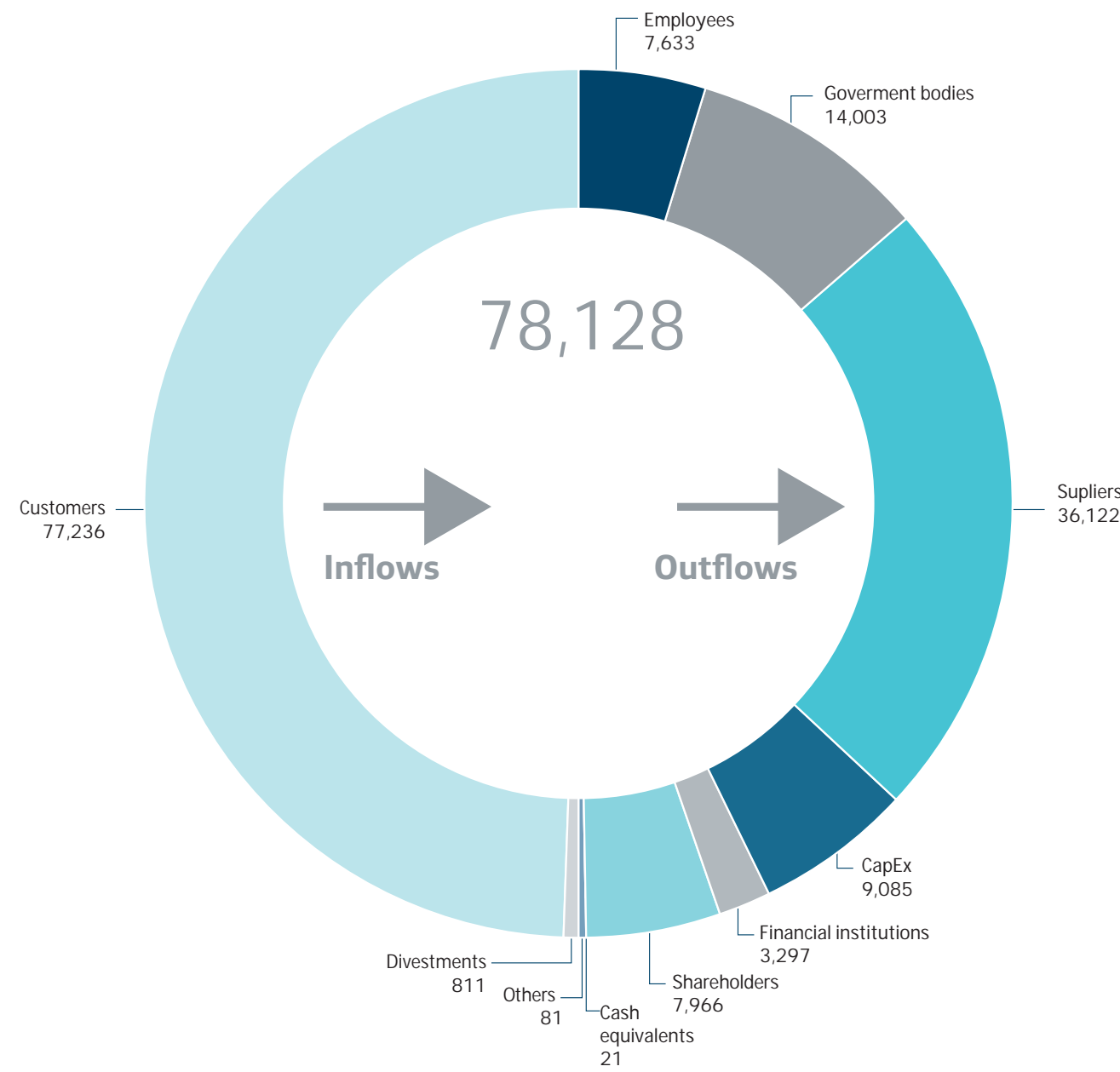


Driver of progress

In 2011, despite the macroeconomic turmoil, Telefónica's contribution to progress in localities where it is present increased by 8.3%, furthering communities' economic, technological and social development. The rise in revenues compared with last year allowed the Company to increase the amount of resources available for

all of our stakeholders: employees (+7.5%), shareholders (+11.7%), suppliers (+6.6%), financial institutions (+8.1%) and public institutions (+6.0%). In addition, investment was raised (+1.6%). Furthermore, €140 million was invested in the community, an amount that represents 0.18% of revenue for the period.



Notes:
All figures are expressed in millions of euros.
The information in this chart has been calculated based on payment assumptions and taking into account the scope of consolidation in the financial statements of Telefónica.
Figures for employee salaries differ from those included in the indicator table, in which they are given net of Social Security payments.

Indicators

Economic dimension		2009	2010	2011	% Chg
Telefónica's Revenue	€ Million	56,731	60,737	62,837	3.5
Technological innovation	€ Million ^w	4,291	4,814	5,091	5.8
Tax contributions ⁽¹⁾	€ Million	11,744	12,894	13,768	6.8
Total salary expenses	€ Million	6,775	8,409	11,080	31.8
Investment in infrastructure ⁽¹⁾	€ Million	7,064	10,844	10,224	-5.7
Volume of purchases awarded	€ Million	23,048	26,828	27,295	1.7
Investment in I+D	€ Million	693	797	983	23.3
Total for local suppliers	%	79.3	87.5	90.2	3.1
Number of employees dismissed for failure to comply with Business Principles	Employees	8	7	5	-28.6
Number of corruption incidents investigated by the Business Principles Office	Incidents	13	5	2	-60.0
Employees trained in Business Principles	%	57.0	59.7	48.4	-19.0
Number of audits performed on at-risk suppliers	Audits	840	1,163	1,773	52.5

Social dimension		2009	2010	2011	% Chg
Total workforce	-	257,426	285,106	291,027	2.1
Permanent staff	-	213,525	231,124	238,783	3.3
Absentee rate ⁽²⁾	Date	6,046	5,560	4,436	-20.2
Thousands of hours of training	-	11,218	13,052	17,438	33.6
Women in workforce	%	50.1%	51.5%	53.9%	4.6
Female executives	%	15.6%	16.8%	19.1	13.7
Number of persons with disabilities	-	1,420	1,610	1,568	-2.6
Total social investment (LBG)	Thousands of euros	108,471	131,959	143,259	8.6
Hours of volunteer work	-	126,122	109,796	112,943	2.9

Environmental dimension		2009	2010	2011	% Chg
Consumption of Resources					
Total consumption of new paper (including bills)	Tonnes	16,941	14,720	13,171	-10.5
Total consumption of recycled paper	Tonnes	637	523	492	-5.9
Customers with e-billing	Thousands	12,597	10,338	29,618	186.5
Water consumption	Cubic metres	4,436,869	4,004,086	3,927,601	-1.9
Waste					
E-waste from devices (operations)	Tonnes	1,571	2,048	2,180	6.5
E-waste from devices (customers)	Tonnes	1,895	1,644	1,702	3.5
E-waste from devices that is sent to be recycled	Tonnes	3,462	4,056	3,998	-1.4
Energy ⁽³⁾					
Total fuel consumption ⁽³⁾	Thousands of litres	39,441	45,371	39,555	-12.8
Natural gas consumption: operations & offices	Nm3	6,637,096	6,623,162	5,413,698	-18.3
Total energy consumption ⁽⁴⁾	MWh	5,828,832	5,853,842	5,987,248	2.3
Renewable energy generated and purchased	MWh	493,678	674,772	740,596	9.8
Greenhouse gas emissions ⁽⁵⁾					
Direct emissions (Scope 1)	tCO2eq	114,604	125,511	110,878	-11.7
Indirect emissions (Scope 2)	tCO2eq	1,564,194	1,604,103	1,612,373	0.5

⁽¹⁾ This figure differs from that given in the Driver of Progress section; here it is expressed according to the accrual criterion and not according to the cash criterion.
⁽²⁾ Absentee rate (AR) AR = (total num. of days missed, for disabilities, during the period / total number of days worked by the workforce during the same period) x 200,000.
⁽³⁾ Total consumption of gasoline, diesel, ethanol and biodiesel from operations, offices and fleets.
⁽⁴⁾ Includes consumption from operations and offices.
⁽⁵⁾ Data on 2010 energy and emissions, verified in 2011. Data on 2011 energy and emissions, being verified.



The Company's Vision



Dear Fiends,

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

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

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

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

César Alierta
Chairman and CEO of Telefónica

¹ The Corporate Sustainability Report is available at: <http://www.rycsostenibilidad.telefonica.com/es/>
² The Fundación Telefónica Report is available at: http://www.fundacion.telefonica.com/es/conocenos/informe_anual/index.htm

Sustainability at Telefónica

In 2011, we made further progress on our sustainability approach, in line with the guideline set forth in the leading index on responsible investment, the Dow Jones Sustainability Index (DJSI): "Corporate Sustainability is a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments".

At Telefónica, we show our commitment to sustainability, as a basic intangible for value creation, through our transparent management approach and our competitive spirit. Transparency allows us earn the trust of the markets and, in general, to instill trust among our stakeholders. The Company has become more competitive by streamlining expenditures and generating more revenue through 13 key projects linked to sustainability. This effort is based on a two-fold perspective of risk management and opportunity.

This year we have made the transition to a reporting model based on a triple bottom-line perspective – incorporating the economic, social and environmental dimensions. – This model is fully compliant with the DJSI and GRI A+ and has been verified externally according to the AA1000 criterion.



- 1 Privacy and Data Protection

2 Safe Internet Use by Children and Young People

3 Electromagnetic Fields

4 Green ICT

5 Code of Conduct

6 Transparency
- 7 Quality of Service

8 Supply Chain

9 Diversity

10 Responsible Marketing

11 Digital Inclusion

12 Accessibility

13 Environmental Management

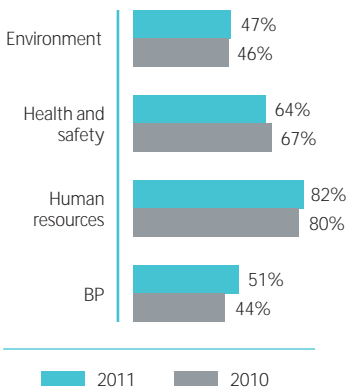
* Survey on material topics for expert groups (334 surveys completed).

Economic dimension

Telefónica is a driver of sustainable development in all of the communities where it operates thanks to its code of conduct, its corporate governance and its global and sectoral crisis and risk management.

Responsibility in the supply chain

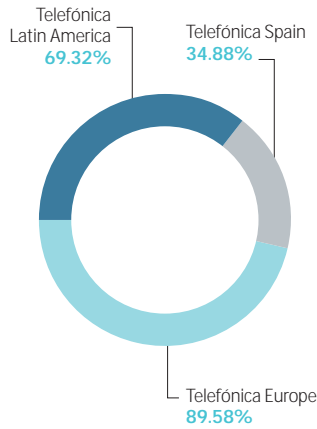
Compliance level observed (audits, global check-list)



We periodically assess our suppliers' risk levels, –with the frequency of these assessments depending on the product and service they provide, –so as to formulate a strategy in line with the risk detected. In 2011, we conducted 1,773 audits on at-risk suppliers; and we made progress in using the global check-list, with 63 on-site audits, 70% more than called for in the 2010 Annual Audit Plan.

Code of Conduct

Employees trained in Corporate Guidelines



¹ Change in scope of consolidation: includes only fixed and wireless operations.

In 2011, Telefónica continued instructing its employees on the Corporate Guidelines through a training course intended to make them aware of the company's Code of Conduct and to encourage them to think about the importance of having standards that facilitate their day-to-day work. As of December 2011, more than 56,000 employees¹⁾ had received training, that is, 48.36% of the total workforce.

Safe use of the Internet by children and young people

Telefónica and 27 other ITC sector companies, along with the European Union Commissioner for the Digital Agenda, Neelie Kroes, promoted the CEO Coalition in 2011.

This initiative is a call for the CEOs of the leading companies in the industry to promote activities in favour of better Internet use by children, and to meet each of the EC's five goals.

This cooperative effort will facilitate the search for solutions requiring the involvement of the various parties in the value chain, strengthen projects now underway and promote innovation in products and services.

Privacy and data protection

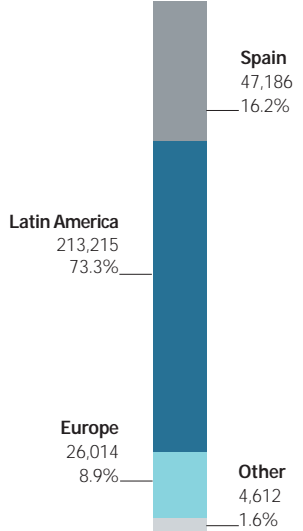
Given the importance of digital services for the future of the Company and the positive impact that good privacy practices will have on the success of these services, in 2011 we intensified our efforts by doubling the number of audits and increasing by more than 30,000 the accumulated number of persons trained in data protection throughout the world.

In addition, we launched a project to create the Telefónica Privacy Centre, as a key benchmark of privacy for the Company's actions in all of its geographic areas, and we began the ISO 27000 certification process by obtaining the seal for our Dedicated Internet and Fixed Data Services in Ecuador.

Social dimension

Our success as a Company depends on the commitment of all of our professionals to meet the challenges ahead in coming years.

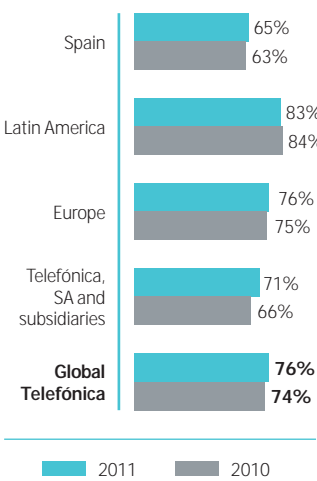
Our employees



Telefónica's total workforce stood at 291,027 persons at year-end (+2.1% compared with 2010), distributed in 25 countries.

This is all-the-more noteworthy when viewed against the backdrop of the challenging economic environment and sweeping changes in the telecommunications market.

Global Index on Climate and Commitment (ICC)



Over 143,000 employees in 24 countries completed the global workplace climate and commitment survey at the end of the 2011.

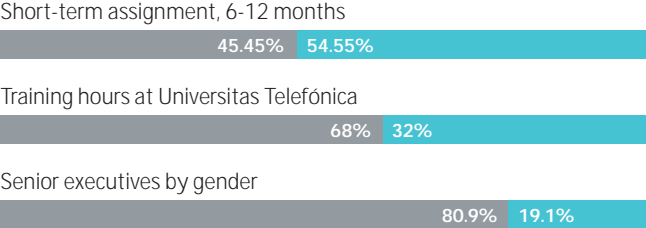
The results of the survey yielded a score of 76%, two points above the target, which was to maintain the 74% achieved in 2010.

Occupational health and safety

	2010	2011
IR (Injury rate)	0.91	0.83
ODR (Occupational disease rate)	0.32	0.36
LDR (Lost day rate)	27.78	25.62
AR (Absentee rate)	5,562.11	4,436.23

In 2011, we continued to promote advisory services on safety, health and well-being for operators in the different regions. To this end, in Spain, we held the first global meeting for officers responsible for safety and health, where we promoted our Prevention Policy. And we laid the foundations for a global health and safety management system, and to this end we prepared the implementation of the Human Capital 2.0 project.

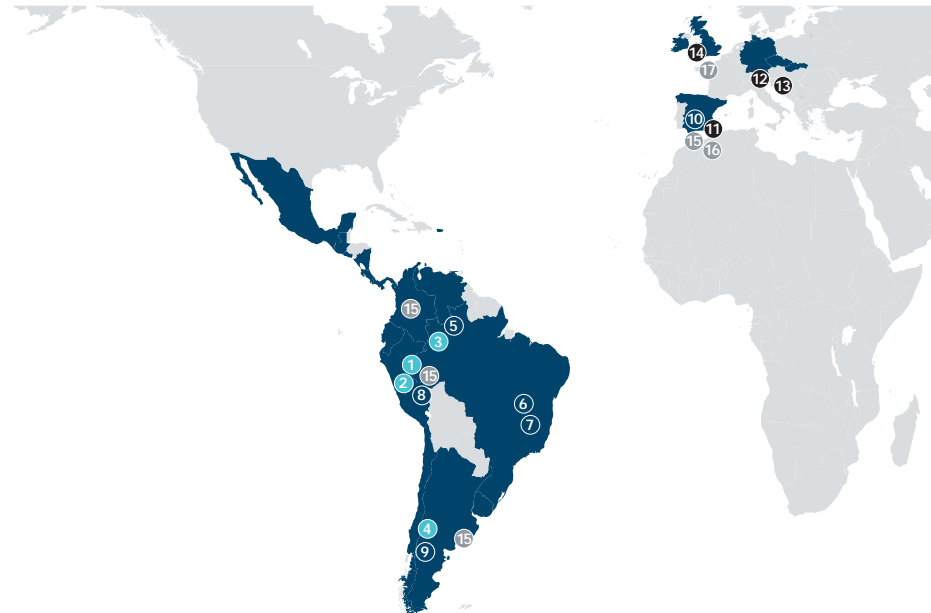
Diversity



At Telefónica we view our diverse workforce as a genuine value driver. The differing origins, experiences and viewpoints of our human capital constitute a competitive advantage and one of the cornerstones of our success.

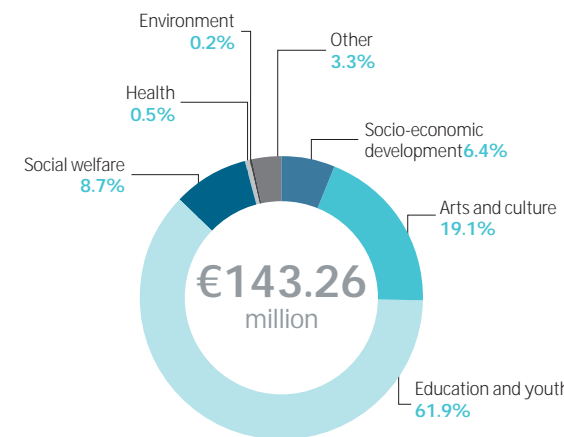
Our goal is to narrow the digital divide, whether it is due to geographic, economic, educational or disability-related barriers.

Digital inclusion



Social projects

Distribution of investment



⇒ **Fundación Telefónica** works through its own social innovation programmes, which make use of new technologies and cooperative networks to help, in particular, children and young people (www.fundacion.telefonica.com)

⇒ **ATAM** works to prevent disabilities and offers support to allow the disabled to be integrated into society (www.atam.es).

⇒ **Telefónica Ability Awards** honour companies and institutions that develop sustainable business models that incorporate people with disabilities into the value creation chain (www.telefonicaabilityawards.com).

⇒ **Think Big** aims to provide financial support and training so that young people can demonstrate their talent to the wider community, thus making a positive impact and promoting their role as agents of social change (www.o2thinkbig.co.uk).

Environmental dimension

We conceive of Green ICT¹ as processes and activities that allow us to generate value for the Company in terms of ecoefficiency and the development of new services for a low-carbon economy in the digital world.

Global Green ICT (policy and positioning)

In 2011, for the second consecutive year, we obtained the highest score in the telecom sector on the Carbon Disclosure Project (CDP) Leadership Index.

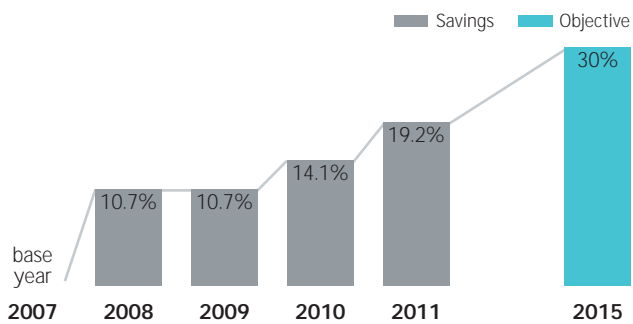
In addition, we bolstered our commitment to the International Telecommunications Union² group 5, "Environment and Climate

Change", charged with devising methodologies to measure the environmental impact of ICT.

We were recognised as a leading ICT company in terms of energy efficiency for promoting sustainable businesses, according to Verdantix's Green Quadrant.

Green from ICT (ecoefficiency)

Attainment of energy-reduction goal (KWh/access eq)



Energy efficiency is a key element for reducing our annual expenditure on energy and even our global carbon footprint.

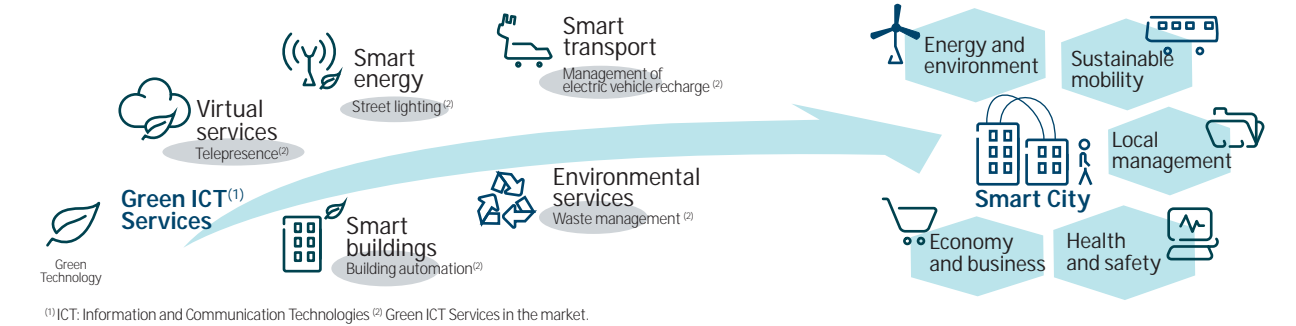
Last year, we attained nearly 20% of the goal we set in 2007 of reducing our network electricity consumption by 30% by 2015 (KWh/access eq).

We carried out more than 30 global energy-efficiency projects, which translated into a reduction of 68 GWh, or 24 Kton of CO₂e, and a financial savings of €7.6 million.

In addition, our greenhouse gas emissions level was 1.8 million tonnes of CO₂e, n the same as in 2010.

Green by ICT (Green innovation)

Our "Green ICT" services help promote an ecoefficient, low-carbon economy. In 2011, we consolidated our global smart city model to promote the sustainability of cities. In 2011 the Telefónica's I+D team alone invested €15 million in innovation processes for energy efficiency (transport, utilities, smart buildings), especially M2M-based services.



Leader in the Carbon Disclosure Project

of the telecommunications sector, for the second consecutive year

€15 million in I+D

for the development of Green ICT services based on M2M

Leader in Green ICT services

in Europe, according to the Verdantix analyst firm