

# 2009 DJSI ANALYSIS REPORT

## Executive Summary

Telefónica has become the leader company of the global telecommunications sector due to sustainability criteria since it leads the Dow Jones Sustainability index (DJSI). In its annual revision, the *rating* agency that evaluates the company Sustainable Asset Management (SAM) taking into account the economic, environmental and social aspects, has assessed the Grupo with a score of 86 (81.4 scores in 2008). This implies 28 percentage points more than the average of the sector.

Among the key aspects of 2009, the following are highlighted:

- The **weights** of the three dimensions (economic, environmental and social) **are kept constant** for the first time since 2002.
- **Telefónica has been recognized as a the company with the best practices in seven key aspects:** risk management; the extension of the Corporate Social Responsibility to the suppliers; reduction of the digital gap, impact of the telecommunications services in the companies in which the Grupo operates; trademark management; principles of performance, anti-corruption and social action.
- In the **economic dimension**, the assessment has been of 93 points (82 in 2008), which represents 31 percentage points more than the average of the sector. This dimension includes aspects as the relationship with the customer, risk management or corporate government. The company has been considered as the best company of the sector in this dimension.
- In the **environment dimension**, the assessment has been of 73 points (71 in 2008), 19 points above the average. The advance of Telefónica took place above all thanks to its strategy to fight against the climatic change, investing the negative tendency of the last year, with an improvement of 34 percentage points.
- In the **social dimension**, the assessment has been of 86 points (85 in 2007), being at only one percentage point of the best practice of the sector. The performance as regards the human capital development; talent retention; digital inclusion; impact of the telecommunications services; social action; social information; commitment with the groups of interest and responsibility in the supply chain are the analyzed categories in this dimension.

More information in:

[http://www.sustainability-indexes.com/07\\_html/indexes/djsiworld\\_supersectorleaders\\_09.html](http://www.sustainability-indexes.com/07_html/indexes/djsiworld_supersectorleaders_09.html)

## Detailed report

A detailed analysis of the results of the DJSI corresponding to 2009 is hereinafter made. However, since we do not have the total scores or results of the rest of the companies included in this index, the analysis made is limited in its scope.

### Introduction

The Dow Jones Sustainability index (hereinafter DJSI World) was created with the aim of measuring the behavior of the companies that stand out due to their sustainable behavior. During 2009, 33 new companies have been incorporated and many others have been eliminated, that is why the total number of members is still 317.

Likewise, the DJSI World is formed by a series of regional indexes for Europe (hereinafter DJSI STOXX), Asia (hereinafter DJSI Asia/Pacific) y North America (hereinafter DJSI North America). The companies included in these indexes are evaluated following the same methodology of revision and analysis, performed by the company SAM Indexes GMBH located in Zurich (Switzerland).

Additionally, there are 58 sectors that make up 19 “Supersectors” Regarding our sector, there are two different sectors for the fixed and mobile (Telefónica is analysed within a fixed sector and there is a leader for each sector) but both make up a “Supersector” that is the one of Telecommunications, where Telefónica is the global leader.

In this sector of Telecommunications, that implies the 3% of the total of the companies included in the Global DJSI, ten are the companies included in 2009 in the Global DJSI: BT, China Mobile, Deutsche Telekom, SK Telecom, Swisscom, Telecom Italia, Telenor, Telefónica, Telus and Vodafone. Companies like Verizon, Telstra or NTT DoCoMo have been eliminated from the Global DJSI in 2009, although they are still included in the respective sectorial indexes (fix or mobile).

If we analyse the countries where the companies included operate, we may say that 70% are European companies and that only Deutsche Telekom, Telefónica and Vodafone have a global significant scope. This fact is very important, since these companies have different legal standards in their operations located among developed and developing countries. That is why the difficulty to be included in the global index is greater.

Regarding the telecommunications fixed sector, 9 companies have been included and Telefónica is the leader of this sector.

### SUSTAINABILITY LEADERS

As of September 21, 2009

Company	Country	Sector Leader	DJSI World		DJSI STOXX		DJSI North America		DJSI Asia/Pacific	
			Universe	Member	Universe	Member	Universe	Member	Universe	Member
Number of Companies:			54	5	13	3	12	3	7	2
BCE Inc.	Canada		●				●	●		
BT Group Plc	United Kingdom		●	●	●	●				
Korea Telecom Corp. (KT Corp.)	South Korea		●						●	●
Swisscom	Switzerland		●	●	●					
Telecom Italia SPA	Italy		●	●	●	●				
Telefonica, S.A.	Spain	●	●	●	●	●				
Telstra Corp.	Australia		●						●	●
Telus Corp.	Canada		●	●			●	●		
Verizon Communications Inc.	United States		●				●	●		

Regarding the telecommunications fixed sector, 6 companies have been included and Telefónica is the leader of this sector.

### SUSTAINABILITY LEADERS

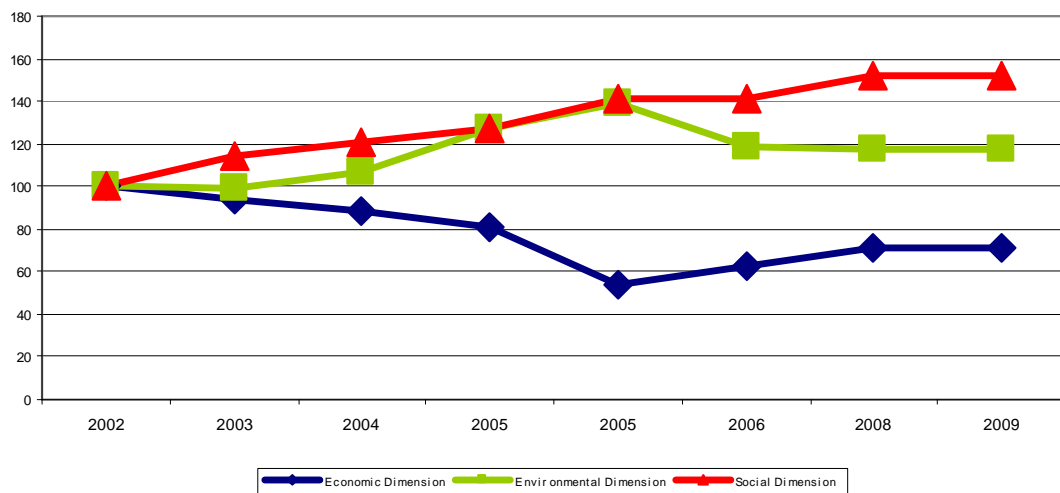
As of September 21, 2009

Company	Country	Sector Leader	DJSI World		DJSI STOXX		DJSI North America		DJSI Asia/Pacific	
			Universe	Member	Universe	Member	Universe	Member	Universe	Member
Number of Companies			38	5	6	2	5	0	8	2
China Mobile Ltd. (Hong Kong)	Hong Kong		●	●						
Deutsche Telekom AG	Germany	●	●	●	●	●				
NTT DoCoMo, Inc.	Japan		●						●	●
SK Telecom Co. Ltd.	South Korea		●	●					●	●
Telenor ASA	Norway		●	●	●	●				
Vodafone Group	United Kingdom		●	●	●					

### Weights

For the first time since 2002, the weights of the three dimensions (economic, environmental and social) are kept constant. As it can be seen in the chart, the social aspects have gain prominence in the index since its launching (in 100 base)

Evolución DJSI - Pesos



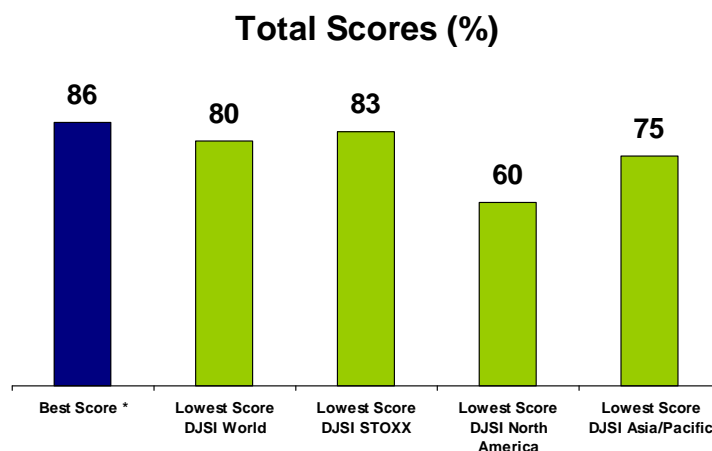
## Global Dimension:

Telefónica has become the leader company of the world telecommunications sector due to sustainability criteria since it leads the Dow Jones Sustainability index (DJSI World) with a score of 86 (81.4 points in 2008), which implies 28 percentage points more than the average of the sector.

As a relevant aspect, we highlight the different behavior of the companies of this sector as regards their geographic location. Whereas the Telecommunications Company with the lowest DJSI STOXX score (Europe) is 83, for the DJSI Asia/Pacific the company with the lowest score is between 75 points and 60 points in the case of the DJSI North America.

This information allows us to state the following conclusions:

- More than **6 European companies** (TI, DT, Vodafone, Swiscom, BT and Telefónica) **are included in the range of 86-83 points**, so there is high competition to obtain the first position of the Telecommunications sector.
- Due to the divergence among regions, **there is a gap between the average score of the sector (59) and the cut or exclusion score (80) of the DJSI World**. This is due to the high score registered by the European companies, which increase the cut score because they are greater in quantity.
- European companies are more valued as regards their sustainable behavior in comparison with the companies located in Asia and North America.



(\*) Telefónica

Note: In order to see the evolution of the scores of Telefónica, consult the Excel "Benchmark DJSI"

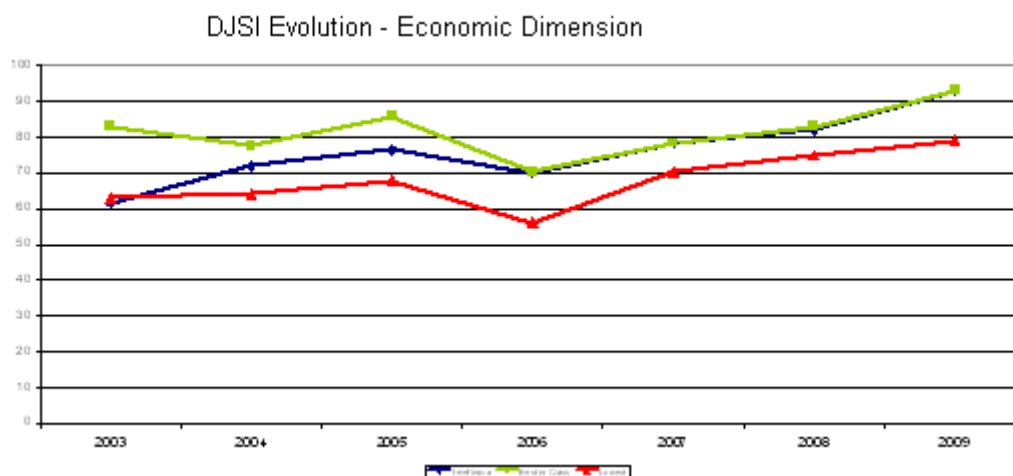
Also, within the attached report "SAM Presentation", an excellent behavior of the Telecommunications sector is observed in the economic dimension, mainly in Risk Management, Corporate Government, Ethical Codes and environmental information policies (See pages 11-14 of the report).

## Economic Dimension

In the economic dimension, Telefónica has received a 93-point evaluation (82 in 2008), representing 31 percentage points more than the sector average. The improvement has led the Grupo to become the best company of the telecommunications sector in this dimension, considering the aspects relative to the management of the relationship with the customer; privacy; risk management; corporate government; principles of performance and anti-corruption principles and brand management.

As a relevant aspect, Telefónica is classified as best practice in 3 of the previously mentioned categories. Risk Management, Brand Management and Management of the Principles of Performance and the Anti-corruption Principles. The establishment in all the countries of Grupo Telefónica of a single model of risk management as well as the inclusion in such model of aspects related to sustainability, the development of a single strategy of a commercial brand, as well as the efforts on the part of Telefónica to guarantee integrity through internal regulations and the training of the employees as regards the Principles of Performance (up to 60.219 employees had been trained as regards the ethical code of Telefónica on March, 31 2009) have been key aspects in this dimension.

Also, if we analyse the rest of the categories of this dimension (Customer relationship Management; privacy and corporate government), the gap of Telefónica as regards the best practice of the sector is lower on average than 6 percentage points with an average score close to 90 points.

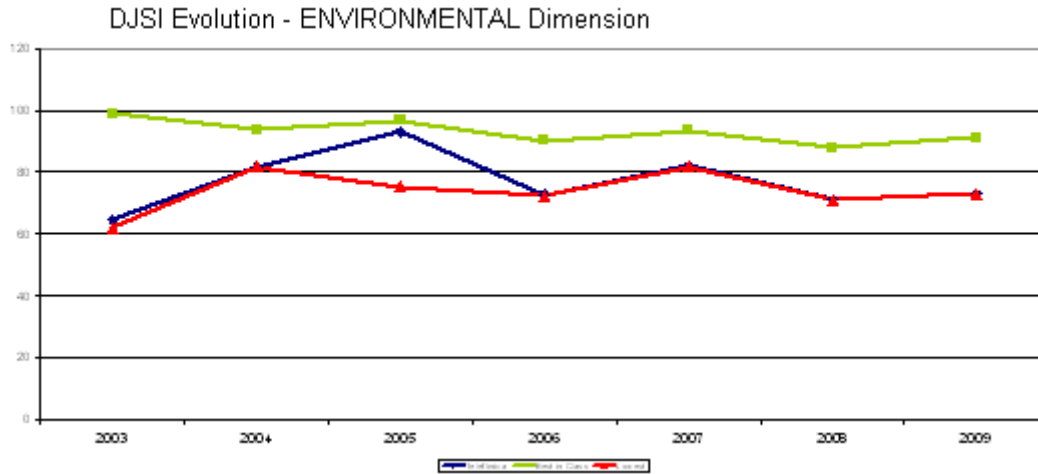


## Environmental Dimension:

In the **environmental dimension**, the evaluation has been of 73 points (71 in 2008), 19 points above the average. This dimension considers aspects of environmental policy, eco-efficiency, environmental information and climate change.

The advance of Telefónica has been produced mostly thanks to its strategy to fight against climate change, investing the negative trend of last year, with an improvement of 34 percentage points. The Office of Climate Change is letting Telefónica implement a very effective global management model in the fight against global warming. This Office has five performance edges led by the person with the highest position in charge of each line: Operations, Suppliers, Employees, Customers and Company.

Also, at a general level, the balance is positive. Only a drop in the “ecoefficiency” category is registered, probably due to a criterion change in its measurement. If we exclude this category and analyse the behavior of Telefónica in the three remaining categories (environmental policy, environmental information and climate change), the gap with the best practice is lower on average than 10 percentage points.



### Social Dimension

In the social dimension, the assessment has been of 86 points (85 in 2007), being at only one percentage point of the best practice of the sector. The performance as regards development of human capital; talent retention; digital inclusion; impact of the telecommunications services; social action; social information; commitment with the groups of interest and responsibility in the supply chain are the categories which are analysed in this dimension.

As a relevant aspect, Telefónica is classified as best practice in 4 of the 9 previously mentioned categories: responsibility in the supply chain; digital inclusion; impact of the telecommunications services and social action. Also, other two social categories (social information and commitment with the groups of interest) have an average score of 90 points, being really close to the best practice.

The issues regarding Human Resources such as information on the performance in the work area, development of human capital and retention/attraction of talent are the aspects which register a lower score in the DJSI analysis.

