2010
CORPORATE RESPONSIBILITY REPORT

Telefónica

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1 | Foreword

Responsibility for employees, the environment and the community is part of the corporate structure of Telefónica. This is the second time that the company has led the global Dow Jones Sustainability Index. This makes it the company in the tele-communications sector with the most sustainable business. This provides both commitment and motivation. Telefónica Germany intends to expand this position. Our social commitment likewise creates the platform for long-term business success.

We define clear focuses in this process. Firstly, we are aiming to empower young people to act creatively and autonomously with our Think Big programme. The objective is to assist them in proactively structuring their environment through their own

individual projects and this will enable them to find out that commitment brings rewards. Secondly, we want to place particular emphasis on people with disabilities having access to telecommunications. And thirdly, we want to focus on energy efficiency, in order to protect the environment and the climate.

Over the past year, we have fulfilled a number of achievements, for example introduction of a dedicated rate and a captioner service for people with a hearing impairment in cooperation with VerbaVoice. And we have a lot of other plans. Our aim is to reach out to more than 5,000 young people with Think Big this year. This is our most important project and Federal Minister of Family Affairs Dr. Christina Schröder is the patron of our project. The objective is to

benefit disadvantaged children and young people – by supporting their projects and workshops where they continue to develop their skills. We want to reduce energy consumption per land line and mobile-phone access in Telefónica Germany networks by 30 percent and in the offices, call centres and shops by 10 percent per employee.

You can read about our services in the areas of staff, the community, the environment and the economy in this Corporate Responsibility Report. There is also plenty of information about the challenges that we will face in the future. We have some big plans for the future. These will be our benchmark for success.

René Schuster
CEO Telefónica Germany

2 | Company

Telefónica Germany with its brands, O$_2$, Alice and Fonic is part of Spanish telecommunications company Telefónica S.A.

Telefónica Germany

Telefónica Germany offers post-paid and prepaid mobile phone products to its retail and business customers in Germany. It also provides mobile data services based on GPRS and UMTS technology. As an integrated communications provider, the company supplies DSL landline telephony and high-speed Internet. The company is part of Telefónica Europe, which in turn belongs to the Spanish telecommunications group Telefónica S.A. Telefónica Germany GmbH & Co. OHG is the third biggest communications provider in Germany with annual sales of 4.83 billion euros (2010[1]).

Performance indicators

	2010[1]	%	2009[2]
Sales in million euros	4,826.3	+ 28.9	3,745.5
Service revenue for mobile phone in million euros	2,932.3	+ 2.5	2,860.6
Operating income (OBIDA) in million euros	1,145.0	+ 23.5	927.1
Investments (Capex) in million euros	2,056.9	+ 158.3	796.3
Customer accesses[3] (thousands)	23,074	+ 34.86	17,109
Mobile phone	17,049	+ 9.94	15,507
Landline Internet	2,915	> 500	285
Landline telephony	1,916	–	–

1 Including HanseNet
2 Without Hansenet GmbH
3 Incl . wholesale (1,116) and PayTV (77)

Company figures

The business year 2010 was defined by strong growth. Overall, almost 19.6 million retail and business customers[1] were enjoying the benefits of our packages at the end of 2010. This included 17.05 million mobile-phone and 2.5 million DSL customers. The number of customers rose by more than 1.68 million during the course of 2010. The company generated total sales of 4.83 billion euros in 2010. Year-on-year organic growth amounted to 7.9 percent. Since 16 February 2010, the DSL and communications provider HanseNet GmbH has been part of Telefónica Germany. If HanseNet is included in the figures, growth amounted to 28.9 percent. As from 18 March 2011 HanseNet has been merged with Telefónica O$_2$ Germany GmbH & Co. OHG. Thus, the integration has been completed on 1 April 2011. Since that date

the former Telefónica O$_2$ Germany GmbH & Co. OHG has been operating as Telefónica Germany GmbH & Co. OHG – abbreviated to Telefónica Germany.
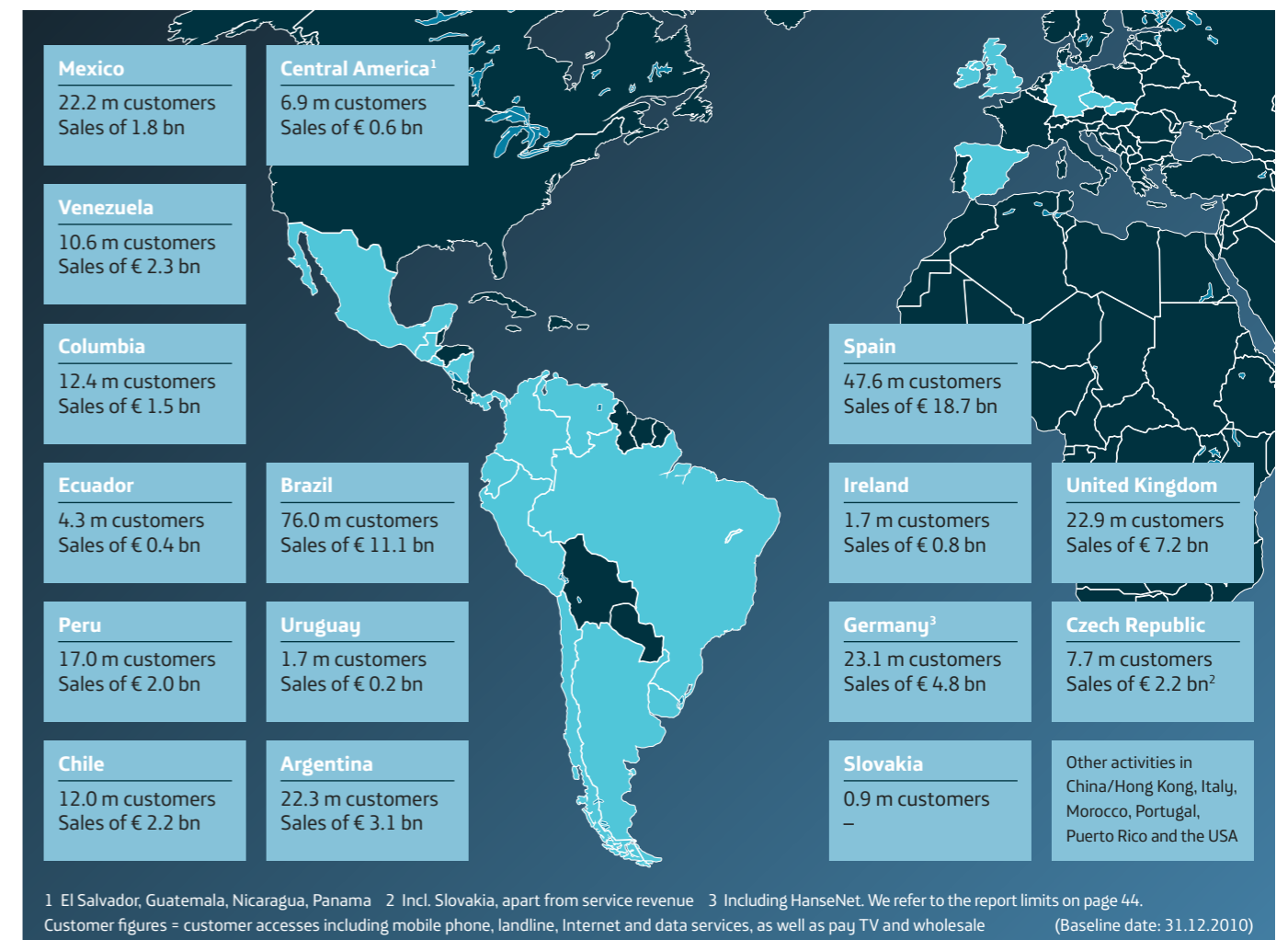
The sales network also continued to grow during the course of 2010. The total number of shops operated by us alone or with partners amounts to nearly 1,000. Sales partners include Tchibo, Schlecker, M-Net, Kabel Deutschland and Kabel BW, as well as joint ventures with mobil-com-debitel AG and Drillisch AG. Telefónica Germany employed 5,550 people on 31 December 2010 and the headcount in the previous year was 5,006 (for information on restructuring following integration of HanseNet see p. 24).

1 Including of HanseNet. We refer to the report limits on page 44.

The Telefónica Group

Our parent company – Spanish telecommunications company Telefónica S.A. – ranks among the leading telecommunications providers worldwide. The company has a customer base numbering more than 287.6 million in 25 countries across Europe and Latin America. Telefónica generates sales of 60.7 billion euros and has a workforce numbering around 257,000 employees. The company was founded in 1924 and generates some 40 percent of its revenue in Spain. Telefónica España has 47.6 million customers. Telefónica Latinoamérica serves more than 183.7 million customers with the brands Vivo and Movistar – as market leader in Argentina, Brazil, Chile and Peru. Telefónica Europe serves 56.3 million customers in Germany, the United Kingdom, Ireland,

Slovakia and the Czech Republic with the O$_2$ brand supplying integrated mobile-phone, landline and broadband Internet services.

Measured by market capitalization, Telefónica S.A. is the world's fifth biggest telecommunications company and the biggest integrated European provider (baseline date: 31 December 2010). Telefónica is a 100 percent listed company. The company holds a leading position in the area of sustainability. In September 2010, Telefónica S.A. was awarded the accolade as the most sustainable company in its sector in the Dow Jones Sustainability Index (DJSI) for the second time in succession. The rating agency Sustainable Asset Management awarded the sustainability performance of Telefónica with a score of 84 out of 100 possible points. This score is 26 points above the average for the sector.

Mexico
22.2 m customers
Sales of 1.8 bn

Central America[1]
6.9 m customers
Sales of € 0.6 bn

Venezuela
10.6 m customers
Sales of € 2.3 bn

Columbia
12.4 m customers
Sales of € 1.5 bn

Ecuador
4.3 m customers
Sales of € 0.4 bn

Brazil
76.0 m customers
Sales of € 11.1 bn

Peru
17.0 m customers
Sales of € 2.0 bn

Uruguay
1.7 m customers
Sales of € 0.2 bn

Chile
12.0 m customers
Sales of € 2.2 bn

Argentina
22.3 m customers
Sales of € 3.1 bn

Spain
47.6 m customers
Sales of € 18.7 bn

Ireland
1.7 m customers
Sales of € 0.8 bn

United Kingdom
22.9 m customers
Sales of € 7.2 bn

Germany[3]
23.1 m customers
Sales of € 4.8 bn

Czech Republic
7.7 m customers
Sales of € 2.2 bn[2]

Slovakia
0.9 m customers
–

Other activities in China/Hong Kong, Italy, Morocco, Portugal, Puerto Rico and the USA

1 El Salvador, Guatemala, Nicaragua, Panama   2 Incl. Slovakia, apart from service revenue   3 Including HanseNet. We refer to the report limits on page 44.
Customer figures = customer accesses including mobile phone, landline, Internet and data services, as well as pay TV and wholesale   (Baseline date: 31.12.2010)

3 | Strategy

Responsibility is an integral aspect of our corporate culture and our business processes. The leading role of our parent company Telefónica S.A. in the area of sustainability provides both commitment and motivation.

Approach

We make a commitment where we can exert the greatest effect as a telecommunications company and are able to achieve the biggest benefit for our stakeholders. We are in continuous dialogue with our employees, customers, suppliers and the community with the aim of achieving strategic and targeted commitment.

Our conduct

Our corporate vision is expressed in terms of our interpretation of responsibility: "We want to improve the quality of life experienced by individuals, to enhance the success of companies and to advance social progress in the communities where we are operating. Our aim is to achieve this by delivering innovative services based on the platform of information and communication technology." The development of this vision in the daily routine is determined by five values espoused by Telefónica that apply throughout the Group:

Innovative: We implement technological innovations in the form of simple solutions to assist in private and business life. This places us in a position to have first-mover advantage with market developments and customer aspirations.

Competitive: Innovative power strengthens our competitive position. We aim to continually increase our performance. The aim is for our company to be a global leader in telecommunications. That's why we are always working to overcome boundaries and deliver best-in-class performance.

Trustworthy: By acting responsibly, we are able to create a distinct profile that sets us apart from other providers. We safeguard our competitiveness, highlight our aspiration for leadership and consolidate our relationships with customers, partners and investors.

Open: Our profile and the way we act are clearly defined, open and transparent. Our greatest strength is the capability to enter into dialogue with customers and partners. We play a proactive role and participate in the public life of cities, towns and communities.

Committed: We keep our promises and transform our words into actions. We act in the knowledge that the way we work is equally as important as the result itself.

Principles and guidelines

The UN Global Compact signed by Telefónica S.A. forms the platform for our actions. Telefónica has defined its own set of ▶ Business principles for engaging with employees and business partners. They provide a framework for human rights, health and safety, information and advertising, compliance with statutory requirements, corporate governance, transparency, anti-corruption and environmental protection.

Our compliance team develops internal guidelines that extend beyond the legal requirements. We use training sessions to convey these guidelines to our employees and reinforce them through our corporate culture.

We expect our suppliers to adopt a responsible approach on social and environmental issues. Our guidelines on ethical and environmental procurement have been a fixed element in all new supplier contracts since 2008. Our Ethical Supply Chain Policy is based on the human rights declaration of the United Nations and the standards of the International Labour Organisation. The environmental purchasing guideline specifies that our suppliers must implement an environmental management system. This system must be equivalent to the certification in conformity with ISO 14001 used by Telefónica Germany.

All employees must act and take decisions in compliance with the business principles and the associated guidelines. Every new employee at Telefónica Germany must undergo mandatory training on our business principles. The training must be repeated at regular intervals. Any actions that may lead to a breach of the principles or has resulted in such a violation in the past must be reported to the Compliance Office. There are also a range of different whistleblowing options – including a confidential helpline – where the anonymity of the caller is guaranteed.

Corporate Responsibility Strategy

The Corporate Responsibility Strategy (▶ CR Strategy) of Telefónica S.A. forms the platform for defining the focuses of our work. We have been carrying out stakeholder dialogues with our customers and employees. The findings of these dialogues and the results of reputational analyses have been used to formulate our own CR Strategy for Germany.
We have defined three strategic focuses in our CR Strategy:
- using new media in the Think Big programme to empower young people to develop their own projects,
- providing access to telecommunications services for people with disabilities and promoting social inclusion within the community through new communication technologies

- responsibility for climate and environment by enhancing our energy efficiency in our business and expanding the range of packages with environmentally friendly products and services.

Every year we formulate objectives and action plans for each of the three focuses. They take account of our interpretation of sustainability and the aspirations of our stakeholders.

Think Big. Think Big is the European programme of Telefónica Europe. This initiative has been developed to take responsibility for young people and make a contribution to giving them the tools that will empower them to lead an independent and fulfilling life. The objective of the long-term programme is to provide an opportunity for teenagers and young adults aged between 14 and 25 who are disadvantaged on the social and educational front. The aim is use the digital media to assist these young people in their development. Last year, we joined forces with the German Child and Youth Foundation (DKJS) to launch the project Think Big Media College.

Rapper Kool Savas and teenagers at the Think Big Media College in Berlin.

The Media College is strategically directed towards young people who are socially and educationally disadvantaged. It strengthens their media skills and inspires them to develop perspectives for the future and play an active role in society. Some 1,300 young people from all over Germany attended the Media College in 2010. The objective in 2011 is for the Think Big initiative to reach out to more than 5,000 young people. The patron of the project is Federal Family Affairs Minister Dr. Kristina Schröder.

Access to telecommunication. One focus of the CR Strategy of Telefónica S.A. is to provide as many people as possible with access to telecommunications and to deliver innovative solutions to facilitate this access. In

More access to telecommunications for everyone through barrier-free products and services.

Germany, we are currently working on the development of packages for individuals with impaired hearing so that they are also able to make the most of the opportunities and benefits offered by the new telecommunication technologies. The service concept for customers with hearing impairment was rolled out in May 2010. We launched an online shop with explanatory sign-language videos, advice chat service, and bargain offers, such as a discount of 15 percent on the O_2 o rate. Further innovations included implementation of a ▶ Mobile captioning service with social-assistance company VerbaVoice GmbH for people with a hearing impairment. We have been engaging in an ongoing dialogue with people suffering from disabilities and with associations, experts and interest groups so that we are in a position to have better understanding of the needs of current and potential customers. Last year, we initiated an ▶ Online discussion, presented the findings at a dialogue event and conducted a discussion with the people concerned.

Climate and environment. Telefónica S.A. pursues a clear strategy on climate protection. The primary objective is to drastically reduce our CO_2 emissions. Moreover, as a telecommunications provider we are also committed to making a contribution to climate protection by developing new packages and solutions for retail and business customers. The climate-protection activities are coordinated by the Climate Change Office in Madrid. The group-wide objective is to reduce energy consumption in the network by 30 percent for each landline and mobile-phone access. Energy consumption in offices and call centres should be reduced by ten percent for each employee. Telefónica Germany supports these objectives by implementing appropriate reduction and energy-efficiency measures in Germany.

We also support the EU Directive defining stricter limits for standby consumption of mobile-phone chargers introduced in 2010. We are committed to efficient and ecological use of resources throughout the life-cycle of our products and services. In future, we want to improve the information flow to consumers about the social and ecological footprint of mobile phones by introducing an ▶ Eco Index and developing new packages in efficiency services.

We want to protect the climate and environment: through our products, services and in our offices.

CR Management

We set ourselves targets for our contribution to sustainable development. These targets are underpinned by indicators. We have defined clear responsibilities for managing these indicators. The Corporate Responsibility unit works across divisions and coordinates all CR activities. The team is responsible for coordinating the global strategy of our parent company in Germany and regularly reviews the development of indicators and the attainment of targets. It fosters dialogue with partners and stakeholders, identifies future issues relevant to sustainability, initiates and monitors projects for implementing the focuses of the CR Strategy and supports the future capability and reputation of the company.

The annual CR targets formulated together with the specialist departments are approved by the Management Board and the Governance Committee. They are integrated within the controlling processes using Key Performance Indicators (KPI) that have been defined across the company. Telefónica S.A. has introduced group-wide KPIs for the seven thematic issues of employees, customers, environment, corporate governance, health and safety at work, community and suppliers. These indicators are verified each year by an auditing company. We regularly review the scope of our success in pursuing these targets at regular meetings between the Senior Management of the specialist departments involved and our Chief Financial Officer (CFO), who is responsible for CR within the executive management of Telefónica Germany.
Telefónica Germany consults with Telefónica Europe on overarching issues relating to Corporate Responsibility. All the CR officers of the national European companies are represented in a Corporate Responsibility Forum. At national level, the relevant specialist departments regularly exchange ideas and information in a range of committees, such as the CR Committee and the Environ-

ment Committee according to clearly defined processes. The departments also define strategies and discuss relevant findings and results.

We have based our commitment on the principles defined by the London Benchmarking Group (LBG) in order to ensure that cooperation with our partners in social commitment is effective and efficient. These guidelines provide the first comprehensive standard for determining the effectiveness of social commitment by bringing about a convergence between expenditure and effect.

Dialogue and joint ventures

We engage in an intensive dialogue with our stakeholders. The objective is to ensure that the development of our business and our social contribution is directed towards the needs of our target groups.

1. We respond to aspirations, requests and complaints in our shops and on our hotline. The ▶ O₂ Customer Forum provides an online platform that enables customers to swap ideas with each other and also provides a forum for discussion among employees.

2. Open dialogue with our employees is another important element of our stakeholder commitment. The most important tools for this are the Reflect and Mini-Reflect surveys to ascertain customer satisfaction. Other formats provide employees with opportunities to exchange ideas and information with the executive management and colleagues.

3. Our most important partner for public dialogues is the charitable UPJ corporate citizenship organisation connecting business and society (Unternehmen: Partner der Jugend). We work together with UPJ to run the Internet platform ▶ www.diskutiere.de. We use this platform to swap ideas with anyone in the public domain on socially relevant issues that arise from our business activities. Topics on the agenda include youth protection in the media and integration of people with disabilities.

4. The Telefónica Germany representative office in the German capital of Berlin forms the interface with politicians, business leaders and associations. The main function of the mission office is to continually monitor any legislation relevant to our situation and represent the interests of the company in the political environment. Our business principles specify that we should remain independent of any political party and refrain from providing party-political support through donations.

4 | Key Performance Indicators

Telefónica S.A. has defined Key Performance Indicators for Corporate Responsibility. Telefónica Germany carries out a regular annual survey of these indicators. This means we always know where we stand. We can set targets and compare our performance with the figures from the previous year.

Our performance indicators

Our performance indicators provide our key controlling parameters in seven areas: economy, suppliers, compliance, employees, customers, community and environment.

Unless otherwise indicated, the performance indicators listed in the following table do not include HanseNet GmbH, which is being fully first-time consolidated in 2011. However, our subsidiary company Fonic GmbH is

included in these figures. Beyond that we refer to the report limits on page 44. A limited review of the performance indicators was carried out by auditing company Ernst & Young. All the data apply to Telefónica Germany GmbH & Co. OHG for the year 2010.

The individual sections of this report include additional quantitative data on our sustainability performance extending beyond the performance indicators presented here.

Name	Unit	2008	2009	2010
Economic indicators[1]				
Sales	EUR million	3,595	3,746	4,826
Operating income (OIBDA)	EUR million	770	918	1,145
Investments (Capex)	EUR million	924	796	2,057
Suppliers				
Purchasing volume	EUR million	1,654	1,632	1,731
Purchasing volume Germany[2]	EUR million	943	1,342	1,111
Number of commissioned suppliers	Number	1,527	1,843	1,832
Compliance				
Employees who have completed training on business principles	Percent	89	85	88
Infringements against statutory regulations on data protection	Number	0	0	1
Complaints from the advertising regulator on advertising standards	Number	0	0	26
Lawsuits being pursued on account of anti-competitive conduct, anti-trust infringements or monopoly practices and their consequences	Number	0	0	0

1   Economic indicators include HanseNet for 2010. We refer to the report limits on page 44.

2   The indicator includes suppliers which have their registered office, a subsidiary or a business location in Germany.

Name	Einheit	2008	2009	2010
Employees				
Permanent employees	Number	4,521	5,006[1]	5,550
Employee turnover[2]	Percent	17.9	5.7	12.5
Proportion of women	Percent	37	35	37
Number of women in senior management	Number	N/A	5	7
Thereof female employees in the executive management	Number	N/A	1	1
Average number of training hours per employee	Number	31	35	38
Accidents at work	Number	25	35	35
Employee satisfaction	Score (out of a hundred)	79	82	77
Customers[3]				
Number of customers	Million	14.41	15.79	19.6
Total number of complaints	Number	1,597,782	1,469,729	1,737,479
Society				
Donations and investments in non-profit projects	EUR	455,009	164,208	702,003[4]
RepTrak score: The emotional perception of the reputation of O_2 in the community[5]	Score (out of a hundred)	60	63.5	65,5
Participants in the Corporate Volunteering Programme	Number	73	632	1,205
Environment[6]				
CO_2 emissions from electricity consumption and vehicle fleet[7]	Tonnes	150,708	170,700	173,204
CO_2 emissions from business trips	Tonnes	3,373	5,157	5,493
Total energy consumption[8]	MWh	351,790	402,771	412,302
Total electricity consumption	Percent	67	58[9]	61
Water consumption	Cubic metres	71,961[10]	63,172[11]	64,420
Number of used mobile phones received by O_2	Number	14,923	11,462	6,709

1. Exclusively students and temporary employees.

2. Employee turnover was not subject to the limited review.

3. HanseNet is integrated in the data on number of customers. The data on customer complaints only relates to Telefónica Germany and not to Fonic GmbH and does not include complaints by prepaid customers. We refer to the report limits on page 44.

4. This figure includes 429,007 euros for investments in non-profit projects. Only the other expenditure on donations amounting to 272,996 euros was included in the limited review carried out by Ernst & Young.

5. The RepTrak Pulse was not subject to the limited review.

6. The environmental performance indicators listed here – apart from water consumption and the number of used mobile phones returned – were not part of the limited review by Ernst & Young. The data on CO_2 emissions and electricity consumption were audited by Spanish audit company AENOR.

7. Calculation of the CO_2 emissions based on group-wide guidelines defined by Telefónica S.A. in conformity with the Greenhouse Gas Protocol (Scope 1+2).

8. Any deviations from the data provided in the CR Report 2009 result from new consumption categories added this year.

9. Any changes to the value given in the CR Report 2009 have resulted from the energy audit which was carried out after the report went to press.

10. Our Environmental Management System recorded total water consumption of 71,961 cubic metres for 2008 including our own shops and office locations. Water consumption for offices and shops is calculated as an extrapolation and is based on comparative values.

11. Water consumption for offices and shops is calculated as an extrapolation and is based on comparative values.

5 | Product responsibility

Apart from customer satisfaction and service quality, the focuses of our product responsibility are effective data protection, barrier-free access to communication, responsible packages for children and young people, and provision of transparent consumer information on the effects of electromagnetic fields.

Customer satisfaction and service quality

As a company we aim to establish long-term customer loyalty. The satisfaction of more than 19 million retail and business customers1 (mobile phone and DSL) is therefore a top priority as far as we are concerned. We deploy an array of technical and process measures to safeguard loyalty. Apart from expanding the networks, our expertise and the accessibility of our customer support team also constitute part of these measures, alongside a transparent structure for rates and targeted communication with different customer segments.

Network quality. The quality and performance of our telecommunication services form the most important platform for successful customer relationships. Following investments in network expansion amounting to nearly three billion euros in the period from 2007 to 2009, all mobile-phone calls and all mobile data traffic have been routed along a dedicated network since January 2010. We operate a total of 17,900 GSM and 11,000 UMTS base stations throughout Germany and achieve network coverage (GSM mobile-phone network) for telephony of nearly 100 percent of the population. Coverage for mobile data traffic is also virtually 100 percent of the population. More than 69 percent of this coverage is provided by the mobile broadband technology HSDPA/HSUPA for fast upload and download (www.o2.de/mehrnetz). We achieve coverage of 95 percent for DLS provision. The quality of the mobile-phone network was also confirmed externally in a network test by the telecommunications trade magazine "connect" in November 2010. Telefónica Germany took second place in this survey with the overall assessment "good". Acquisition of new mobile-phone licenses (see below) has provided us with a favourable initial situation to achieve nationwide coverage with higher transmission speeds.

Expansion of the LTE network. In May 2010, we invested 1.38 billion euros in the context of the auction of mobile-phone licences by the German Federal Network Agency and purchased two frequency blocks in the 800 megaherz range at the auction. We were also able to secure a block in the 2.0 gigahertz range and four blocks in the 2.6 gigaherzt range. The frequencies form the technical platform for the planned expansion of a nationwide LTE network. LTE (LongTerm Evolution) is a new mobile-phone standard for fast data transfers. Since December 2010, we have been carrying out Friendly User Tests over a period of several months. These tests involve the participation of several hundred customers and non-customers. O_2 launched the setup of its networks for commercial LTE usage at the beginning of 2011. Initially, rural areas like Klein Wanzleben and Alsleben in Saxony-Anhalt, and other locations will be connected to the new mobile technology. This is the contribution by O_2 to supporting the broadband initiative launched by the Federal Government to link rural areas up with fast access to the Internet. The marketing of O_2 LTE products for consumers and small businesses starts 1 July 2011.

1 Including the customers of HanseNet Telekommunikation GmbH

Transparent rates. Telefónica Germany offers transparent tariffs and services for retail and business customers in the areas of mobile telephony, mobile data use and DSL through its three brands O_2, Alice and Fonic. We have simplified the tariff structure in order to increase tariff transparency for our customers. We introduced the O_2 o tariff in 2009. This rate involves customers in no basic charge or fixed contract term. Each minute of talk time and SMS costs a uniform 15 cents per minute. The "Cost Airbag" sets a limit and ensures that monthly costs cannot exceed 50 euros.

In October 2010, we shortened the contract term for mobile data use with the O_2 Surfstick from 24 to 6 months. Monthly notice can be served on the tariff options for mobile data use with a mobile phone. A "Daily Airbag" of 3.50 euros was introduced for customers without a specific data tariff. The option "Global Friends for O_2 o" allows foreign calls to five designated phone numbers in more than 60 countries at the domestic price of 15 cents since July 2010 following payment of a one-off activation charge of five euros. This innovation has been facilitated by the JAJAH IP Telephony Platform, a company in the Telefónica Group.

Transparent invoices and cost control. We have improved the layout and packages for online invoicing during the course of the year under review. Since the beginning of 2010, we have been informing our customers in the email message accompanying the bill about the invoice total and the due date. The new online invoices also provide answers to questions frequently asked by customers and offer the opportunity to go to the self-service area of the online portal to carry out tasks like changing contact or payment data. Since January, we have also been offering customers an SMS service free of charge to enable them to find out about

the total amount of their invoice. The response to this offer has confirmed the high level of demand for this service.

Customers frequently use their mobile phone to access mobile data services without having an appropriate data tariff. This can give rise to disproportionately high invoice amounts. We identify invoices like this before they are sent out in order to avoid customers experiencing an "invoice shock". These invoices are then forwarded to Customer Service for processing where they are analysed for potential causes. We then contact customers proactively and offer them solutions, for example adding an appropriate Internet Pack. In March 2010, a cost limit was introduced as a precaution for monthly mobile Internet usage. This significantly limits the maximum invoice amount for data services.

Quality of advice. The Customer Monitor Germany published in August 2010 awards Telefónica Germany and the O_2 brand with the accolade of the network operator with the most satisfied mobile-phone customers in Germany for the fourth time in succession.

The Customer Engagement division is developing a series of measures together with the relevant specialist areas with the aim of further enhancing the satisfaction of our customers and further reducing the number of customer complaints. Key factors for customer satisfaction are accessibility and the level of expertise provided by customer support. In February 2010, we launched the Online Forum ▶ http://forum.o2online.de to complement the customer hotline. This provides customers with an alternative opportunity to contact customer support staff. However, the Forum also allows them to make criticisms and put forward proposals for improvements.

We have set up the Customer Corner information platform on the Intranet. This platform gives our staff an opportunity to take a strategic and structured approach to finding out about the aspirations of our customers and their feedback. The Customer Corner provides access to a variety of resources, including the latest market research results and videos by portfolio customers who report on their experiences. The aim of our Smart Idea proposal scheme is to motivate our employees to develop ideas for improving relations with our customers. We have also set up a competition within Smart Idea. We are looking to identify new Apps which will make it easier for our customers to access important information. Apps relating to roaming, changing and adding Internet packs, and identifying and reporting areas with no reception are rewarded and implemented.

Since April 2010, a special service has also been provided for customers who have had bad experiences with the service from Telefónica Germany for a variety of different reasons. A Service Recovery Team contacts these customers. First they apologise and then they find an appropriate solution.

Other improvements relate to the after-sales service provided for equipment, particularly all the services involved with the repair of mobile phones. For example, customers now receive a status report by SMS or email when their phone has been repaired and is ready for dispatch. A new application allows our employees in the shops and in customer service to track precisely where the customer's mobile phone is located within the repair loop.

Barrier-free offers

In May 2010, we launched a product that was tailor-made to meet the needs of customers with hearing impairments. We offer them a discount of 15 percent on the O_2 o tariff. This tariff without line rate and minimum sales in combination with the Internet pack M for 8.50 euros is suitable for customers who only use their mobile phone for surfing, chatting and emails. The ▶ Online Shop for people with a hearing impairment presents the product range to match a specific product group, for example using videos with sign language and a chat hotline. The Online Shop can also be reached through the Internet Portal of the German Association for the Hearing Impaired. We also provide our shop employees with appropriate material for advising customers with hearing impairment. The new product range was developed from a number of initiatives including the Stakeholder Dialogue on the issue of "Bridge or Ditch: What influence do advanced telecommunications have on people with disability?" which Telefónica Germany engaged in at the beginning of 2010.

The VerbaVoice captioner service developed by VerbaVoice GmbH in cooperation with Telefónica Germany has also been available since December 2010 as an application for mobile phones and Tablet PCs. The Service can be accessed through the mobile Internet throughout Germany and gives hearing-impaired individuals more flexibility and independence in everyday situations, for example when they are going to the doctor or have other important appointments. It can also be used at work, in school or at university.

Responsible product ranges for children and young people

We want to empower children and young people to take a responsible approach to using products that are appropriate for their age. Internal guidelines and external commitments form the framework for our commitment to the protection of children and young people. We are dedicated to educating young children and explaining the new media to them. Our dedicated approach also includes protective technical measures and price transparency.

Our commitments. Since 2006 we have been a member of the Voluntary Self-regulation for Multimedia Services Providers (Freiwillige Selbstkontrolle Multimedia-Diensteanbieter e.V., FSM). The organisation was established in 1997 by the associations and companies operating in online business. We implement the "Code of conduct for protecting young people when using mobile phones" and the "Voluntary commitment to protecting young people when using mobile phones".

Telefónica Germany joined forces with seven other companies from the sector in 2005 and reached agreement on the "Code of conduct for youth protection in relation to mobiles". This code represents our commitment to binding measures ensuring that children and young people are unable to access content that could put their development at risk. For example, the code defines rules for young people in relation to mobile use of chat rooms or downloading games and videos. The contracts between mobile phone providers and chat rooms have to be structured so that chat room providers respond immediately to problems and user enquiries. They also specify that illegal content should be deleted as soon as it is discovered.

The "Voluntary commitment to protecting young people when using mobile phones" was adopted in 2007 and we have been implementing this policy since 2008. The key elements include promotion of media competence and setting up a youth protection hotline (free of charge from O2 network on 22988). We also make a regular commitment to informing our customers about youth protection. The services we offer on our customer portal ▶ www.o2.de/goto/jugendschutz include advice for parents. We are a member of the ▶ Information Centre for Mobile Telephony (Informationszentrum Mobilfunk, IZMF). This centre provides factual information on this issue for teachers with the ▶ "Mobile Driving Licence". Parents and teachers are also able to find out about protection of young people on the ▶ Internet website of the Voluntary Self-regulation for Multimedia Services Providers (Verein Freiwillige Selbstkontrolle Multimedia-Dienstanbieter, FSM). Finally, we defined Digital Promises in the Digital Confidence Project run by Telefónica Europe plc in 2010. They are intended to help young people to make effective and meaningful use of the next generation of mobile Internet products. The objective is also to ensure that they take a responsible and independent approach to their digital identities in the global medium of the Internet.

Packages for children and parents. We believe that a dedicated surfing space offers an appropriate environment for protecting them against adult content. We are one of the founding members of the initiative "A network for children" set up in 2006 and we have been providing financial support and expertise to develop the search engine ▶ "FragFinn.de" (Ask Finn). This is based on a collection of links relating to youth protection and educational criteria known as the "White List". The search engine is implemented and maintained by the Voluntary Self-regulation for Multimedia Services Providers (FSM).

We regularly provide training for our employees on issues relating to children and young people and we have developed a special online training tool. Participation is mandatory for all employees who come into contact with customers (Sales und Customer Services). Other members of staff can go through the training on a voluntary basis.

Data protection

Telefónica Germany has created the procedural conditions and the established the human resources necessary to guarantee that customer data is handled with a very high level of security. External and internal audits – for example in 2008 by the Federal Commissioner for Data Protection – have confirmed to us that our measures have achieved success. Telefónica Germany plays a proactive role in the current discussions about reform of German and European data protection legislation.

Legislation and internal guidelines. The statutory framework for our data protection is provided by the Telecommunications Act (Telekommunikationsgesetz) and the Federal Data Protection Act (Bundesdatenschutzgesetz). The statutory regulations define the principles of data economy and data avoidance. This means that we only record data that is necessary for concluding the contract and we delete data when it is no longer required. Guidelines defined by our parent company Telefónica S.A and internal guidelines on handling employee and customer data supplement the statutory regulations on data protection.

Data protection management. Our data protection officer regularly reviews and updates all the measures for data protection. Our cross-divisional Committee for Data Protection also enables us to ensure that all issues relevant to data protection are implemented quickly and efficiently. The committee meets on a regular basis and facilitates the creation of proactive awareness of data protection at Telefónica Germany. For example, our guidelines specify that each employee is personally

responsible for the security of the data they have been entrusted with. If employees find that personal data has been communicated illegally to unauthorised persons, they must report this "data loss" to our Data Officer without delay. The Data Officer will then investigate the incident immediately.

Data protection training for employees. We provide our employees with training on how they can prevent misuse of their own data and customers' data. We set up a dedicated platform on the Intranet specifically for data protection. It provides information about existing rules, statutory regulations and any amendments. All our new employees receive an introduction with initial information on data protection at the Welcome Days for new recruits. They then have to extend this knowledge in more depth at personal training sessions and they also have to complete an annual online training course. In 2010, 76 percent of our workforce completed this training. We want to increase this proportion to 100 percent in 2011. Another top priority is ensuring that our service providers and suppliers are also compliant with the statutory requirements. Four data protection audits were carried out internally and there are 15 external audits at service providers in 2010. These audits confirmed compliance with data protection standards.

Data protection tips for our customers. We also give our customers concrete tips on how to deal with cookies, the use of Bluetooth technology, and the use of W-LAN. Our Internet site ▶ www.o2.de/goto/datenschutz also provides information on the personal information of customers that we use and store. We also explain why we do this and make recommendations on how they can take steps to provide their data with better protection. The new customer declaration introduced in April 2010 states that new customers must provide their active consent in order for their data to be used for promotional purposes. If you have any questions on data protection, our customers can always write to the following email address with any questions they have: ▶ datensicherheit@o2.com.

Transparent information policy

Fair advertising and transparent tariffs form the platform for communication with our customers. These business principles are defined in our "Guidelines for marketing and youth protection". These ground rules commit us to refrain from any form of advertising that could harm children and young people in any way or exploit their lack of experience. The guidelines also provide a checklist with ten requirements that must be complied with when developing and promoting packages with products and services specifically intended for children. As well as complying with these internal guidelines, we also support agreements covering the entire sector. In 2006, Telefónica Germany signed the Code of Conduct Premium SMS/Mobile Services and Web-based Services and played a proactive role in its ongoing development. An independent trustee continually monitors compliance with the code and carries out spot checks on the basis of random samples. If there are any infringements, the trustee can introduce a variety of measures. The ultimate penalty is excluding the perpetrator from the circle of members.

Mobile phone and health

Many people are concerned about the effects exerted on health by the magnetic fields which are generated during transmission of mobile phone signals. We take people's concerns about health issues very seriously. We ensure that our products and services remain within the recommended limits and provide our customers with information on issues relating to mobile telephony and health. We engage in consultation processes with politicians, local communities and residents when we are building new transmission stations – particularly in relation to expansion of the new LTE network. We sponsor academic studies and make a contribution to investigating the potential consequences for human health when people use mobile phones.

The mobile phone network operates like this
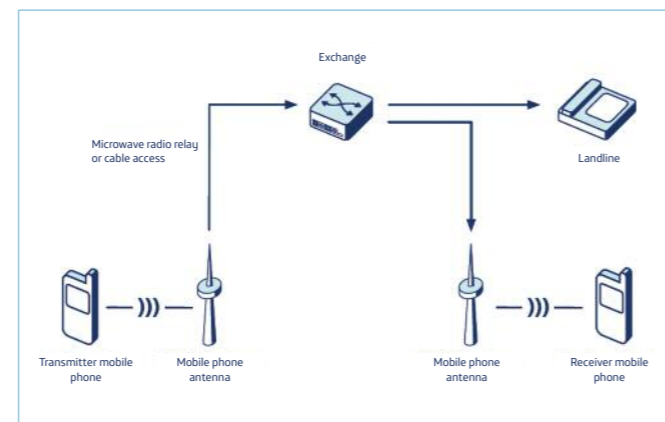
Dialogue on network expansion. We actively seek dialogue with local communities when we are planning and building new transmission stations. The objective is to avoid conflicts when new transmission stations are being constructed. The platform for this dialogue is an agreement we concluded with the local-authority associations in 2001 and a commitment to the federal government. The sixth audit monitoring implementation of the promises in the commitment made by mobile phone operators stated in February 2010: "Overall, the local authorities endorse the view that the network operators have essentially fulfilled the promises made by them in the commitment during the period under review between 2007 and 2009. This means that the companies are compliant with the high level of information measures and agreement processes. They are being expanded in some cases." The audit was carried out by the German Institute for Urban Affairs and the Consumer Centre for North Rhine-Westphalia (Deutsches Institut für Urbanistik und der Verbraucherzentrale Nordrhein-Westfalen e.V.) The seventh audit is scheduled for publication in 2012.

In May 2010, we purchased several frequency blocks in the ranges 800 megahertz, 2.0 and 2.6 gigahertz in the auction of mobile-phone licences by the German Federal Network Agency in order to continue expansion of the mobile-phone network. The new "LTE" (Long-Term Evolution) mobile-phone standard is also used for these frequencies. The new technology was a focus of stakeholder dialogue in this area. This dialogue was primarily fostered through our membership of the Information Centre for Mobile Telephony (Informationszentrum Mobilefunk, ▶ IZMF). The issue of LTE featured as a thematic focus for the Communication Forum Mobile Telephony which was held in September 2010.

At the close of 2009 and the beginning of 2010, we took part in a survey conducted by the Radiation Protection Commission (Strahlenschutzkommission, SSK) before the start of the auction. The Federal Ministry of the Environment commissioned the survey to analyse the potential hazards caused by ▶ LTE technology. The Federal Radiation Protection Agency (Bundesamt für Strahlenschutz, BfS) established that the results of the German Mobile Telephony Research Programme and the current international research indicated no grounds for casting doubt on the protective effect of existing limits.

The Institute for Mobile and Satellite Technology (IMST) commissioned a pilot study on behalf of the Information Centre for Mobile Telephony to assess the exposure as a result of LTE transmission stations. This study was published in November 2010. It comes to the conclusion that the emission levels in the new LTE standard are significantly below the valid limits. Even at full capacity, the values are significantly below the permissible framework under statutory regulations. Less than 1.5 percent of the limit was reached at all the measuring stations. The results of the pilot study were presented to local authorities in workshops held across Germany during the course of 2011.

The issue of potential operational malfunctions in wireless microphones was the subject of intensive communication with the local authorities. When the new LTE mobile telephony base stations were installed, operational interference was experienced with some wireless microphones in use with local authorities. This interference occurred in rooms where events were being held and at some sports venues. We worked together with the local-authority associations and published a joint information paper in December 2010.

Research results. The radio waves emitted by a mobile phone are partly absorbed by the tissue and converted into heat. The maximum limit for the absorption of energy when using a mobile phone is 2 W/kg under EU legislation (Specific Absorption Rate). The latest scientific research indicates that if there is no hazard to health from using mobile phones if these limits are complied with. However, since mobile telephony is a comparatively new technology, there are no results from extended research studies on the potential long-term consequences for health. In May 2010, the first overall results on the possible long-term effects of using mobile phones from the INTERPHONE study were published. The study did not reveal an enhanced risk of brain tumours from the use of mobile phones. Since 2000, more than 12,000 people have taken part in the INTERPHONE study. This investigation was coordinated by the World Health Organisation (WHO). It recorded detailed information on the use of mobile phones in 13 countries, including Germany. However, further research is required in the area of the potential long-term effects for young people using mobile phones. The MOBI-KIDS study was therefore launched at the beginning of 2010 in order to find out about the risk of brain tumours developing in young people using mobile phones. The study in Germany is being carried out by the Ludwig-Maximilian University in Munich and finance is being provided from a number of sources including the Federal Radiation Protection Agency and the European Commission.

6 | Climate and environmental protection

Telefónica Germany regards a responsible approach to the environment and its resources as an important management function. Our objective is to minimise the impact on the environment in line with the guidelines of our parent company Telefónica S.A.

We are focusing our commitment on the areas where we are able to make the biggest contributions: energy savings and reducing CO_2 emissions. The aim is also to adopt a responsible approach to the use of raw materials. We also want to raise the awareness of our employees and customers for environmental issues and focus more intensively in the future on marketing products and services that will allow customers to reduce their ecological footprint.

Environmental management

Since the beginning of 2010, environmental management of Telefónica Germany is based in the Corporate Communications division and is coordinated by the Department for Corporate Responsibility. Since 2004, we have had been deploying an environmental information system that was developed in-house. This system allows us to continuously record and monitor material and energy flows. These data form the platform for the targets that we define for our company every year.

Environmental management at Telefónica Germany has been certified in conformity with the ISO 14001 global environmental management standard since 2005. Compliance with the ISO 14001 standard is confirmed by the international certification company TÜV Rheinland (German Technical Inspectorate) in an audit carried out over a period of one week. Our environmental management officer is part of the Department for Corporate and Legal Affairs and takes care of arrangements for certification.

Energy consumption

Our consistent objective in our drive to enhance climate protection is to significantly reduce the level of energy consumption in our network for each landline and mobile-phone access (equivalent access). The same principle applies to our office locations. During the course of 2010, our total energy consumption rose by two percent compared with the previous year. Energy consumption in our offices, call centres and shops rose by 3 percent, aggregated electricity consumed by the networks went up by more than two percent due to steady growth in the use of mobile phones and data traffic. However, we succeeded in reducing the energy consumption by 2.3 percent per "equivalent access".

By far the biggest proportion of electricity at Telefónica Germany is consumed by our network of nearly 22,000 mobile phone stations and other network installations. This electricity consumption amounts to some 94 percent. Efficiency enhancements in network technology therefore form the focus of our activities. During the reporting year 2010, we adopted an array of different measures to reduce the energy consumption of our networks. For example, we replaced around 200 outmoded transmission units with new, energy-efficient units. A new energy-reduction measure was adopted in the base stations of our networks (depending on the manufacturer). We programmed the new transmission units in the access network to switch off automatically if they are not required. Tests are currently being carried out to establish how this measure can be extended to all the units.

We have reduced energy consumption in our offices by optimising our technical installation systems and by automatically switching off the lighting at midday and in the evening. Potential savings are also being derived by updating our IT infrastructure. In 2009, we replaced some 1,800 PCs by more efficient laptops. The power supply unit of a laptop requires 80 watts whereas the power pack for a PC consumes 300 watts. We increased the temperatures in our computer centre and hence reduced the electricity consumption of our air-conditioning systems by around 15 percent. We participated in the Earth Hour on 27 March 2010 to provide a high-profile signal of intent and to enhance the awareness of our employees and customers for the issue of making energy savings. This event involved switching off internal and external lighting at our Munich Headquarters, in many of our shops and at our representative mission office in the capital of Berlin

Energy consumption from 2008 to 2010*
in MWh

	2008	2009	2010
Network	329,774	377,566	386,330
Base stations	258,217	295,638	305,295
Technical buildings	71,557	81,927	81,035
Offices, call centres and shops	22,015	25,205	25,972
Total	**351,790**	**402,771**	**412,302**

* The deviations from the data provided in the CR Report 2009 result from a change in the composition of the consumption categories. Until 2009, our computer centres were assigned to the office locations. Starting in this year, we will report their energy consumption as an element of the total consumption in our network.

CO_2 emissions

In 2010 CO_2 emissions went up by 2.4 percent as a result of the rise in network-related electricity consumption. The increase is due to the steady increase in the usage of our network and the 24-percent expansion of the customer base. 64 percent (2009: 58 percent[1]) of our electricity is generated from renewable sources and this acts as a damper on the development of CO_2 emissions. Green electricity is sourced from our main suppliers Eon, Lichtblick and Stadtwerke München. The CO_2 emissions caused by our vehicle fleet came down by 14 percent in 2010 compared with the previous year. However, the emissions generated by business travel went up by six percent over the same period. The main reason driving this increase was the integration of HanseNet which necessitated additional business trips – mainly between Munich and Hamburg.

CO_2 emissions from 2008 to 2010
in tonnes of CO_2 equivalents

	2008	2009	2010
Scope 1	8,716.07	8,130.50	6,786.98
Scope 2	141,992.65	162,570.46	166,417.28
Scope 3	3,373.17	5,157.42	6,878.90
Total	**154,081.89**	**175,858.38**	**180,083.17**

At our Munich location, we provided support for the Eco Taxi Project run by the German Automobile Association (ADAC). The cars in this fleet are either fitted with hybrid or natural-gas technology and therefore generate less than 140 g CO_2 per kilometre. Since June 2010, our Munich Head Office has had a policy of ordering Eco Taxis in order to transport employees and visitors to and from their pick-up points. We continued to expand our video conferencing service at our Munich, Bremen and

1 Changes to the values given in the CR Report 2009 have resulted from an energy audit that was carried out before the report went to press.

Verl locations during the course of 2010. This contributes to reducing CO_2 emissions which would otherwise be created by business travel. However, if business trips are absolutely necessary, we attempt to reduce their CO_2 intensity. In 2010, our employees travelled a total of some 34.9 million kilometres using means of transport other than their private cars (2009: 27.8 million km), of which 22.7 million kilometres related to travel by air (2009: 12.3 million km). When booking travel by air, we give preference to airlines that verifiably generate fewer emissions than their competitors. We have reduced the overall budget for travel costs. Hire cars were used for 10.2 million kilometres (2009:13.5 million km) and rail was used for 2.0 million kilometres (2009: 2.0 million km).

Conservation of resources

Conservation of resources is an important principle of our environmental management. We want to reduce the consumption of resources through our in-house processes and make a contribution towards more efficient recycling of old mobile phones.

Paper consumption. Careful choice of the paper we use enables us to play a proactive role in conserving raw materials such as paper and wood. That's why we only purchase paper that has been produced exclusively from wood grown under sustainable forestry management. This is verified with PEFC certification (Programme for the Endorsement of Forest Certification Schemes). We are also committed to saving as much paper as possible inside and outside the company. For example we offer our retail customers the opportunity of receiving their bills by email. In 2010, we launched a campaign to promote this option with our portfolio customers. This was a big success: 6.4 million customers changed to online

invoicing. By the end of the year, 66.6 percent of our customers had adopted online invoicing. In 2009, only 53 percent of customers were receiving their invoices online. Last year we used 557 tonnes of paper for bills not generated online. Our own paper consumption was around 183 tonnes.

Saving water. In 2008, we analysed total water consumption in our offices and shops. This analysis was based on extrapolations and comparative values. At that time, we were using 71,961 cubic metres of water. In 2009, our water consumption came down to 63,172 cubic metres. In 2010, consumption increased slightly to 64,420 cubic metres. As a provider of telecommunications services, we are not a manufacturing company and therefore do not have much leverage for reducing our water consumption. Our offices are located in modern buildings which have already been designed to conserve resources. For example, they have water-saving toilets.

Waste and electronic scrap. In 2010, our offices and shops generated a total of 720 tonnes of waste. Cabling and other network waste amounted to a total of 511 tonnes. Overall, a total of 122 tonnes of electronic waste (2009: 138 tonnes) was generated in 2010. 26.6 tonnes (2009: 68.5 tonnes) were created in offices and shops, another 94.8 tonnes were produced in networks (2009: 68.5 tonnes). 511 kilograms (2009: one tonne) came from our mobile recycling programme. All electronic waste was passed on to external service providers for recycling and disposal.

Hazardous waste. All hazardous waste generated by our processes is passed on to specialist service providers for recycling and disposal. Most of this waste comes from networks. We generated a total of 128 tonnes of hazardous waste last year. This included 5.6 tonnes of batteries which were passed on to an appropriate recycling process. At our Nuremberg site, we replaced the ozone-depleting coolant chlorodifluoromethane R22 by a different medium in 2010. At the end of the year, there

were still 167 air-conditioning systems (2009: 169) with R22. If the shops are included in the statistic, there will still be a total of 214 of these air-conditioning systems at the end of the year.

Mobile phone recycling. Valuable raw materials like gold and coltan are used for the manufacture of mobile phones. The demand for these raw materials is increasing because millions of mobile phones and other mobile devices are being manufactured. That's why recycling mobile phones is extremely important. Customers who no longer require their old mobile phones can return them. Our shops have addressed envelopes with the postage paid available. Our shop staff have been given extensive training on all aspects of returning and recycling mobile phones.

In 2010, we took back a total of 6,709 old mobile phones (2009: 11,500) and passed them on to our recycling partners. Fully operational phones are reconditioned after any data has been deleted. They are then sold and can be re-used in this way. Any devices that can no longer be used are dismantled and the valuable metals inside are reclaimed. Toxic components are collected separately and disposed of safely. We make a donation of 2.50 euros to WWF for every phone that we receive for recycling. This money is being invested in the "Middle Elbe" nature conservation project, which aims to preserve the flood-plain woodlands along the River Elbe.

Diesel fuel. The generators that are used to supply emergency electricity to offices and customer centres are powered by diesel. We store a total of 38,200 litres of diesel fuel at several locations. All 13 tanks have a double-wall design for safety reasons and they are tested for safety by the German Technical Inspectorate (TÜV) every five years. As in previous years, there were no incidents in 2010. We disposed of 300 litres of waste oil last year.

Penalties

Every mobile phone station in Germany must have a certificate from the German Networks Agency. This certifies that the station complies with the maximum values defined under statutory regulations for electromagnetic emissions. In 2010, we were issued with approximately 1,800 of these certificates. An investigation by the Federal Networks Agency revealed deviations in seven cases from the data specified on the certificates and the actual values measured at the mobile phone stations. New certificates had to be issued for these stations and we had to pay a five-digit administrative fee to the Federal Networks Agency for this re-issue.

Mitigation areas

Normally, we have made a mitigation payment to the local nature conservation authority to compensate for the construction of mobile phone masts. For the first time in 2010, we purchased an area of woodland near Augsburg instead to support a nature conservation project.

7 | People

Taking responsibility for our employees is the foundation of our corporate culture. We create a motivating and healthy working environment that encourages our employees to perform well. This is the only way we can achieve the best results for our customers.

Workforce structure

Telefónica Germany has a comparatively young workforce. The average age of employees was 36 years in 2010. Around 5,550 employees were working in the company last year. 725 were part-time employees. Although our employee turnover rate at 12.5 percent was above the level for 2009, it was below the rate for 2008. The rise in the turnover rate by comparison with the previous year mainly resulted from the good underlying economic situation and the uncertainty among the workforce about the job reductions that had been announced.

Number of full-time employees
Excluding students and temporary staff

2008	2009	2010
4,521	5,664	5,550
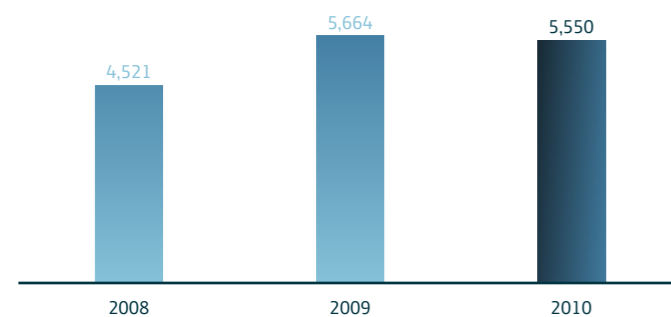
Rate of employee turnover in percent

2008	2009	2010
17.9	5.7	12.5
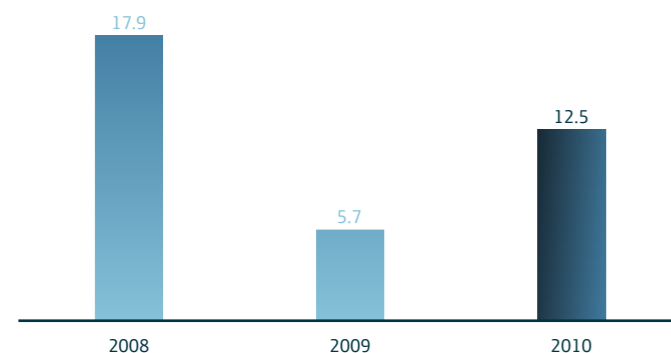
Satisfied employees

Once again, Telefónica Germany numbered among the best employers in Germany in 2010. We took first place in the independent study Great Place to Work®. This applied to the category of company with more than 5,000 employees. A key factor in this success was the high level of employee satisfaction in our company. 97 percent of the staff stated that they felt they were being treated fairly and 89 percent were proud of their employer. We believe that this award is the result of our focused human resource policy and strategic development of our personnel that we have been implementing for the past ten years. At the beginning of 2011, we took fourth place in this survey, despite the restructuring that was carried out in our company.

Restructuring

Telefónica Germany continued to grow in 2010. In February 2010, we embarked on the integration of HanseNet and the Alice brand. This results in the merger of two strong companies and creates a future-proof organisation that has the capability to respond quickly to market forces. This restructuring involved a total of 1,100 job losses. Our aim is for the integrated company to have approximately 5,000 Full Time Equivalents (FTE) by 31 December 2011. The Executive Management and the Works Council cooperated closely in carrying out the restructuring. They reached amicable decisions on all the relevant issues and adopted an appropriate framework for a social compensation scheme valid until 2013.

The agreement aims to avoid serving business-related notices of termination and provides for severance payments when job-termination agreements are concluded. Issues such as supports for relocations and site closures were also agreed as well as comprehensive consultation services when employees leave the company. The necessary job reductions were made under a social compensation scheme.

All the company divisions were affected by the restructuring activities. The biggest changes relate to our customer service which was bundled at the four locations of Nuremberg, Hamburg, Bremen and Rostock. The locations in Duisburg and Saarbrücken have been managed by a strategic partner since January 2011 and at the Teltow site since February 2011. In addition, the offices in Stuttgart, Leipzig, Hannover, Hamburg-Hohenzollernring and Dortmund were closed on 31 March 2011. The Verl site will be closed on 30 September 2011.

Employees and managers were offered change training sessions during the course of 2010 with the aim of limiting as far as possible the individual consequences and uncertainty experienced by our staff as a result of the restructuring. They were also given information about the impending changes through the large number of internal communication channels and at special events.However, the restructuring measures led to a slight decline in employee satisfaction at Telefónica Ger-

Employee satisfaction
score out of 100 points

2008	2009	2010
79	82	77
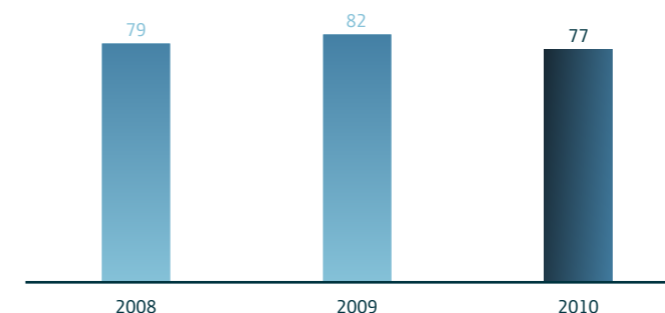
many during the course of last year. Telefónica Germany achieved a score of 77 points in the annual employee survey "Reflect". 78 percent of all employees took part in the survey. We rank among the leading European national companies with the high level of employee satisfaction.

Flexible working times

We expect flexibility from our employees and by the same token we offer working hours that enable staff to adapt their daily work routine to their individual living situations. Our salaried employees with collective payscale agreements are able to create a flexible structure for their daily and weekly working hours in agreement with their supervisor and within a defined time frame. The standard working day is eight hours. The time corridor is between 6 a.m. and 8 p.m. A daily operational time of maximally ten hours is also defined for each department. The department must always be staffed during this period.

If our employees work longer than the weekly agreed working hours, they have to record their overtime. They are able to reduce their excess hours at a later point in the form of flexitime. They are also able to have their overtime hours paid out once a year or the hours can be transferred to a life-long working time account. The credit on the life-long working time account is protected against insolvency and enables our employees to build up a long-term time credit. Later on they can use this for extended periods of leave from work, for example by taking a sabbatical.

All our employees have the opportunity to take responsibility for structuring their own working times and they can also work from home as necessary. In July 2010, we launched our telecommuting project where we tested alternative forms of working. An amendment to their

employment contract has granted employees the option of transferring their workplace to their home on one or more days of the week in consultation with their supervisor. 200 employees took advantage of this offer in 2010.

Packages for parents

Our flexible working times mean that we are also an attractive employer for working parents. We give additional support through our parents' initiative Working Mums and Dads which now includes 466 employees. Telefónica Germany provides organisational and financial support for young parents on issues ranging from a baby-sitting service to getting back to work. This package has been available at our sites in Nuremberg, Bremen, Berlin, Cologne and Verl since 2010. We also explicitly support the decision by young fathers to take advantage of the opportunity offered by parental leave. In 2010, 69 men took up this opportunity.

We run our own in-house daycare centre nursery at the Munich site and we cooperate with family service organisation pme Familienservice GmbH to offer our employees support in mediating childcare and daycare for dependent relatives. Telefónica Germany pays for the costs of advice and mediation, as well as ten days of emergency support. Our package for young parents is completed by the "Children's Days" and our in-house vacation programme. These open days give children – 210 in the year 2010 – the opportunity to find out about the working environment of their parents and a varied and stimulating holiday programme over a period of one to two weeks is also provided.

Performance-related remuneration

The remuneration of our employees is based on the marketplace and on the performance of the individual employee. Employees who perform well are able to achieve an income that is above average. Our incentive-based corporate culture has a salary structure comprised of fixed and variable elements directed towards offering employees an additional performance incentive. The variable share for payscale employees – 4,794 of our staff (baseline date: 31.12.2010) – is ten percent of the basic pay. Non-payscale employees have a share of 20 percent and executive employees have a variable share of 50 percent. The variable element is made up of individual targets and corporate targets.

Since 1 July 2010, our employees have been receiving more salary. This is because of the new collective agreement with the union IG Bergbau, Chemie, Energie (mining, chemical and energy, IGBCE) that provides for an increase in payscale salaries of 2.5 percent. The new collective agreement comes into force on 1 July 2010 and lasts until 31 December 2011. As well as increasing the payscale elements by 2.5 percent, Telefónica Germany has also made available an additional budget of one percent of the total salary which individual supervisors are able to use in accordance with our regulations during the salary negotiations to make adjustments in line with market conditions and performance. Subject to the same regulations, supervisors received a budget of 3.5 percent of the total salary which could be allocated individually in accordance with the rules.

Voluntary benefits. In addition to pay, Telefónica Germany also offers its employees a bundle of voluntary fringe benefits. These include allowances for capital forming benefits and basic insurance financed by the company for all permanent employees. In addition to the statutory accident insurance Telefónica Germany has concluded a personal accident insurance for each employee which provides worldwide cover independently of working times for accidents at work and in the private sphere. If an employee dies, we continue paying the employee's salary to the family for a period of six months to safeguard security for surviving dependents. Other additional benefits are travel subsidies and allowances for the cost of meals. We also exempt employees from the basic tariff or provide a reduction for their private O_2 contracts.

Share scheme for employees. In 2010, Telefónica S.A. established a global share savings plan for the first time. All Telefónica employees in 25 national companies are entitled to participate in this plan. It is intended to promote the motivation and loyalty of the workforce and enable them to take part in the success of the company. The scheme has been set up for a period of two years. In the first year, employees can purchase shares in the company for a fixed amount of their choice each month. The monthly instalments vary between 25 and 100 euros. The maximum amount that any individual can save is 1,200 euros per person. After another year, Telefónica S.A. doubles the volume of shares. The earliest payout date is two years after the start of the share purchase scheme. In Germany, some 3,000 employees in Germany have been participating in the scheme since August 2010. This means that Telefónica Germany achieves the highest participation rate in percentage terms within the Group. The share savings scheme won the IFS Proshare Annual Award 2010 in the United Kingdom as the Best International Share Plan.

Diversity

Our business principles specifically commit us to the principle of diversity and equal opportunities. This means that skin colour or origin, nationality or ethnic background should not play any role in the workplace. The same principle applies to religion, gender and family status, sexual orientation, age and disabilities. Telefónica Germany will take these principles into account when making appointments, and setting and adjusting salaries. As early as 2007, we joined the initiative entitled "Charter of Diversity" under the patronage of Federal Chancellor Angela Merkel. All the signatories to the charter believe that companies can only be successful if they identify and make use of the diversity available. This is equally applicable to customers and business partners.

The number of people with disabilities employed at Telefónica Germany increased in 2010: from 66 to 73. In 2010, we concluded a contract for "Social Partnership" with the Munich rehabilitation foundation ▶ Pfennigparade to employ six more disabled people. This partnership involves us in identifying suitable activities that people with disabilities are able to carry out at Telefónica Germany. This commitment enables us to promote a culture of diversity while at the same time helping individuals with disabilities, who are frequently highly qualified, to find their way back into the world of work.

The International Assignment scheme operating in the Telefónica Group enables employees to work abroad on a temporary basis. The platform for this scheme is that the employees are in a position to provide technical or management knowledge there which is not otherwise available in the relevant national company or that can be transferred to a different division. Secondments to different workplaces can also assist in career development. At the same time, we ensure that deployment abroad fosters the professional development of employees as well as benefiting the company. In the year 2010, twelve of our employees and nine students pursuing a twin-track degree course relocated to take up a job outside Germany. Eleven employees came to work in Germany from national companies in other countries. International exchange of talent is also an important priority at management level. This contributes to ensuring that the different parts of our Group grow even closer together.

Equal opportunities for women

Out of our total workforce of 5,550 employees, 2,057 are women and 3,493 are men. Seven women are present in the Senior Management (CEO, Managing Directors and Vice Presidents) and there is one woman at executive management level.

The salaries of our female employees are equivalent to those of their male colleagues in comparable positions. The salaries of all employees are based on their function, the marketplace and their personal performance. At the same time, we place particular emphasis on promoting the careers of women – for example by communication training and management seminars. In 2010, we offered a two-day training course for the top 150 female high-flyers for the first time.

Proportion of women in the entire workforce
in percent

2008	2009	2010
37	35	37
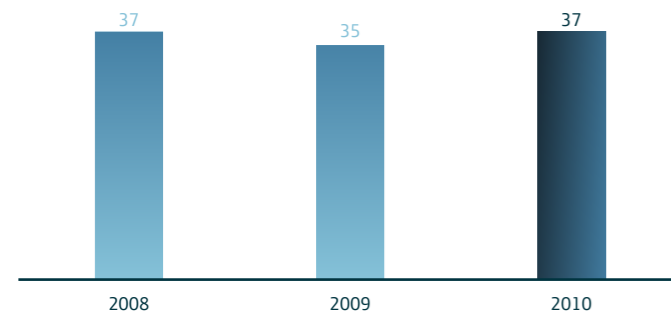
Number of women in senior management
CEO, Managing Directors und Vice Presidents

2008	2009	2010
–	5	7
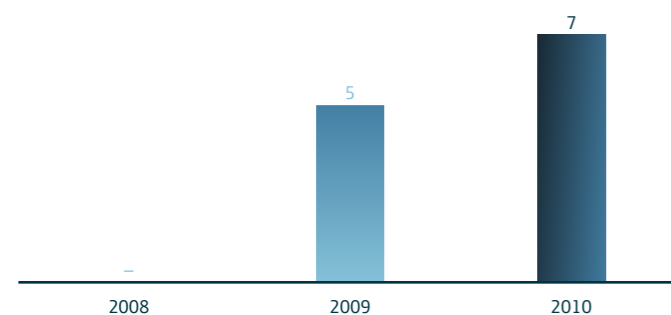
Diversity Management

A Diversity Officer was appointed at Telefónica Europe in 2010. The Diversity Officer will be working together with the national companies to develop a diversity programme over the coming years. We already support fair dealings and mutual respect between individuals with a broadly-based training programme. When the Act on General Equal Treatment (Gesetz zur Allgemeinen Gleichbehandlung) came into force in 2006, we introduced training on equal treatment that employees and managers have to complete every two years. The 45-minute training session explains the principles and the consequences under employment law of discrimination by supervisors or colleagues. In 2010, 88.1 percent of our workforce completed the training. 84.8 percent completed the training in 2009.

If employees or managers notice that our principles of equal treatment are being infringed, they can contact the Works Council or the Human Resources Department. People with disabilities have their own spokesperson as a contact. In 2010, we had no reports in connection with incidents about discrimination on the helplines made available to employees.

Training and career training

We offer our employees a range of internal and external training and qualification packages irrespective of their individual qualification and function. We also have an international e-Learning platform a +. This training database on the Intranet allows employees to find out about all the packages that have been specifically designed to meet their needs. The choice includes engineering, sales, and social and method sessions. In 2010, our employees spent a total of 1,973 hours pursuing career training on the learning platform. In 2010, Telefónica Germany invested more than 3.8 million euros in the training and career training programme (2009: 4.4 million). The number of training hours per employee in 2010 amounted to nearly 38 (2009: 35).

Training at Telefónica Germany is based on the dual training system that combines classroom-based activities and on-the-job experience. We offer 74 apprenticeship places in commercial and technical vocations, as well as in customer service and retail. In 2010, 25 young people started their training at Telefónica Germany. Those who completed their apprenticeship in the previous year had an 85 percent chance of being offered a permanent job with us. In a joint venture with the vocational schools in Stuttgart, Glauchau (Saxony) and the universities in Munich, Deggendorf, Nuremberg and the University for Business Studies and Law in Berlin, we offer school-leavers with university entrance qualifications the opportunity to pursue a degree with vocational training in the areas of industry / service management, applied IT and mobile communication. We also offer degrees at the universities for business studies, electrical engineering, industrial engineering, business information systems and IT. The degree courses listed at the universities are offered with more in-depth on-the-job experience. In 2010, 13 university applicants opted for these courses of studies and twelve took up this option in 2009. They have very good prospects of obtaining a permanent job.

Health and safety

In 2008, we were awarded the certificate for "Holistic Company Health Management" with gold quality rating by the Bavarian Ministry of State for the Environment, Health and Consumer Protection. The award was granted for the comprehensive benefits provided in company health management. Our work is based on the criteria defined for this certificate. The re-certification takes place in 2011. Once a year in spring, we invite the workforce in Munich, Cologne, Teltow and Nuremberg to special health days.

In autumn, we always plan a new health campaign like "5 a day". A team comprising internal and external experts provides information on the issues of sport, relaxation and healthy nutrition. Preventive screening tests, eye tests, taster courses and massages complement the programme. In 2010, 15 percent of the workforce took part in the campaign and the same proportion participated in 2009. We also offer employees vaccination against flu free of charge in autumn.

Our objective is to enhance the performance and capabilities of our employees. At the same time, we want to reduce the number of days taken off as a result of illness. In 2010, our employees were ill for an average number of 11 days (2009: 10.2 days). The resulting sickness ratio is therefore 4.2 percent (2009: 3.9 percent). Since we are particularly concerned to reduce the number of employees with long-term illnesses, we used the indicator defined by the AOK German Public Health Insurance Company (Allgemeine Ortskrankenkasse) of 3.9 percent from the year 2008 as a benchmark. This only includes sickness certificates from the third day of illness. This value for employees of Telefónica Germany insured with the AOK was 2.4 percent for the year 2010 and was therefore significantly below our benchmark.

Health and safety at work

Our company Safety at Work Management System provides regular instruction and training sessions for all employees. This is particularly the case for employees who are frequently deployed carrying out work at elevated workstations. Our Safety at Work Management System is based on the relevant statutory regulations.

We regard accident prevention and safety at work as a key management function with ultimate responsibility being shouldered by the executive management. The executive management devolves concrete functions to managers. They must ensure that our employees undergo safety training at least once a year. This system enables us to ensure that the right action is taken in an emergency. A crisis centre is located at our Munich site where all the necessary measures can be instituted immediately if an emergency occurs. 35 accidents at work occurred during the course of 2010. These incidents mainly related to employees tripping, slipping and falling.

Accidents at work
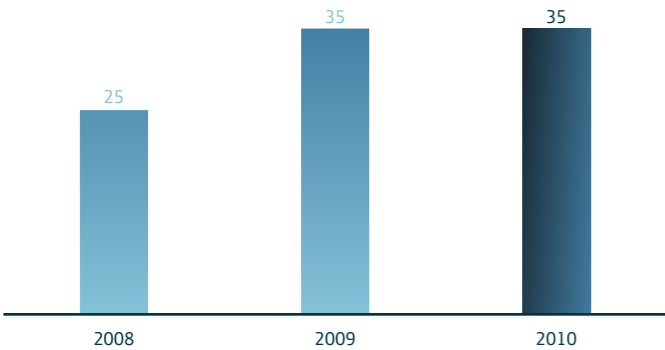
	2009	**2010**
Ratio of accidents at work (OSHA ratio)	0.64	0.66
Proportion of work-related accidents in percent	0.01	0.04

Training for safety at work

In 2010, a new online training tool was installed in our Intranet throughout the company dealing with safety at work and fire. More than 70 percent of our employees have successfully completed this general training with modules on safety at work, workplace design and fire protection. The online training for the 123 colleagues (baseline date: 31 December 2010) who are operating at elevated workstations was completed by all employees. Training was included on conduct for systems subject to electromagnetic fields and wearing personal protective equipment. We have worked out a special rescue concept for this group of employees. This defines the action to be taken after any potential accident involving a fall to ensure that the person affected can be helped as quickly and efficiently as possible. Similar rules apply to our external service providers who are commissioned to set up mobile phone installations.

Quite apart from regular training on safety at work, employees working at elevated workstations must provide evidence of having attended a training course for first aid and they must undergo a special examination carried out by a qualified company medical officer. They receive detailed safety instructions and standard operating procedures for their specific workplaces. They also receive practical training sessions on a number of topics including use of mandatory safety devices, such as harnesses or helmets, and learning about rescue procedures if their colleagues have an accident. These training sessions have to be repeated on a regular basis.

Employee rights

The Works Council elected by the employees represents the interests of the workforce in negotiations with the executive management in accordance with the German Works Council Constitution Act. Its members were re-elected in all regions and all businesses in the routine elections. Representatives of the individual regional Works Councils together form a Group Works Council which can meet as a contact for the executive management and can act for several regions or for the entire company. Representatives from the Group Works Council are informed in the European Works Council about important cross-border issues on a regular basis.

8 | Social commitment

As a member of the community, we as a company also bear responsibility for the development of the community. As a company and with our employees we make a commitment where we are able to generate the greatest social effect through our expertise.

The promotion of media competence among young people is the thematic focus of our social commitment at Telefónica. We also make a commitment to other social issues through corporate donations and the Corporate Volunteering activities of our employees. We are continually developing the fields of our social commitment in close exchange with our stakeholders.

Commitment to young people

95 percent of young people aged 12 and 13 already have their own mobile phone. 80 percent of the phones used by young people are able to access the Internet. Here, young people spend an average of 13 hours a week[1]. This link enables mobile phones to provide access to friends and social networks. Part of social life takes place online. We therefore believe it is part of our job as a provider of telecommunications services and products to promote a sensible and responsible approach to media and to enable children and young people to be in control of their use of mobile phones and the Internet.

Think Big: An initiative for young people. Our biggest and most important lever for promotion of media competence is ▶ Think Big. The aim of this long-term European programme organised by Telefónica Europe is focused on helping teenagers and young adults aged between 14 and 25 to master the transition to adulthood. Last year we joined forces with the German Child and Youth Foundation (Deutsche Kinder- und Jugend Stiftung, DKJS) to launch the Think Big Media College. The strategy of the Media College was directed towards socially and educationally disadvantaged young people, strengthened the media competence of the participants and gave them confidence to develop future perspectives and play a proactive role in society. 1,300 young people took part in the project throughout Germany. Acknowledging that modern communication media are widely disseminated in the target group, the aim was to communicate to young people how they should use media creatively. This permits learning effects which have a positive impact on the school and vocational opportunities of young women and men.

The long-term Think Big initiative continues in 2011 with a new programme. The aim of ▶ Think Big – My Neighbourhood My Idea is to support young people in their immediate, local environment and to promote non-profit projects initiated and organised by young people. This objective is achieved through a contribution of 400 euros and by providing coaching on training and technical aspects for implementation of the project.

1 Source: JIM Study 2010

Schola-21 – Online Portal for school students and teachers.
We continued our long-term partnership with the initiative ▶ SCHOLA 21 in 2010. The initiative's Internet platform supported by us is intended to support the interactive project training entitled Learning. School students use this to develop projects online and to present them together. Teachers are able to download materials there. Since 2004, nearly 6,000 schools and around 38,000 users have registered.

JFF Institute for Media Education as partner. Telefónica Germany launched cooperation with the Munich Institute for Media Education in Research and Practice (Institut für Medienpädagogik, JFF) in 2006. We also joined forces with the organisation in 2010 to implement mobile-phone projects throughout Germany and hold information evenings for teachers and parents. We took part in 32 workshops with more than 500 young people aged between 12 and 16 years old, addressing issues such as mobile phones, data protection, and online communities. Telefónica cooperated with JFF and other partners for the sixth time to run the competition entitled ▶ "In the blink of an ear" in 2010. 125 mobile clips were submitted for the mobile-clip competition held across Germany. The most creative clips were awarded prizes.

Teach Today: support for teachers. TeachToday offers teachers in various European countries support in finding solutions to problems brought about by the new media. The online platform provides teaching and extra-curricular resources. Telefónica has teamed up with Europe's leading Internet, mobile-phone and social-network providers and cooperated closely with the non-profit network European Schoolnet to make a contribution at European level to launch ▶ TeachToday online in April 2008. The online platform addresses issues on interactive communication technologies that schools are being confronted with today. These include bullying on mobile phones or the Internet, publishing photos on the Internet sites of social networks and handling personal data irresponsibly.

1GOAL: School training for all children. In 2010 – in the year of the Football World Cup – we supported the 1GOAL educational initiative. The initiative run by football's governing body FIFA is dedicated to ensuring that as many children as possible are provided with a school education by 2015. The objective is to attract 75 million adults worldwide during the next few years. By symbolically casting their votes, they are advocating that each of the 75 million children not currently going to school should receive an education. We set up a dedicated page on our company portal which allowed customers and employees to support the initiative. 4,000 users gave their support. We also organised a Benefiz Competition to give local educational organisations the opportunity to benefit from the IGOAL Campaign. Under the slogan 'Education for Everyone' O_2 customers were asked to join together with friends and acquaintances on the o2crew.de web platform to create the biggest possible group of people with the aim of supporting a non-profit educational project of their choice. Each of the two O_2 crews with the most members was awarded 10,000 euros for their education project. The projects ▶ CISV Germany (Children's International Summer Village) and ▶ Study without Borders won the competition.

Donations and Corporate Volunteering

Our long-term projects involve us in joining forces with expert partners to make an ongoing contribution to the promotion of children and young people. Alongside these projects, we also make donations and invest in good projects where we are not directly involved. This gives our employees the opportunity to make a voluntary commitment during their work time. We ensure that the key principles and guidelines we have defined for our social commitment are upheld.

Donations. We prefer to make donations to institutions, organisations or projects addressing issues associated with children and young people, education and environment. The recipients of our donations must either be based in Germany or in a country where Telefónica S.A. is operating. We do not make donations to individual persons, religious institutions, political parties, or voters' associations, or commercial projects. We expect that the institution or project must operate on the principle of "Aid for self-help". Since 2009, all expenditure on donations at Telefónica Germany has been managed centrally. Every donation – irrespective of who initiated it – must be approved by the Head of Corporate Communications, who is also in charge of Corporate Responsibility. All donations above 20,000 euros must additionally be approved by our Chief Financial Officer. This ensures that all donations are compliant with the statutory legal requirements and our internal regulations. They must comply with our donation guideline and our business principles. Last year, we donated a total of some 273,000 euros. A further 429,000 euros were invested in non-profit projects in our Think Big programme.

Expenditure on projects and cash donations
in euros

| 2008	2009	2010
455,009	164,208	702,003
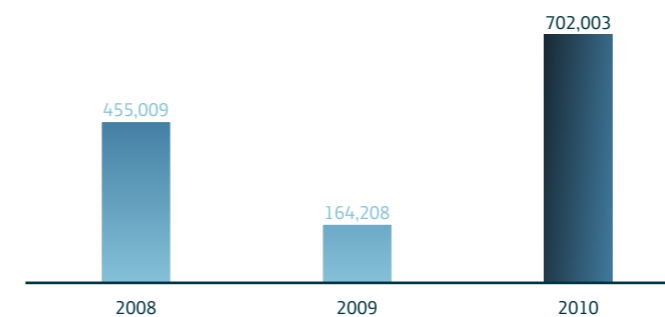
Can do Giving. Our objective is to pool our donations and the donations made by our employees to further the purpose of our social focus issues. That's why we promote the social commitment of our employees through various donation programmes. Our salary donation programme entitled "Can Do Giving" has been operating since 2006. This enables our employees to donate a specified proportion of their net salary each month to a charitable organisation previously selected by a majority of the workforce. Telefónica Europe adds 20 percent to each individual sum. In 2010, we reached our goal of increasing Can Do Giving to three percent of the workforce. 157 employees took part in this programme. During the course of 2011, we want to raise the proportion of givers to five percent. The majority of our employees selected "Children for a better world e.V." as the recipient of their donations in 2010. Our employees donated 15,078 euros to the project. Telefónica Europe increased this amount by 20 percent.

A total of 955 employees took part in our donation campaigns. For in addition to the "Can Do" givers referred to above, a further 798 employees participated in specific donation campaigns initiated by Telefónica Germany in 2010. These initiatives helped people affected by the natural catastrophes in Haiti and Pakistan.

Can Do Matching. We also support fundraising campaigns for charitable purposes organised by our employees. "Can Do Matching" involves Telefónica Europe doubling the amount collected up to a ceiling of 455 euros by individuals and up to 1,950 euros for a team of at least two employees. 27 employees initiated fundraising campaigns in 2010 collecting a total of 2,700 euros for good causes.

Corporate volunteering. At the end of 2008, Telefónica Germany launched a Corporate Volunteering Programme with the aim of promoting social commitment by our employees. They can make their own social contribution to their community directly as an individual or as a team. In 2010, a total of 1,205 employees in Germany took part in a wide range of different activities and spent more than 3,800 hours on volunteer work. In October, Telefónica S.A. took part in the first International Volunteering Day worldwide. 4,000 employees took part in this day. In Germany, 68 employees from Hamburg and Munich participated in this event. Some of the activities involved refurbishing the sanitary facilities at a school, accompanying children at a special-needs school to the Bavaria Film Studios and planting flower beds and creating ponds.

Number of Volunteers
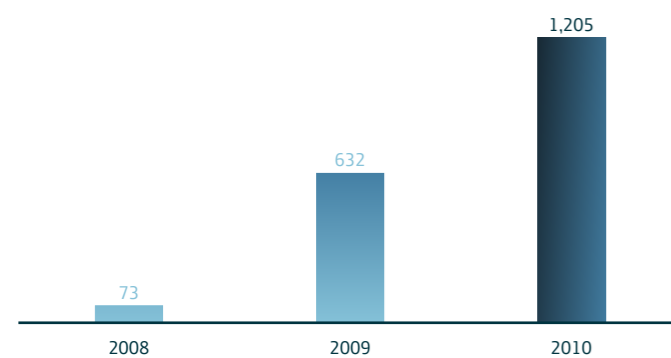
Our employees are also able to obtain leave from work for social projects on two calendar days each year. They are free to decide where they want to make a commitment. They are able to select their own projects from their personal sphere or help with projects that the company is already supporting. In 2010, 96 employees took up this challenge. Another opportunity is to take part in the international Proniño Programme run by the Telefónica Foundation. It provides support for educating young people in Latin America and also sets a benchmark in the fight against child labour. Employees throughout the entire Telefónica Group can apply for the three-week programme. Our employees from Germany – there were nine in 2010 – have to invest 13 days of their holiday. They receive a one-week Spanish course in preparation and are given training in how to interact with children.

Departments and entire divisions have the opportunity to make a team commitment in the Volunteering Programme. The team members often discover that missions of this nature reveal characteristics and skills in themselves and their colleagues that they were unaware of or had never been revealed in the workplace. Our main aim is to strength team skills and cooperation in our employees through these missions. 401 employees made the commitment to these team missions in 2010. They included employees being prepared for a management career in the Top Talents Programme. They spent two days with Groupe Smirage, a group of artists with disabilities, in the studio of the rehabilitation foundation Pfennigparade. The task was to get away from familiar role concepts and hierarchies.

Eight employees from our Munich Head Office took part in mentorships last year. This involves providing background support for school students aged 14 to 17 years old. One of the tasks they carry out is helping the school students prepare for work experience. The project "Come into the Future" was launched by the citizen's initiative group Verein Bürgertreff e.V. It is intended to make it easier for young people to make the transition from school into the world of work.

All these activities are coordinated by an in-house Volunteering Office. Its function is to provide a consistently high standard of volunteering activities and ensure that the programme is continually being developed.

Dialogue

Telefónica Germany has been working with the charitable UPJ corporate citizenship organisation UPJ to run the Internet platform ▶ www.diskutiere.de for a number of years. In autumn 2010, we set up a new forum on the platform geared to developing a new round of debate. The subject was: growing up 2.0: How does the networked world change the perspectives for life and vocation in young people? Parents, teenagers and teachers took part in the discussion. The people participating in the debate agreed that media competence will become a key factor for participation in social and political processes. This will also be important for success in the job market and in the world of work. The majority of the individuals taking part in the discussion agreed that the family is the main player in ensuring that these skills and knowledge are put in place. An online survey accompanying the discussion revealed that 34 percent of the 526 participants believed that the family had the biggest responsibility for developing sensible use of the new media by young people. 26 percent thought that companies had the main responsibility, followed by the school (15 percent), young people themselves (12 percent) and politicians (12 percent). All the results can be located on ▶ www.diskutiere.de/2010/erwachsen-werden-2-0.

The previous debate ran from October 2009 to January 2010 on the subject of digital inclusion. We asked the question: "Bridge or Ditch: What influence do advanced telecommunications have on the social integration of people with disabilities?" Mobile phone and Internet are indispensable in the everyday routine of most people, yet these technologies are frequently not designed for people with disabilities. You can read about concrete requirements and proposals for solutions ▶ here.

9 | Supply chain

Adopting a responsible approach to resources is an important element in the business principles of Telefónica Germany. We are as economical as possible with the resources that we use ourselves. We expect our suppliers to join us in taking an approach to resources that is equally responsible and sustainable.

Procurement guidelines

In 2008, we defined guidelines on ecological and ethical procurement. They have since been a fixed element in all our delivery contracts and all new tender invitations.

Our environmental procurement guideline requires that our suppliers implement an environmental and quality management system. This system must be equivalent to certification in conformity with ISO 14001. We also expect them to continually improve their environmental management systems. We want to ensure that the raw materials we purchase have been extracted or produced under ethical conditions.

Our ethical procurement guideline is based on the United Nations Declaration of Human Rights and the standards promulgated by the International Labour Organisation (ILO). It defines appropriate working conditions and pay, and prohibits any form of child labour and discrimination.

Cooperation with suppliers

Products that we purchase on a regular basis include transmission and switching units for our mobile network, mobile phones and all their accessories, computers, printers, office furniture, batteries and paper. We purchase these products from suppliers all over the world. The majority of these business partners has a registered office, a subsidiary company or a business location in Germany. Where we have particularly intensive business relations with manufacturers, informing them personally about our expectations is a top priority. We therefore started to present our business principles to our key suppliers during the course of 2009. We continued this process in 2010 and the suppliers included representatives from Samsung, Nokia, Nokia Siemens Networks, T-Systems, Oracle, Hitachi Data Systems, Garmin, LG, ZTE, Huawei and Sony Ericsson. The majority of our purchase volume in euros was sourced from these companies during the years 2009 and 2010.

Risks and opportunities

In cooperation with Telefónica Europe and Telefónica S.A., Telefónica Germany identified the five product groups and their suppliers in Europe with the highest level of risk last year. We are currently developing a standard global risk assessment. A pilot project is currently carrying out a Corporate Responsibility Audit on one of our suppliers. Another project centres on and investigation into how a green supply chain could be structured. The objective is to deliver transport that conserves resources and has a neutral CO_2 footprint. Finally, we are looking into the extent to which second-hand units can be marketed and re-used.

Raw materials

We are well aware that our requirements for environmental and ethical procurement will not apply in certain cases. This affects raw materials that we do not purchase ourselves but which are contained in products that we insource. This includes coltan, the mineral containing tantalum, which is essential for the manufacture of mobile phones and notebooks. The Democratic Republic of Congo is one of the places where the mineral is mined and it is reputed to be a source of finance for the military forces and for the rebels. Our parent company Telefónica S.A. commits us to supporting the sector initiatives Global e-Sustainability Initiative (GeSI) and the Electronic Industry Citizenship Coalition (EICC) designed to reduce the negative social and environmental impacts brought about by extraction of these raw materials. A key target for the joint task force of EICC and GeSI is the traceability of the coltan used. At the beginning of 2010, Telefónica S.A joined forces with other companies in the sector and signed a cooperation agreement with the British non-governmental organisation ITRI (▶ www.itri.co.uk) to establish a tracing system for tantalum, coltan and other rare minerals. This NGO has launched a pilot project in the Democratic Republic of Congo. The German Institute for Geosciences and Natural Resources presented a chemical fingerprint for coltan in March 2010. In future, this could help to enhance transparency in the supply chain.

10 | Corporate Responsibility targets

We define targets every year with the aim of continually improving our services in the area of Corporate Responsibility. Attainment of these targets is reviewed on a regular basis during the course of the year.

This section includes a transparent report on all Corporate Responsibility targets at Telefónica Germany, their attainment or non-attainment, and our plans for the coming year. We have divided our targets into six areas:

Target	Measure	Status
Think Big		
Target 2010: Promote media and social competence with at least 7,500 young people through projects that communicate the opportunities and risks inherent in using mobile phones and the Internet. Establishment of an additional project relating to the issue of media competence.	Another project established in the context of media competence (Think Big Media College). Direct promotion of media competence in 1,300 young people.	Partly achieved
Target 2010: Implement a new online training programme on media competence. 80 % of employees in Sales and Customer Service are to participate in this programme.	Career training tool on media competence was launched in 2010. By the end of the year, a total of 86 % of our employees will have used the tool (79 % of shop employees and 94 % of call centre staff).	Achieved
Target 2011: Promote awareness of Think Big and link our corporate image with the commitment to young people with customers and non-customers. Integration of appropriate target parameters on "awareness" and "association" in the Brand Tracker Study.		New target
Target 2011: Integrate Think Big in the marketing plan for 2012		New target
Target 2011: Participation of 15 % of all employees in Corporate Volunteering activities (of which 7 % in Think Big) by donating their time		New target
Target 2011: Participation of at least 5,000 young people in Think Big		New target
Accessibility		
Target 2010: Introduce fair tariff for people with hearing impairments that matches their special needs	Tariff for deaf people was launched in May with a corresponding service concept.	Achieved
Target 2010: Implement a pilot project entitled "Mobile Transcription" for people with hearing impairments in cooperation social improvement initiatives developed by Social Affairs.	VerbaVoice pilot project was implemented and marketed in December 2010. Development of an associated mobile App is under way.	Achieved
Target 2011: Optimise customer service for customers with disabilities		New target
Target 2011: Strategic provision of service and product information for customers with disabilities (online and hotline)		New target
Target 2011: Increase the number of employees with disabilities by 0.5 percent (baseline date: 31.12.2010) i.e. by approx.		New target

Target	Measure	Status
Target 2011: Improve knowledge of offers for people with hearing impairment in existing customers		New target
Target 2011: Further develop mobile application of VerbaVoice, a speech-to-text service for people with hearing impairments.		New target
Environment and climate protection		
Target 2010: Climate strategy: Develop a CO_2 and energy reduction concept for products and services, infrastructure and employees in 2010 Implement the climate protection strategy in Germany by 2015. Develop and implement in all cases at least one CO_2 reduction measure in the network and in the computer centre/IT/office sites	Environmental management: Concept for reduction of CO_2 emissions and energy consumption is in place (focus on infrastructure and employees for achieving the energy and CO_2 savings targets) Measures: • Introduction of a software feature in the access network at • Huawei, in order to switch off the technical units not required • Reduction of CO_2 emissions from business travel by providing additional videoconferencing options • Increasing the laptop ratio by 50 % • Integration of energy efficiency in purchasing criteria • Increasing the maximum temperatures in the computer centres and hence reduced energy expenditure for cooling	Achieved
Target 2010: Reduction of 30 % in electricity consumption by 2015 per landline and mobile-phone access in Telefónica networks and 10 % reduction in electricity consumption per employee (baseline year: 2007).	Various measures were introduced in the Telefónica networks, in 2010 which contribute to achieving the reductions planned across the company. In the business locations and shops: discussions with the public utilities on district cooling; possibility of switching off advertising, shop lighting and air-conditioning at night using automatic timer switches; gradual modernisation of air-conditioning systems and changing the coolant in conformity with statutory environmental regulations (CFC)	Ongoing, on track
Target 2010: Retain the previous year's level of CO_2 emissions per employee and formulate a concept (including annual targets until 2015) for reducing the CO_2 emissions in the areas of business trips and commuting traffic in conformity with the Telefónica climate protection strategy by 2015. Simultaneously, develop and implement the first measures for CO_2 reduction in 2010	Development of a concept has started. Completion in 2011 Subtarget "Formulation/implementation of initial measures" achieved: • Videoconferencing systems were expanded to reduce business trips, e.g. in Bremen, Munich and Verl, and the budget for travel costs was cut. • Change in the preferred airline for business trips to an airline with lower emission values	Partly achieved
Target 2011: Reduce CO_2 emissions per land line and mobile-phone access in Telefónica Germany networks (based on 2007 30 % by 2015) and in the offices, call centres and shops		New target
Target 2011: 30 % reduction in energy consumption (based on values in 2007)		New target
Target 2011: Review the use of green electricity and expansion of tertiary power reserves (minute reserves)		New target
Target 2010: Retain the previous year's level for the share of green electricity in total electricity consumption despite expansion of the network and taking into account integration of Telefónica Deutschland	The share of green electricity for office buildings was approx. 95 % in 2010. The previous year's value in the networks was retained. The share of green electricity in the company's own shops was approx. 97 %.	Achieved
Target 2011: Proportionate retention of the previous year's values for the share of green electricity in total electricity consumption despite an expansion of the network and taking into account integration of HanseNet.		New target

Target	Measure	Status
Target 2010: Formulate a concept (including annual targets until 2015) for reducing CO_2 emissions from the vehicle fleet in conformity with the Telefónica climate protection strategy by 2015. Simultaneously, develop and implement initial measures.	Concept officially came into force on 1 January 2011. This led to a reduction in the CO_2 emissions in 2010 of approx. 6 % compared with 2009.	Achieved
Target 2011: Develop and implement CO_2 optimised travel management and introduce a CO_2 system of credit and debit for new orders and company vehicles.		New target
Target 2010: Provide information and stakeholder dialogue on environmental and health issues, as well as support for research projects from the federal government with 83,000 euros.	LTE is the current focus of discussions with local-authority associations, environment ministries and the Radiation Protection Commission.	Achieved
	Membership of Telefónica Germany in the Information Centre for Mobile Telephony (Informationszentrum Mobilfunk e.V., IZMF) ensures prompt information from politicians and the community.	
	Testing campaign by the IZMF on LTE signals with supporting press work	
	Release of funds for promoting research	
Target 2010: Mobile phone and health: Safeguard acceptance in the community for our infrastructure through continuous information and dialogue, as well as financial and data support for evidence-based assessment of potential effects on health of our technology.		New target
Target 2010: Increase the proportion of online invoices to 55 % in the retail customer sphere, in order to cut down the resources used for sending letters.	Increase to 67 %	Achieved
Target 2010: Increase the proportion of online invoices to 73 % in the retail customer area.		New target
Target 2010: Ensure delivery of training for our facility service providers on environmental aspects, waste separation and Telefónica environmental guidelines in joint ventures with service providers		New target
Employees		
Target 2010: Attain an overall points score of 80 in the employee survey Reflect	Total index 2010: 77 points	Not Achieved
Target 2010: Top 10 ranking in the Great Place to Work survey in 2010	Ranking in 4th place in 2010	Achieved
Target 2010: Increase the number of employees with disabilities in the company through pilot programmes in at least two divisions with the support of the joint-venture rehabilitation partner Pfennigparade (Rehabilitation Centre in Munich)	In 2010, six employees with disabilities were employed at Telefónica Germany through rehabilitation foundation Pfennigparade.	Achieved
Target 2010: Increase reputation as family friendly company through: • Establishment of telecommuting, videoconferencing and home offices as alternative working forms throughout the company • Auditing as family-friendly company • Roll-out of the initiative Working Moms and Dads in the regions (Nuremberg, Bremen, Berlin, Cologne and Verl)	• The Telecommuting project was launched on 01.07.2010. Since then more than 200 people have accepted appropriate addenda that make telecommuting part of their employment contracts. • Auditing as a family-friendly company not carried out • Launch of the initiative Working Moms and Dads in the regions in January/February 2010 and implementation of measures such as the in-house vacation programme with 65 children and the children's day with 150 children in Munich and the regions (Nuremberg and Bremen)	Partly achieved
Target 2010: Appoint a Diversity Officer for proactive prevention of discrimination	Diversity Working Group was set up. However, responsibilities still have to be clarified. A Diversity Officer was appointed at Telefónica Europe.	Not Achieved

Target	Measure	Status
Target 2010: Implement special training for women in management positions. One training programme at the Top 150 level and one programme at the Top 500 level.	A training programme for female managers addresses the issue of "Training for exposed women – high potential/high impact" was held for two and a half days. 14 out of 22 women took part in the course.	Partly achieved
	The training programme for the Top 500 was not held. Continuation of the target in 2011	
Target 2010: Promote life-long learning for every employee by updating the training packages on the international a+ learning platform and increase the number of hours to a total of 2500 hours.	Expansion of life-long learning to mothers and fathers on parental leave	Partly achieved
	Total of 1,973 hours on the a+ learning platform.	
Target 2011: Support and promote women in management positions and develop concepts for increasing the proportion of women in management positions.		New target
Achieve a 50 % share of women in the Top Talents Programme at Telefónica Germany.		
Target 2010: Enhance commitment for participation of 13 % of employees in the voluntary activities relating to charitable team projects or individual commitment (baseline date for number of employees: 31.12.2008)	Employees who have donated "time" (by doing work): 497	Achieved
	Employees who have participated in the donation programmes organised by Telefónica Germany: 986	
	Total (adjusted by the number of employees who have taken part in one or more programmes several times): 1,205 employees, i.e. 24.25 %	
Target 2010: Implement measures in the areas of health-oriented employee management and work life balance, in order to keep the illness rate (in particular the number of people with long-term illnesses) below the benchmark of 3.9 % (basis: study in 2008 by the AOK German health insurance company for the German average).	Average number of days off sick in 2010: 11 days (2009: 10.2 days) sickness status for 2010: 4.2 % (2009: 3.9 %)	Achieved
	Since we particularly want to reduce the number of employees with long-term illnesses, we have established the AOK value from the year 2008 of 3.9 % as a benchmark which only includes illnesses reported from the third day off sick. In the year 2010, this value for employees at Telefónica Germany insured with the AOK was 2.4 % and was therefore significantly below our benchmark.	
Target 2010: Health and safety: Continue the successful avoidance of accidents at work by: • New online training for health and safety at work: All employees have to complete the web-based training modules relevant to them during the course of the calendar year. in order to safeguard compliance with the statutory requirements, 70 % of Telefónica Germany employees need to have participated in the training modules.	Participation rate for general training on health and safety at work: 77.3 %	Achieved
	Participation rate for training in health and safety at work for fire prevention: 75.4 %	
	Participation rate for training in health and safety at work for elevated workstations: 100 %	
	Participation rate for training in health and safety at work for offices: 72.6 %	
Target 2010: Participation of at least 70 % of employees (full-time employees, staff with fixed-term contracts and trainees) in online training for health and safety at work and fire prevention in order to comply with the statutory requirements.		New target
Target 2010: Implement a road traffic safety day and sensitise employees on matters relating to road traffic (prevention of accidents on the way to work) with this year's focus on two-wheeled vehicles (motorcycles and bicycles).	The road traffic safety day under the slogan "Fight the risk" was carried out in May 2010 and generated a great deal of interest among the employees with good level of participation.	Achieved
Target 2011: Successful recertification of Holistic Company Health Management by the Bavarian Ministry of State for Environment, Health and Consumer Protection (Gold Certificate)		
Target 2011: Increase the number of employees with disabilities in the company by 0.5 percent (baseline date: 31.12.2010) i.e. by approx. 30 employees		New target

Target	Measure	Status
Customers		
Target 2010: Customer satisfaction: In 2010, increase customer satisfaction measured on the Customer Satisfaction Index (CSI) by two points compared with 2009.	CSI increased from 75 to 77 points	Achieved
Target 2010: Complaints: In 2010, reduce customer complaints by by 5 % in post-paid retail consumer market by using feedback management and by improving our service strategies.	Reduction of 15 % in 2010	Achieved
Target 2011: Reduce customer complaints by 5 % in the post-paid retail consumer market		New target
Target 2010: Improve customer information relating to the issue of youth protection and improvement in the advisory competence of employees on the O₂ youth protection hotline.	Employees working on the Care Hotline were provided with information on the issue of youth protection. This was carried out on the basis of the information materials prepared jointly with the Voluntary Self-Regulation for Multimedia Services Providers (Freiwillige Selbstkontrolle Multimedia-Anbieter, FSM).	Achieved
Target 2010: Strengthen "self data protection" by optimum clarification and transparency in relation to the processing of personal data with respect to the customers. Complete information for the customer in order to enable the customer to decide how and for what purpose a responsible office is processing and using the customer's data.	In April 2010, the new customer declaration was implemented. The customer must provide their active consent in order for their data to be used for promotional purposes. Visual separation of the various contact channels provides customers with an optimum overview of the different forms of promotional use. Customers have the option to view and change their consent declarations on promotional use in the so-called self-care (or through customer service).	Achieved
Target 2011: Establish a broadly based understanding of the new digital services, and promote easy and safe accesses to this through "Digital Confidence": • Adapt information on youth and data protection, and adapt information stored in the customer-service information database with the aim of enhancing customer awareness of data protection, data management and IT security		Neues Ziel
Target 2010: Participation of 95 % of all employees of Telefónica Germany in the annual internal data protection training and implementation of at least four data protection audits which also review suppliers	Participation rate for 2010: 76 % Also implementation of four internal data protection audits and 15 external data protection audits with service providers	Partly achieved
Target 2011: Establish an internal understanding of "Digital Confidence" so that it becomes a relevant factor in business decisions: • Implement an event for promoting awareness of information security • Introduce online training on the issue of information security for all employees to promote awareness of data protection, data management and IT security • Target 2011: 100 % of employees successfully complete the web-based business principles training		New target
Responsible business partners		
Target 2010: Participation of 95 % of employees of Telefónica Germany in training on business principles in order to ensure compliance	Participation rate: 88 % Ambitious target is continued for 2011.	Not achieved
Target 2010: Personal information for the Top 10 suppliers (corresponds to approximately 50 % of the order volume) on the business principles of Telefónica Germany	Implementation of workshops with seven suppliers which covers a purchasing volume of approximately 54 %. Other suppliers who are in the LIMA Scope are gradually informed.	Achieved
Target 2011: Personal information for all suppliers of TGS-SUMA, SIM (approximately 70 % of the order volume) and routers on the business principles of Telefónica Germany		New target

Target	Measure	Status
Target 2010: Identify the five product groups and suppliers exposed to the greatest risk in close cooperation with Telefónica Europe and Telefónica S.A.	Risk groups are consolidated across Europe within the Group (incl. hardware management suppliers); Risk Assessment Paper is written, Pilot Audit on CR with Interwerbung	Achieved
Target 2011: Assess and manage identified risk suppliers and product groups • Develop a process for auditing local and company-wide suppliers and product groups as part of the European CR Procurement Forum		New target
Target 2011: Develop a Green Supply Chain concept • Model for reducing CO_2 emissions, energy costs, etc.		New target
Target 2011: Launch the Eco-Rating Tool in Germany		New target
Target 2011: Promote recycling of mobile phones. Increase the number of mobile phones collected to 10,000 units (2010: 6,709)		New target
Target 2011: Promote the perception of Telefónica Germany with business customers as a socially responsible company and promote joint ventures		New target
Target 2011: Create possibilities for involving business customers in the Think Big programme		New target

11 | About this report

Report profile

The aim of this report is to provide open and comprehensive information to our employees, customers, suppliers, investors, politicians, government agencies and non-governmental organisations on how we discharge our social responsibility as a company. It highlights the key social, environmental and economic challenges associated with our core business and the strategies we have developed for mastering these challenges.

Responsibility

This report was prepared under the management of the Corporate Responsibility Team and in close cooperation with the specialist departments. It was approved by the CEO of Telefónica Germany.

Framework

We have based the preparation of the data on the latest guidelines of the Global Reporting Initiative (GRI) in order to make it easier for our readers to compare our services with other companies. The report therefore meets the requirements of the GRI in relation to the broad spectrum of issues addressed in the report. We also take account of the specific GRI requirements for the telecommunications sector. We therefore assess the level of compliance as A+.

Report limits

Unless otherwise indicated, the qualitative data published in the report relate to Telefónica Germany GmbH & Co. OHG (formerly Telefónica O_2 Germany GmbH & Co. OHG) in the period between 1 January and 31 December 2010. If there is no indication to the contrary, the quantitative data relate to Telefónica Germany GmbH & Co. OHG (formerly Telefónica O_2 Germany GmbH & Co. OHG) and its subsidiary Fonic GmbH in the period between 1 January and 31 December 2010. Not all the quantitative data presented in the report were collected using the scope of the report previously outlined. As a result, the quantitative data in the report are limited in terms of their comparability with each other and in terms of their informative value for external readers. The quantitative data that, contrary to the defined scope of the report, either includes additional companies or excludes companies that should be included, were indicated separately in footnotes in the report.

Limited review

We based our reporting on the reporting principles and criteria of the AA1000 Accountability Principles Standards (2008) and on the criteria of the Global Reporting Initiative (GRI-G3). Unless otherwise identified, auditing company Ernst & Young carried out an limited review of the quantitative data included in the key indicator table (p. 11/12).

Editorial notes

This report is published in German and English. The press date was 13 May 2011.

Cautionary note regarding forward-looking statements

This report contains statements relating to future expectations of the development of Telefónica Germany and the parent company Telefónica S.A., as well as economic and political developments. These statements are assessments which we have based on all the data available to us on the press date of this report. If the underlying assumptions are not complied with or other risks occur, the actual results may differ from the results currently expected. We are therefore unable to provide any guarantee for these statements.

Feedback

We regard our CR Report as an invitation to engage in a continuous dialogue. What is your opinion on our CR commitment? Do you think any information is missing? Have you got any suggestions for improvement? And what aspects do you find particularly good about our report? We very much welcome your ideas, aspirations and constructive suggestions at: cr-de@o2.com

12 | Audit certificate

Translation of the original German Review Report

Review report of the independent auditor

To the management of Telefónica Germany GmbH & Co. OHG (formerly: Telefónica O_2 Germany GmbH & Co. OHG), Munich

Our engagement

We have reviewed selected quantitative details of the 2010 Corporate Responsibility Report of Telefónica Germany GmbH & Co. OHG ("Telefónica Germany") for the reporting period from 1 January to 31 December 2010.

A review is aimed at achieving a limited level of assurance and is therefore less extensive than an audit, which is aimed at achieving reasonable assurance. Consequently, a review cannot ensure compliance with all significant criteria as in an audit. Accordingly, we cannot express a conclusion in the positive form (audit opinion) on the quantitative details of the 2010 CR Report.

Limitations of our engagement

Our review and our review report exclusively pertain to the selected quantitative details that are listed in the key performance indicator table on pages 11–12 of the 2010 CR Report. The assessment of other quantitative and qualitative details and the assessment of the prior-year figures are not part of our engagement.

In the table of key performance indicators, the following performance indicators are excluded from our engagement:
- Details of employee turnover
- The investments in non-profit projects contained in the performance indicator "Donations and invest-ments in non-profit projects"
- Details of RepTrak score: the emotional perception of the reputation of O_2 in the community
- The energy – or CO_2 data – in the Environment section

Moreover, we point out that the following disclosures were also not part of our review:
- Data to which there are references or links within the 2010 CR Report
- Qualitative statements, forward-looking statements and expert opinions reproduced in the CR Report
- Quotes from employees
- References to and content of studies mentioned

Criteria

Our assessment is based on the reporting principles and criteria of the Global Reporting Initiative (GRI G3.1)[1].

Responsibility of management

The management of Telefónica Germany is responsible for the preparation and the content of the CR Report 2010 in compliance with the above-mentioned criteria. This responsibility includes the design, implementation and maintenance of internal controls for the preparation of a report that is free from material misstatements, in accordance with the above criteria and based on suitable methods for gathering source data.

Our responsibility

Our responsibility was, on the basis of our review, to issue a report on whether anything had come to our attention that would cause us to believe that the details in the key performance indicator table on pages 11–12 of the 2010 CR Report had not been prepared in accordance with the reporting principles and criteria in all material respects.

We conducted our review in accordance with the International Standard on Assurance Engagements (ISAE) 3000. This standard requires that we comply with our professional duties and plan and perform the review to obtain a certain level of assurance to preclude that the report is in contradiction, in material respects, of the aforementioned reporting principles and criteria.

During the engagement, we observed the independence requirements of the IFAC Code of Ethics for Professional Accountants.

With respect to the performance of our engagement, we report exclusively to the management of Telefónica Germany GmbH & Co. OHG in accordance with the agreed terms of the engagement.

We assume no responsibility, liability or other obligations towards third parties unless we have concluded a written agreement to the contrary. It is the sole responsibility of anyone taking note of the information contained in this review report to decide – where appropriate in consultation with its own advisors – whether and in what way this information is useful or suitable for its own purposes.

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1 http://www.globalreporting.org/ReportingFramework/ReportingFrameworkDownloads/

Key review procedures

Within the scope of our engagement, we requested documentation based on risk and materiality criteria to obtain a limited level of assurance on the compliance of the selected quantitative details in the key performance indicator table with the reporting principles and criteria. The nature and scope of our work was based on what in our professional judgment was required to reach a conclusion, e.g. using suitable samples. The performance of our engagement mainly involved the following work:

- Assessment of the suitability of the underlying criteria and their consistent application
- Inquiries of employees with regard to the CR strategy, the principles in the area of corporate responsibility, and the Company's CR management
- Inquiries of employees responsible for data capture and preparation of the CR report designed to assess the sustainable development reporting system, the data capture and compilation methods as well as internal controls to the extent relevant for a review of the CR report
- Inspection of the relevant documents and systems for capturing, analyzing and aggregating the quantitative and qualitative data, the text contributions in the reporting period and testing thereof on a sample basis
- Analytic tests at Company level with regard to the analysis and aggregation of quantitative data within the scope of preparing the report

Our conclusion

We refer to the Company's disclosures on page 44 regarding consistency with the scope of the report and the resulting limited comparability of the sustainability information.

Based on our work, nothing else has come to our attention that causes us to believe that the selected quantitative details in the key performance indicator table on pages 11–12 of the 2010 CR Report of Telefónica Germany GmbH & Co. OHG are not presented fairly, in material respects, in accordance with the reporting principles and criteria.

Düsseldorf, 15 June 2011

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Peter Nolden   Nicole Richter
Wirtschaftsprüfer   Wirtschaftsprüferin
[German Public Auditor]   [German Public Auditor]

13 | GRI Index

G3 Key indicators
incl. indicators for the sector supplement Telecommunications (pilot)

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TA4	Assessments of the indirect effects resulting from the use of the products and services defined above, and outline lessons learned for future developments	www**
TA5	Practices relating to intellectual property rights	n.A.

n.A. = no answer   prop. = propietary information
n.a. = not applicable   www* = www.telefonica.de
n.m. = not material   www** = www.o2.de/goto/eco-index
n.av. = not available

We have self-assessed our reporting to be Application Level A+.