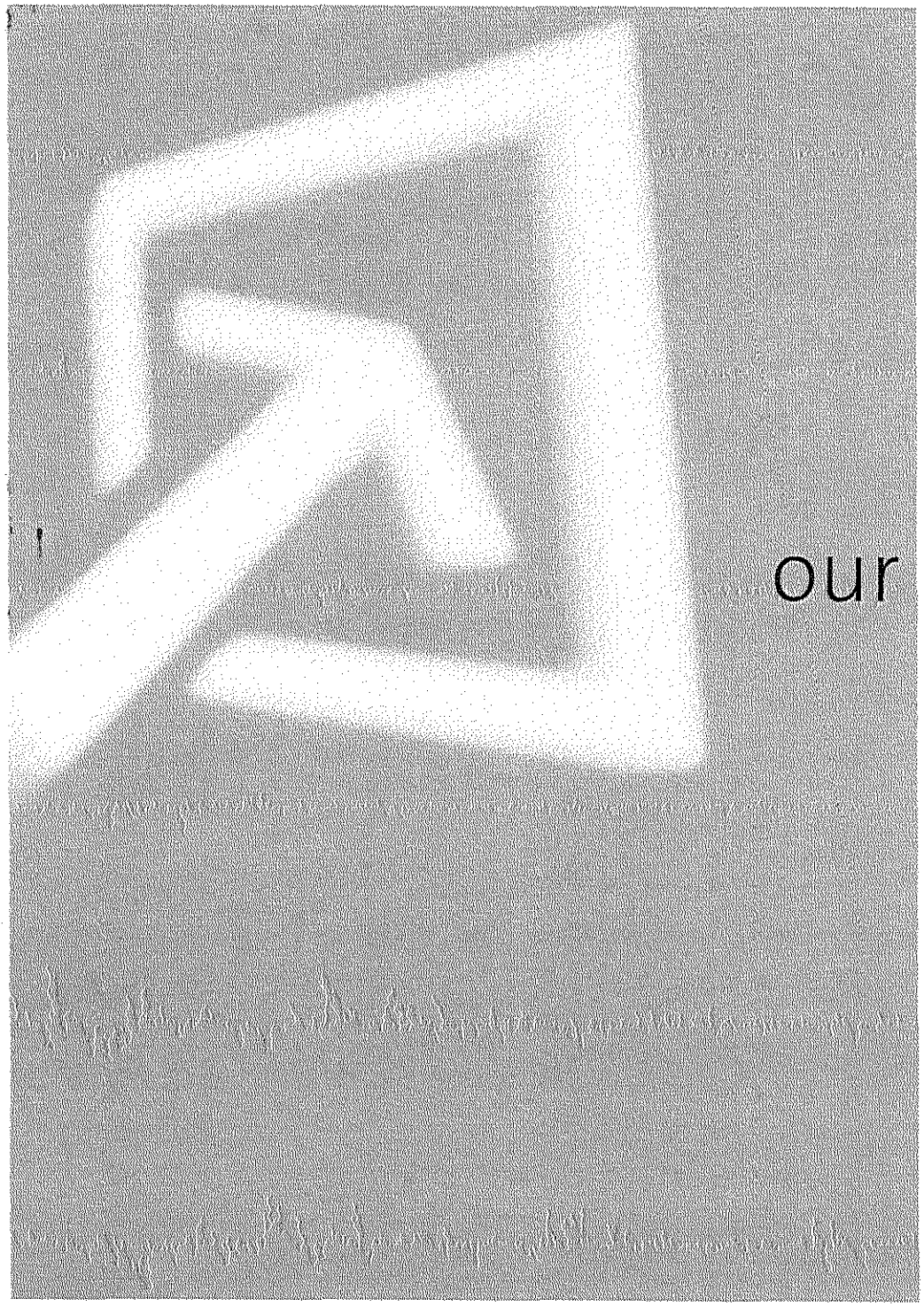
OUR business principles

Telefónica



our business principles

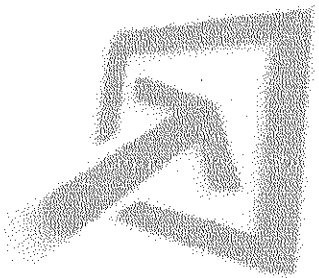
Our Business Principles **inspire** and **define** the way we carry out our activities.

All employees should apply our Business Principles in all their activities.

By complying with these principles, **we build our reputation; secure the trust** of our stakeholders; and **maximise long-term value** for our shareholders and society at large.

We **expect our business partners and suppliers to apply standards similar to our principles.**

introduction



Dear colleagues,

The Telefónica Group (Telefónica) has been through major changes in the last few years. We have seen unprecedented growth in our company and added many new customers, employees, suppliers and other partners to our team. So this is a good time to clarify and reinforce our commitment to the highest ethical standards – our Business Principles – in all our activities, and to promote **trust** as our Company's core value.

Being part of Telefónica involves a commitment to protect the quality and reputation of our brand. The decisions and actions taken by each of us are the foundations on which our reputation is built. They affect the trust that stakeholders place in us. Complying with our Business Principles helps us to act and take decisions with integrity and professionalism, including in the way we design and implement our procedures and working methods, and in how we interact with our customers, shareholders, employees, suppliers and society as a whole. Therefore, it is essential that all Telefónica employees apply the Business Principles both to the spirit and the letter, in their every day activities.

We can face difficult situations in our work, and our Business Principles will guide us to make ethical decisions and behave appropriately. It is impossible to describe all the ethical dilemmas that we may face, so our Business Principles training course is intended to strengthen understanding as well as reinforce the commitment to our ethical standards and core values.

Our Business Principles apply at all times to all our employees and the company as a whole. Also, because the activities of our suppliers and contractors can affect our reputation, we expect and encourage them to meet similar ethical standards.

Guidance is available from the Telefónica Business Principles Office, which can clarify doubts as well as examine and resolve claims that we are not living up to our Business Principles.

I want to thank you in advance for your commitment to our Business Principles. They are a key part of achieving our vision of enhancing people´s lives and the performance of businesses, as well as the progress of the communities in which we operate. We aim to achieve that vision by delivering innovative services through information and communication technologies.

Best regards,

César Alierta
Executive Chairman, Telefónica S.A.

Spirit of Progress

vision,

We want to enhance people's lives, the performance of businesses and the progress of the communities where we operate, by delivering innovative solutions based on information and communication technologies.

We continually strive to:

- Offer to our employees the best place to work, attract and retain the best talent and provide the best career-development opportunities.
- Put customers' needs at the heart of everything we do, so that they get maximum satisfaction from our services and solutions.
- Provide our shareholders with the best combination of growth and returns in the industry.
- Drive technological, economic and social development in the communities where we operate, combining our ambition to be a global and efficient company with the aim of satisfying the requirements of each local market.
- Be innovative, competitive, open, committed and trusted in everything we do.

values

- **Innovative**
  We translate technology into something that is easy to use and understand. Innovation is a constant source of inspiration to everything we do, as much in our services as in our management systems, enabling us to anticipate market trends and customers' expectations.
- **Competitive**
  Innovation helps us to be more competitive. We set high standards and constantly strive to perform beyond expectations and exceed our limits. Our ambition is to be a world leader in telecommunications. We aim to stretch boundaries and to persevere in achieving excellence.
- **Open**
  We perform in a way that is clear, open and accessible. Our key strength is listening and engaging in dialogue with all our stakeholders. We are proactive in our local communities and aim to respect and learn from the local cultural and social context in the communities in which we operate.
- **Committed**
  We deliver on our promises, do what we say we will do, and we acknowledge that the process of achieving this is as important as the result itself.
- **Trusted**
  We can be trusted only if, through our actions, we deserve that trust. By acting responsibly, we can differentiate ourselves, ensure our competitiveness and leadership, and cement our relations with all our stakeholders, thereby earning their trust. Our aim is to earn everybody's trust.

general principles

honesty and trust

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

respect for the law

- We will comply with all applicable national or international laws, rules and regulatory obligations, as well as our internal policies and procedures.
- We will provide full, fair, accurate, timely and understandable disclosure in reports and other documents we file with the relevant Securities Markets Regulators and in our other public communications.
- We will compete fairly in our markets. We believe that consumers and society in general benefit from open and free markets.

bribery and anti-corruption

- We will never seek, offer or accept gifts, hospitality, bribes or other inducements to reward or encourage a decision.
- We will avoid or declare conflicts of interest that may lead to divided personal loyalties.
- We will behave with integrity and not seek gain for ourselves or for a third party by misusing our position or contacts within Telefónica.
- As a corporate entity, we will act with absolute political neutrality. We will abstain from any direct or indirect participation that could be interpreted as taking a position in favour of or against legitimate political parties. In particular, we will not make donations of any type, whether in cash or in kind, in support of political parties, organisations, factions, movements, or public or private entities whose activities are clearly linked with political activity.

human rights

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

Our principles
define our ethical conduct in everything we do

our employees can trust us

professional development

- We will communicate our goals and strategies to our employees, to foster their commitment to and enthusiasm for achieving our vision.
- We will encourage the professional and personal growth of our employees, supporting the development of their skills and competences.
- We will ensure that policies on selecting, hiring, training and internally promoting employees are based on clear criteria relating to skills, competencies and merit.
- We will inform employees how their work will be appraised and expect them to participate positively in appraisals in order to improve their work, initiative and dedication.

compensation

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

human rights

- We will not use any form of forced or child labour, nor will we tolerate any type of direct or indirect threat, coercion, abuse, violence or harassment in our working environment.
- We will respect our employees' right to join the labour union of their choice and will not tolerate any type of retaliatory or hostile action towards employees who take part in union activities.

health and safety

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

our customers can trust us

products and services

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

communications and advertising

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

our shareholders can trust us

corporate governance

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

value creation and transparency

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

internal controls and risks

- We will ensure that appropriate controls are in place to assess and manage the risks to our business, our people and our reputation.
- We will ensure that business, financial and accounting records are prepared accurately and reliably.
- We will cooperate with our internal and external auditors or any official inspection authority.

company assets

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

our communities can trust us

development of society

- We will contribute to the social, technological and economic development of the countries where we operate. We will do this by investing in telecommunications infrastructure, generating employment opportunities, and developing products and services that contribute to the development of society.

- Through our skills, products and services, we will seek to work in partnership with civic, community and charitable groups and in public initiatives that aim to bridge social divides in the regions where we operate.

environment

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

our suppliers can trust us

conflicts of interest

- We will establish controls in our procurement processes to manage situations in which a person with a material financial interest (whether through employment, investment, contract or otherwise) in a supplier or potential supplier is likely to be directly or indirectly involved in a procurement process or decision relating to that supplier.

fairness and transparency

- We will guarantee transparent and equal opportunities for our suppliers, fostering competition whenever it is possible.

- We will adhere to strict procurement procedures to ensure we receive services and products under the best possible conditions and will award business solely on merit.

responsibility in the supply chain

- We will require our suppliers to meet similar ethical standards in their businesses and to comply with existing legislation and regulations in each country where they operate.

- We will fulfil our payment commitments to our suppliers.

business principles in practice

Compliance responsibilities

Every Manager is responsible for:

- Communicating our Business Principles to their teams.
- Leading by example in ensuring compliance with these principles.
- Guiding their teams on the ethical dilemmas that they may face.
- Rectifying any failure in the observance of our Business Principles.
- Providing proper and timely procedures to ensure compliance for their area of responsibility.
- Informing the Business Principles Office of processes or actions that may lead to non-compliance with our Business Principles.

Every employee is responsible for:

- Understanding our Business Principles, and for acting and taking decisions in accordance with them and related policies. They must also notify in an appropriate way the Telefónica Business Principles Office about processes or actions that may lead to non-compliance with our Business Principles.
- Failure to conduct business in line with our Business Principles and associated policies could lead to the disciplinary actions set out in our internal policies.

The Telefónica Business Principles website provides further details that support managers and employees in carrying out their responsibilities

Seeking advice

If you're unsure whether an action or decision would comply with our Business Principles, you should consider:

- Whether the proposed action or decision is legal.
- Whether you are authorised to take the action or decision.
- How it would look in tomorrow morning´s newspaper.
- Whether it may breach Telefónica's commitment to integrity and other relevant company policies.

In case of doubt about how to act, employees should agree the action or decision with their line manager, where necessary referring to the Business Principles website, which includes:

- Contact details for advise lines.
- Frequently ask questions.
- Access to training courses.

And which enables you to:

- More copies of this leaflet.
- A contributions and suggestions channel for future updates to this leaflet.

As a last resort, employees can seek guidance from the Telefónica Business Principles Office.

businessprinciplesoffice@telefonica.es

Confidential help

Every employee has a responsibility to ask questions, seek guidance, and express concerns, if they have any, regarding compliance with our Business Principles and related policies. This is especially so if they suspect that our Business Principles or policies are not being followed or if there seem to be gaps in those policies.

The confidential help facility is available on the intranet to employees, and on the internet for suppliers and other stakeholders.

You may report concerns in person or anonymously. However, telling us who you are, and giving as much information as you can, may enable us to investigate the issue more thoroughly.

If you wish to seek advice or report an incident, you will be treated with dignity and respect according to the following principles:

- **Confidentiality:** We will handle communications confidentially.
- **Thoroughness:** We will investigate complaints or allegations about possible breaches of our Business Principles thoroughly to find the truth.
- **Respect:** We will respect the rights of those allegedly involved in possible breaches. Likewise, and before coming to any conclusions, we will offer the employees involved the opportunity to explain the matter as they think appropriate.
- **Reasoning:** Any decisions we take will be reasoned, proportionate and appropriate.

We expect our people to act with professionalism and the highest standards of integrity. Use of the confidential help facility should be consistent with these standards.

About this leaflet

Our Business Principles have been drafted with input from our stakeholders, including employees, representative groups, customers, suppliers, local communities and shareholders.

If you would like to contribute to the review of the leaflet, use the contact details on the Business Principles website.

Business Principles Office

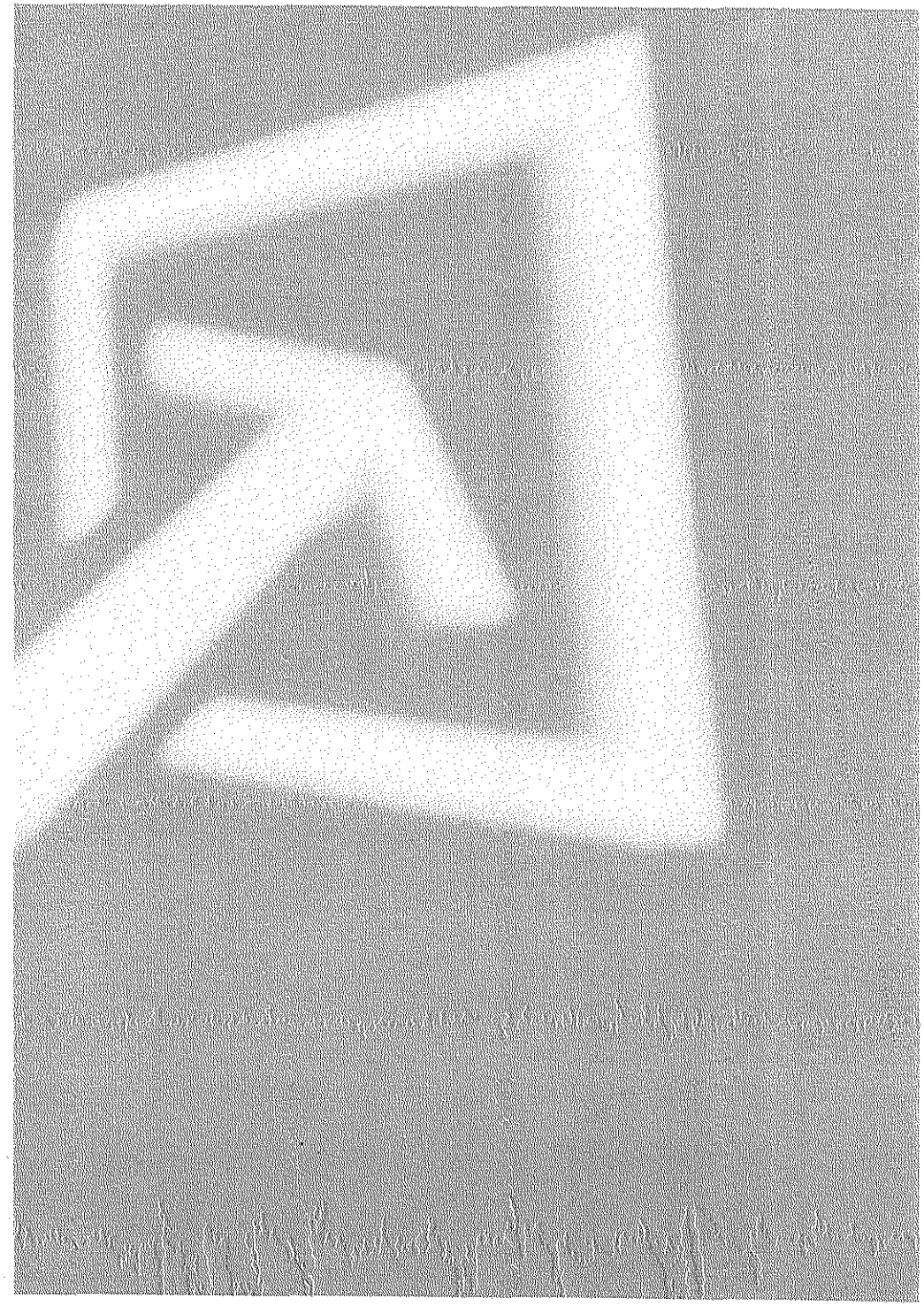
Complying with our Business Principles helps us to act and take decisions with integrity and professionalism. The Company will devote the necessary resources to ensure compliance with them.

The **Telefónica Business Principles Office** has been established to:

- Communicate our Business Principles throughout Telefónica, including preparing documents, training materials and presentations.
- Review processes and controls to ensure they are proportionate and appropriate for ensuring compliance with our Business Principles and best-practice standards.
- Examine and respond to queries, complaints or allegations raised by employees, suppliers or partners.
- Identify and develop appropriate corporate policies to apply and fulfil our Business Principles.

Contact us at:

businessprinciplesoffice@telefonica.es



Contact us at:

businessprinciplesoffice@telefonica.es

Telefónica

Exhibit 12.1

CERTIFICATIONS

I, César Alierta Izuel, certify that:

1. I have reviewed this annual report on Form 20-F of Telefónica, S.A.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 26, 2010

/s/ César Alierta Izuel
Name: César Alierta Izuel
Title: Chairman and Chief Executive Officer

Exhibit 12.2

CERTIFICATIONS

I, Santiago Fernández Valbuena, certify that:

1. I have reviewed this annual report on Form 20-F of Telefónica, S.A.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 26, 2010

/s/ Santiago Fernández Valbuena
Name: Santiago Fernández Valbuena
Title: Chief Financial Officer

Exhibit 13.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES OXLEY ACT OF 2002

The certification set forth below is being submitted in connection with the Annual Report on Form 20-F for the year ended December 31, 2009 (the "Annual Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

César Alierta Izuel, Chairman and Chief Executive Officer, and Santiago Fernández Valbuena, Chief Financial Officer, of Telefónica, S.A., each certifies that, to the best of his knowledge:

1. the Annual Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

2. the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of Telefónica, S.A.

Date: March 26, 2010

/s/ César Alierta Izuel
Name: César Alierta Izuel
Title: Chairman and Chief Executive Officer

/s/ Santiago Fernández Valbuena
Name: Santiago Fernández Valbuena
Title: Chief Financial Officer