

Business Principles

The principles will favour a homogeneous culture

Telefónica approved its Business Principles in 2006 for its employees in the whole world, after the unification of its ethical codes

On the basis of these Principles, we have built our reputation, earned the confidence of our stakeholders and maximized long-term value for our shareholders and for society in general.

Telefónica's commitment

In our previous Corporate Responsibility Report, we undertook to unify the group's Ethical Code and to this end we have taken on board the concerns of our clients, employees, shop stewards, suppliers, shareholders and representatives of the local communities where we operate.

In December 2006, the Board of Directors of Telefónica S.A. approved our Business Principles as a result of the integration our Ethics Code with the Business Principles of O2. This process took account of the comments received from professionals in all the countries where the Telefónica Group has operations.

Our business principles stem from a series of general principles associated with honesty and reliability, respect for legality, personal integrity and respect for human rights.

In addition, specific principles are now in place with a view to ensuring the trust of our clients, professionals, shareholders, suppliers and society in general.

More than words

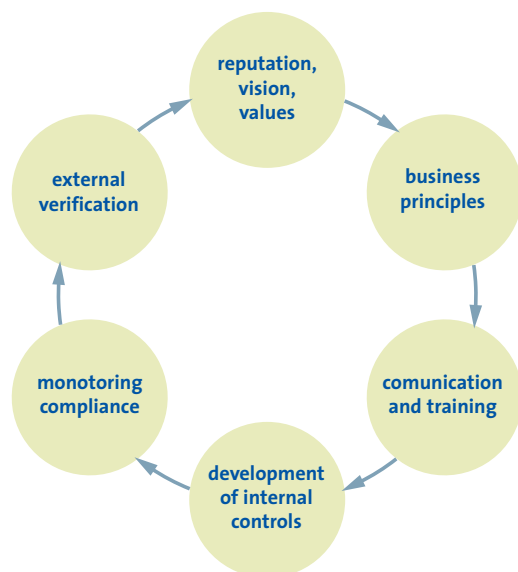
One of the main challenges for those companies deciding to abide by an Ethical Code is that it should go beyond a mere statement of intent.

For this reason, at Telefónica, we are implementing policies in connection with each of these principles in order to improve how we act in all of the activities covered by this Code.

The major policies we are implementing in this sense include internal rules on accessibility, the responsible use of services, the protection of minors, the environment, responsible supply chain, ... among others.

These policies will continue to be adequately communicated to each of the areas responsible for their compliance, and this may later be audited through the corresponding internal audit and monitoring rules. Where necessary, compliance may be audited by the external auditors.

Implementation program



Responsibilities for complying with the Principles

All employees will be responsible for taking their own decisions in accordance with these company policies and for reporting any sign of non-compliance. In order to ensure full awareness and understanding of these issues, an on-line training programme must be taken and passed by all our professionals.

The Telefónica management is responsible for informing their teams about the Business Principles, setting an example in terms of compliance, helping their workers to resolve ethical dilemmas that may arise and correcting any possible deviations that may be detected.

Telefónica's workforce has the opportunity to ask questions and raise issues in absolute confidence through the help lines available on the Business Principles web site.

In addition, we have created a Business Principles Office to take charge of disseminating these ethical guidelines as well as reviewing processes, studying queries, complaints or allegations by employees, shareholders or suppliers and fostering the necessary policies for the adequate compliance of the principles.

General Business Principles

Honesty and trust

- We will be honest and trustworthy in all our dealings, and keep the commitments we make.
- We will protect the confidentiality of company, employee, shareholder, supplier and customer information.

Respect for the law

- We will comply with all applicable national or international laws, rules and regulatory obligations, as well as our internal policies and procedures.
- We will compete fairly in our markets. We believe that consumers and society in general benefit from open and free markets.

Bribery and anti-corruption

- 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, in support of political parties, organisations, factions, movements, or public or private entities whose activities are clearly linked with political activity.

Human rights

- We will respect the principles of the UN Universal Declaration of Human Rights and the International Labour Organisation's declarations.
- We will foster equal opportunity and will treat everyone fairly, impartially and without prejudice, regardless of race, colour, nationality, ethnic or national origins, religion or religious affiliation, gender, gender status, sexual orientation, marital status, age, disability or caring responsibilities.

Our Business Principles for our stakeholders

Our clients can trust us

Products and services

- We will provide our customers with high-quality, innovative, reliable products and services at a fair price.
- We will verify and ensure that our products, and those that we distribute, comply with manufacturing standards on safety and quality. We will disclose and resolve any instances in which health risks are detected.

Communications and advertising

- We will always provide truthful, helpful and accurate information when marketing our products and services. We will make sure our products meet all advertised and required specifications.
- If our customers are dissatisfied with our products or services, we will provide them with the information and contact details necessary to make a complaint, should they wish to do so.

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.

Our shareholders can trust us

Corporate governance

- We will manage the Company in accordance with the highest standards of corporate governance and best practice.

Value creation and transparency

- We will manage the company with the aim of creating value for our shareholders.
- We undertake to provide all relevant information for their investment decisions. We will do this promptly in a non-discriminatory way.

Internal controls and risks

- We will ensure that appropriate controls are in place to assess and manage the risks to our business, our people and our reputation.

- We will ensure that business, financial and accounting records are prepared accurately and reliably.
- We will cooperate with our internal and external auditors or any official inspection authority.

Company assets

- We will preserve, safeguard and use our physical, financial and intellectual assets efficiently and for the business purposes for which they are made available.
- We will not tolerate any use of our computers that could damage Company assets or reduce workers' productivity; nor illicit, illegal, or fraudulent activities that could threaten our reputation.

Our communities can trust us

Development of society

- We will contribute to the social, technological and economic development of the countries where we operate. We will do this by investing in telecommunications infrastructure, generating employment opportunities, and developing products and services that contribute to the development of society.
- Through our skills, products and services, we will seek to work in partnership with civic, community and charitable groups and in public initiatives that aim to bridge social divides in the regions where we operate.

Environment

- We will be committed to sustainable development and environmental protection by minimising the impact of our operations on the environment.

Our suppliers can trust us

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.

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.

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.