators | Covered in the 2008 CR Report | Covered in the 2009 CR Report | Covered in the 2009 CR Report | Covered in the RC Web/ Atlas | Data unavailable | Not applicable/ relevant | Reference pages | |
|---|---|---|---|---|---|---|---|---|
| **Sectoral Telecommunications Supplement: Access to Telecommunications Services** | | | | | | | **2009 CR Report** (or an explanation for the omission of the indicator) | **Annual Report 2009** |
| **PA01** Policies to enable the development of telecommunications infrastructures and access to products and services in remote and sparsely populated areas | X | X | | | | | 225,226-228 | |
| **PA02** Policies and practices to eliminate barriers to accessing services, including: language, culture, education, income, disability and age | X | X | | | | | 230-240 | |
| **PA03** Policies and practices to ensure the availability and reliability of telecommunications products and services | X | X | | | | | 155-158 | |
| **PA04** Quantifies the availability level of telecommunication services in the areas the company operates in | X | X | | | | | 141-142,155-158,166-168 | |
| **PA05** Type of telecom services aimed at and used by low income sectors of the population | X | X | | | | | 226-229 | |
| **PA06** Program to provide and maintain communication services in emergency situations. | X | X | | | | | 217-220 | |
| **PA07** Policies relating to the management of human rights issues relating to the access and use of telecommunications. | X | X | | | | | 122-124,177-178 | |
| **PA08** Policies and practices relating to the communication of issues relating to electromagnetic fields | X | X | | X | | | 266-268 | |
| **PA09** Total investment in research into electromagnetic fields and health | | | | | | X | | |
| **PA10** Initiatives to guarantee the clarity of rates and invoices | X | X | | | | | 151-154 | |
| **PA11** Initiatives to inform consumers of the responsible, efficient and environmentally friendly use of products. | X | X | | X | | | 258-261,277 | |

Note We do not report against this indicator as our materiality process has determined that it is not relevant or significant for our business

# 9.9 GRI Tables

| Indicators<br><br>**Telecom Sector Supplement:**<br>**Technology Applications** | Covered in the 2008 CR Report | Covered in the 2009 CR Report | Covered in the 2009 CR Report | Covered in the RC Web/ Atlas | Data unavailable | Not applicable/ relevant | Reference pages | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | **2009 CR Report**<br>(or an explanation for the omission of the indicator) | **Annual Report 2009** |
| **TA01** Example of the efficiency of telecommunications services in the consumption of resources | | | | X | | | http://www.telefonica.com/ext/rc08/atlas rc/flashmap_es.html | |
| **TA02** Example of telecommunications services with the potential of replacing physical objects. | | | | X | | | http://www.telefonica.com/ext/rc08/atlas rc/flashmap_es.html | |
| **TA03** Measurement of changes to the life of consumers in the use of the services referred to above | | | | X | | | http://www.telefonica.com/ext/rc08/atlas rc/flashmap_es.html | |
| **TA04** Estimates of the indirect "rebound" effects on the use of products and services by the consumer, and lessons learnt for future developments. | | | | X | | | http://www.telefonica.com/ext/rc08/atlas rc/flashmap_es.html | |
| **TA05** Practices relating to intellectual property rights and open technologies | X | X | | | | | 177-178 | |