Telefónica wishes to be perceived as an integrated telecommunications group, recognised for its commitment and responsibility towards its stakeholders

Contents

Corporate Responsibility

To Be a Responsible Company: A Strategic Goal

CASE STUDY

Difference Between the Concepts of Corporate Responsibility and Social Action

Social Action
Altruistic and in principle philanthropic funding of activities, within or without the company's sector of activity.

Corporate Responsibility
It involves, besides strict compliance with legal obligations, the voluntary integration of stakeholders' concerns in the management. This implies that the companies recognise and manage the impact of their actions through specific business management processes.

Telefónica has included in its Strategic Map (approved in 2005) the goal of being perceived as a committed and responsible leader by society in general and its stakeholders in particular.

In order to achieve this aim, various initiatives and projects have been launched, channelled through the Strategic Axis of Corporate Identity and Communication. This is one of the five elements of the transformation programme "Forging ahead to gain leadership"

Both the Strategic Map and the Axes of Transformation have been communicated to over 90% of the managers that form part of Telefónica Group, who are in turn responsible for informing their teams about these goals.

Telefónica Group has defined two monitoring indicators to periodically measure the degree of fulfilment of this strategic goal.

- Firstly, the Group carries out a follow-up of the evaluations made by analysts and observers of corporate responsibility. This collective is considered to be expert in corporate social responsibility, and the criticisms they express with regard to responsible performance are deemed to constitute a faithful indicator of the issues the company must tackle.

- Secondly, public surveys are carried out with regard to society's perception of Telefónica. These surveys have been carried out on a quarterly basis since June 2005 in Argentina, Brazil, Chile, Spain, Mexico and Peru. The survey responders give their opinion of the Company on the basis of seven dimensions and 21 characteristics, in accordance with the RepTrack© model drafted by the Reputation Institute in collaboration with the Corporate Reputation Forum.

Telefónica understands corporate responsibility as a way of managing its business in relation to all its stakeholders. As far as the Telefónica Group is capable of generating a positive impact through its activity, it will be capable of guaranteeing its own sustainability and that of its relations with stakeholders.

For Telefónica, it is as important to achieve its goals and financial results as is the way in which we these results are achieved

Organisation of Corporate Responsibility in Telefónica

Organisational structure and reporting line

Corporate Responsibility management at Telefónica is the competency of the Subdirectorate General of Corporate Reputation, Brand and Social Responsibility. It is dependent, functionally and hierarchically, of the Directorate General of Corporate Communication.

For the supervision of corporate social responsibility issues, Telefónica S.A.'s Board of Directors has a Committee made up by four non-executive board members: the Human Resources and Corporate Reputation Committee, a supervisory and control body that is informed every two months of the most relevant aspects related to corporate reputation and its evolution, corporate responsibility and the behaviour of Telefónica with regard to the demands of its stakeholders.

In addition, the top management of the Telefónica Group is informed about the degree of development and fulfilment of the goals of the Corporate Responsibility projects through the Committees of Coordination of Strategic Axes.

Roles and competencies

The Corporate Responsibility Unit has a general coordination role similar to that of other units of the Corporate Centre, related to:

- Studies and analyses of expectations, interests and demands of the internal (employees) and external (clients, shareholders, society, suppliers...) stakeholders.

- Definition and development of the management tools and models, and of the plans of action adapted to the expectations of the stakeholders, and follow-up. The execution of the plans of action normally lies with the departments, to which the corporate unit lends its support before and during the processes.

- Establishment of indicators, consolidation of the information related to the previous points, communication and comparison of said information with stakeholder feedback.

To this aim, the unit has direct collaborators in:

- The main business lines of Telefónica Group (Telefónica de España, Telefónica Internacional, Telefónica Móviles, Telefónica I+D, t-gestiona, Atento, Telefónica Soluciones...)

- The countries where it publishes Corporate Responsibility Reports (Argentina, Brazil, Chile, Spain and Peru)

- The management departments most directly related to issues of corporate responsibility (Institutional Relations, Human Resources, Auditing, Investor Relations, Shareholders' Office, Secretariat General, Fundación Telefónica, Innovation, Security, Communication, Sales Development, Environment, Quality, Finance...).

Corporate Responsibility management should answer to a process of continuous improvement, by virtue of which a prior diagnosis is made both of the risks related to corporate responsibility and the expectations of the stakeholders.

On this basis, the company establishes policies and actions for improvement that adapt to the specifics of each line of business and country.
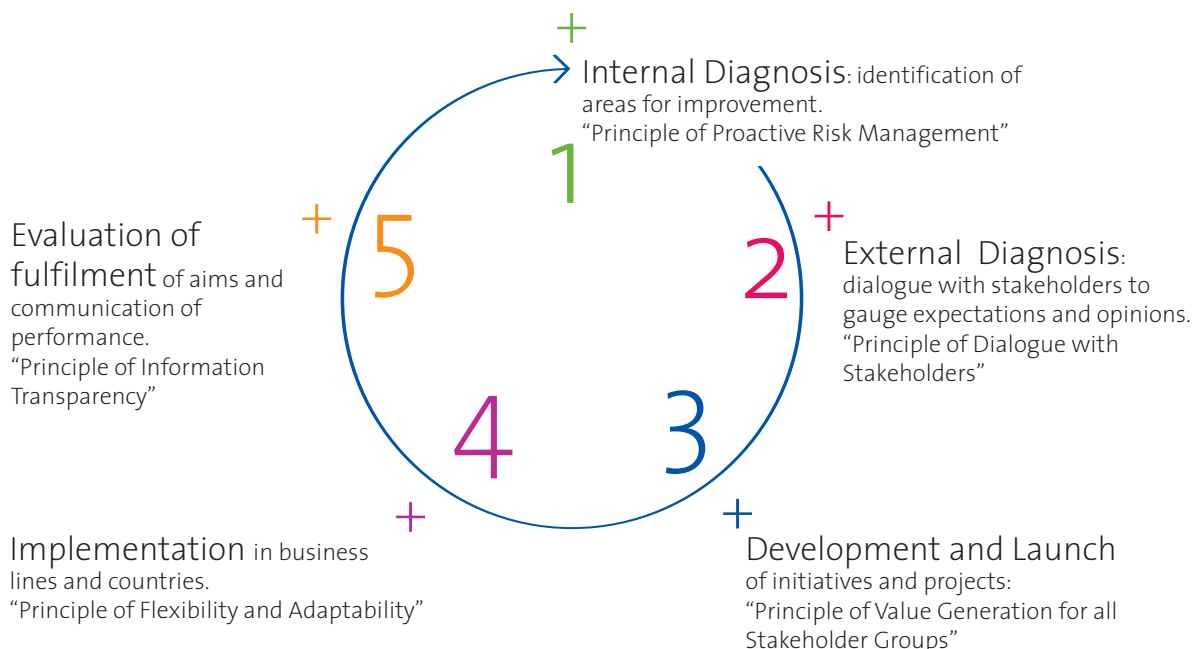
When evaluating the degree of fulfilment of aims and communicating it to the stakeholders, a new cycle is initiated in such a way that the entire process is repeated periodically over time.
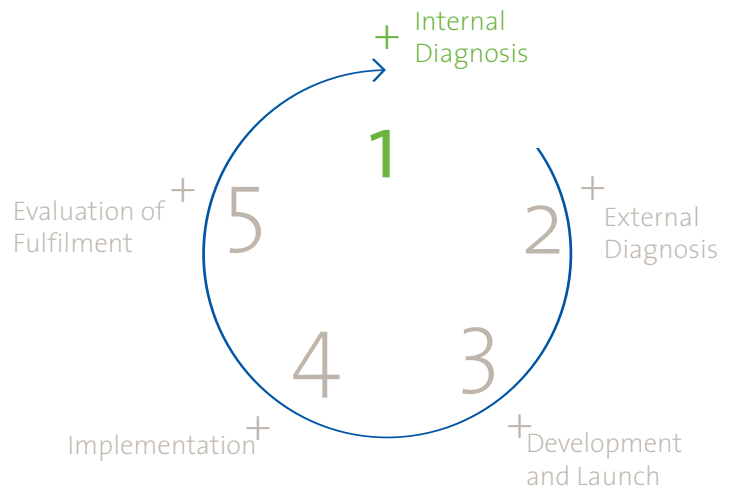
Management Model: The Corporate Responsibility Cycle in the Telefónica Group

The management of Corporate Responsibility at Telefónica is based on five principles structured in phases that, together, make up a management cycle geared to continuous improvement. This management model seeks a balance between the economic growth of the business and meeting the expectations of all its stakeholders.

For Telefónica, corporate responsibility management has the following characteristics:

- Multistakeholder Approach: as it takes into account the needs of all its stakeholders.

- Linked to the business: the main responsibility of a company is to "do well what it has to do", that is, develop its business activity as well as possible.

- Responsibility for the impact of sustainable development: It is not about contributing resources to social causes (philanthropy), but about optimising the way in which operations are carried out, seeking lasting relationships with stakeholders.

+
Internal Diagnosis: identification of areas for improvement.
"Principle of Proactive Risk Management"

1

+
External Diagnosis:
dialogue with stakeholders to gauge expectations and opinions.
"Principle of Dialogue with Stakeholders"

2

+
Evaluation of fulfilment of aims and communication of performance.
"Principle of Information Transparency"

5

+
Implementation in business lines and countries.
"Principle of Flexibility and Adaptability"

4

+
Development and Launch
of initiatives and projects:
"Principle of Value Generation for all Stakeholder Groups"

3

Phase 1

Internal Diagnosis: Identification of areas for improvement

"Principle of Proactive Risk Management"

Telefónica carries out systematic studies that allow it to identify the risks associated to corporate responsibility and corporate social responsibility. Periodically, it carries out:
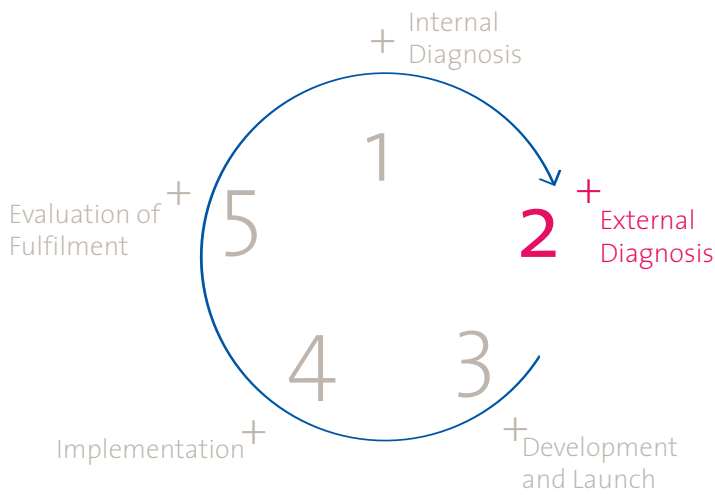
- **Analysis of Risks and Opportunities with regard to** positioning before all stakeholder groups, in the main countries with operation, To do this, an analysis is carried out of the situation of corporate responsibility in the country, paying special attention to customers, employees, society, suppliers and the environment.

  The aim of these analyses is to launch local corporate responsibility projects; as well to provide information for the regional programmes of positioning as a "committed and responsible leader"; and lastly, to act as a guide for the publication of the Country Corporate Responsibility Reports.

- **Corporate Risk Analysis: in a systematic manner,** the Auditing Department carries out an analysis of 50 corporate risks, in each of the companies of Telefónica Group; classified according to degree of importance and degree of control by the operations. Among the 50 different risks that make up the Corporate Map, there are aspects related to corporate responsibility, such as: customer satisfaction; possible failure to fulfil commitments; environmental risks;

work health and safety; corporate image and reputation; fraud; human resources; political and economic environment.

- **Specific Analysis of Reputational Risk Factors: in 2005,** Telefónica has carried out a new diagnosis of the ten main aspects that could compromise its corporate reputation. These aspects have been prioritised according to their impact on the reputation of the company and their potential impact on the financial results. This study has taken into account the opinion of stakeholders, comparative CSR studies by country and sector, analyses carried out by external analysts, investors and observers, trends of bodies that promote CSR, monitoring of the media and results of corporate reputation studies carried out in six countries.

Among the main potential risks identified are: lack of involvement in local development; health risks of infrastructures; failing to address stakeholders' demands; failing to guarantee equal opportunities; relations between the company and its employees; potential abuse of dominating position; contents not desired by the customers, incoherence between actions and messages; lack of transparency; or bureaucracy in the relations with the stakeholders.

This type of analysis helps to identify adequate plans of action and common management policies that prevent these risks from materialising and allow the company to offer a homogeneous and responsible behaviour before its stakeholders.

    5   1

                        2 + External
                              Diagnosis

    4   3

        1 Internal Diagnosis
        2 External Diagnosis
        3 Development and Launch
        4 Implementation
        5 Evaluation of Fulfilment

Phase 2
External Diagnosis: contrast with stakeholders and gathering of expectations

"Principle of Dialogue with Stakeholders"

When it comes to defining projects within the framework of Corporate Responsibility, Telefónica seeks to know which are the interests and expectations of the stakeholders that interact with the Company. To this aim, before implementing the projects, Telefónica makes an active effort to listen and compare the expectations of its stakeholders through several methodologies: questionnaires, studies, surveys, focus groups… This way, the Company aims to achieve a double aim:

- That the customers, employees, citizens, shareholders, suppliers can influence the development of the business aims and projects undertaken by Telefónica, expressing their needs to the company, as well as their perception of management aspects of the Company that affect them directly.

- That the actions and projects put into practice by Telefónica are in line with the expectations of their stakeholders, are well guided, and generate value.

During 2005, a specific methodology for the dialogue with stakeholders has been established, geared towards achieving alliances and collaboration relations with stakeholders.

One of the main sources of information and knowledge for the implementation of a methodology of dialogue was its participation in the drafting of the "Good Practice Guide for Relations with Stakeholders", developed by AccountAbility and Stakeholders Research Associated, with the collaboration of the United Nations Environment Programme. This is a tool for daily use by Corporate Social Responsibility professionals, both in companies and in civil society. In addition, the Guide was presented in Spanish, with the subtitle "De las palabras a la acción" (From words to action), adapted to the Spanish and Latin American context, with the collaboration of the Nóos Institute.

During 2005, Telefónica set up four pilot dialogue projects with different stakeholder groups. In addition, with the aim of extending this methodology to other areas of the company and of generating new dialogue processes, an internal workshop was organised, with 40 employees from different lines of business and management departments, in which the four processes mentioned above were presented, and attendants were shown how to apply these tools in practice.

In 2006, Telefónica will take this methodology to Latin America, through public presentations of the methodology, development of pilot dialogue processes and employee training.

Pilot Projects for Dialogue with Stakeholders

During 2005, Telefónica put into practice the methodology for dialogue with stakeholder groups through four pilot dialogue projects. These processes were geared towards listening and understanding the needs of the following four groups:

CASE STUDY

Former Telefónica de España Employees

This is a collective made up of almost 50,000 people and integrated mainly by people in retirement or early retirement.

The dialogue process was channelled through the two majority trade unions (UGT and CCOO) and the Association for Telefónica's Elderly. In-depth interviews and focus groups were carried out in order to find out their expectations with regard to the Company upon conclusion of their employment relationship with Telefónica.

A plan of action was designed involving setting up an online platform, mainly regarding: access to information related to the Company; access to commercial offers similar to those offered to current employees; social activities, the programme Voluntarios Telefónica (Telefónica Volunteers); tracing old colleagues; etc.

The dialogue process was carried out in collaboration with the Human Resources Department.

Plan of Action 2006 : Club Telefónica Senior as a goal for 2006.

Public Administrations as Customers

In this case it is an internal dialogue process, aimed at understanding the needs of the Pubic Administration as a customer.

A qualitative and quantitative analysis was carried out, and the internal information on customer satisfaction was analysed.

The proposed plan of action was especially focused on strengthening information and communication for Regional Managers, and on a plan of public presence of the Company.

The dialogue process was carried out in collaboration with the Corporate Relations Department.

Plan of action 2006: Company profiles by autonomous community

Associations and Opinion Leaders

A group of professional associations, federations, professional colleges and societies that make up a very specific type of customer.

In-depth interviews were carried out, as well as sessions with the directors of some of the associations and a study of satisfaction surveys.

The proposed plan of action focused mainly on information related to Telefónica Group's Social Responsibility, which can be of use to some groups of SMEs that show concern and interest in the subject but that often have no work methodology at their disposal.

The dialogue process was carried out in collaboration with the Department of Associations and Opinion Leaders.

Plan of action 2006: training initiatives in corporate responsibility for SMES.

Non-profit Organisations that act as observers of companies with regard to corporate responsibility
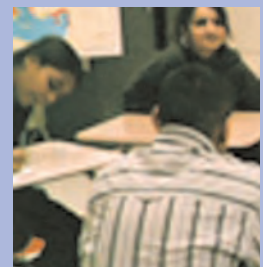
This is a group of civil society bodies that carry out report on and watch companies and their behaviour. One of the main lines of action is the study of information transparency with regard to corporate social responsibility.

Several in-depth interviews were carried out, plus a specific session for joint analysis of the Corporate Responsibility Report 2004.
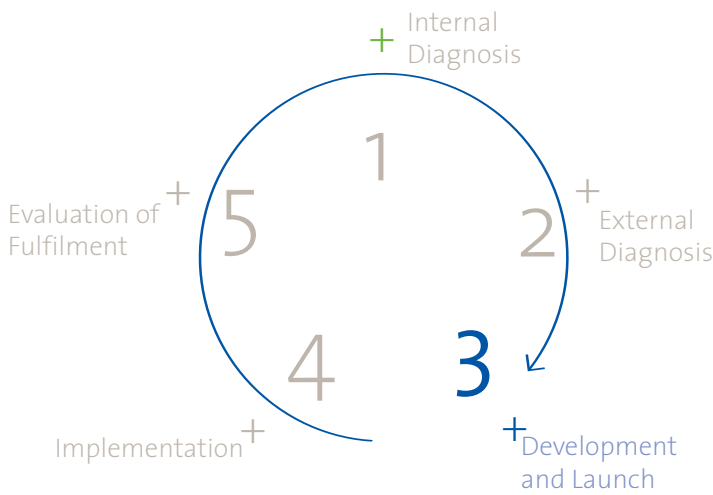
The proposed plan of action was to systematise the comparison of information in a format of dialogue panels.

The dialogue process was carried out from the Department of Corporate Responsibility.

Plan of action 2006: Dialogue panels with stakeholders on CR Reports

Internal Diagnosis 1

External Diagnosis 2

Development and Launch 3

Implementation 4

Evaluation of Fulfilment 5

Phase 3
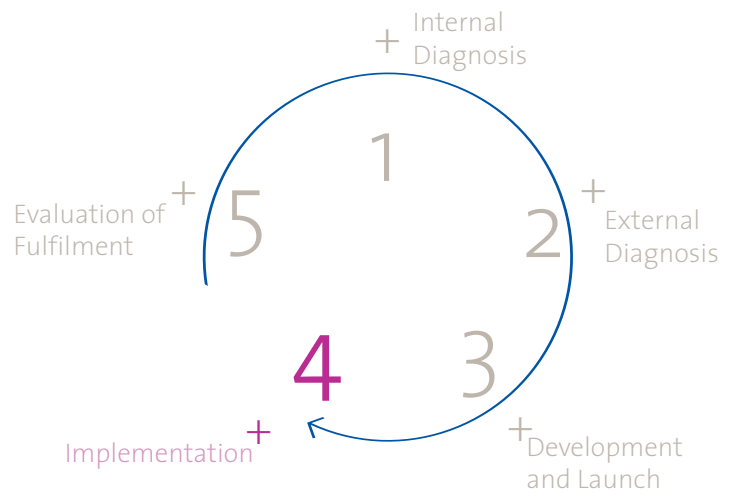## Development and launch of initiatives and projects

"Principle of Value Generation for all Stakeholders"

After analysing the risks, comparing the opinion of the stakeholders and identifying the aims and goals, the plans of action that make up the social responsibility strategy are defined and launched; these projects should be aligned with the strategic aim of being a committed and responsible leader, and are developed in collaboration with different departments or managers

At the same time, projects related to improved customer attention, professional development of Telefónica employees, innovation and excellence are promoted from their respective strategic transformation axes. Within the framework of corporate responsibility, in 2005, progress has been made on the coordination of teams that manage projects oriented to society in general, customers, suppliers and the environment.

- Telefónica Accesible: Telefónica's answer to people with disabilities. It is an integral plan to support equal opportunities and full social integration of people with disabilities. All the lines of business and management areas of the Telefónica Group participate in Telefónica Accesible.

- Digital Inclusion: elimination of geographic, economic and educational barriers in order to take telecommunications services to everyone. Telefónica's vision is to contribute through technology to an improved and higher social inclusion of people. Telefónica believes that this can be its best contribution to the achievement of the United Nations "Millennium Development Goals".

- Responsibility at the service of the customer: including aspects such as adult content management or the establishment of policies regarding the acceptable use of Internet services.

- Minimum Environmental Requirements for the Telefónica Group, applicable in all lines of business and countries.

- Responsible Purchasing: establishment of CSR requirements for Telefónica suppliers, in collaboration with the Purchasing Department.

- Supplier Satisfaction: first supplier satisfaction survey of Telefónica Group.

- Analysis of the Impact of Telecommunications on Sustainable Development.

- Positioning of Telefónica as a driving force behind economic, technological and social development of the countries and regions where it operates.

Internal
Diagnosis

1

Evaluation of
Fulfilment

5

2

External
Diagnosis

4

3

Implementation

Development
and Launch

Phase 4
Implementation in lines of business and countries

"Principle of Flexibility and Adaptability"

Telefónica carries out its activities in two continents (Europe and Latin America). The degrees of development of environmental, employment or product and service development regulations are very different in the two regions. Telefónica avoids the adoption of double standards in both regions by means of adopting Group corporate policies.
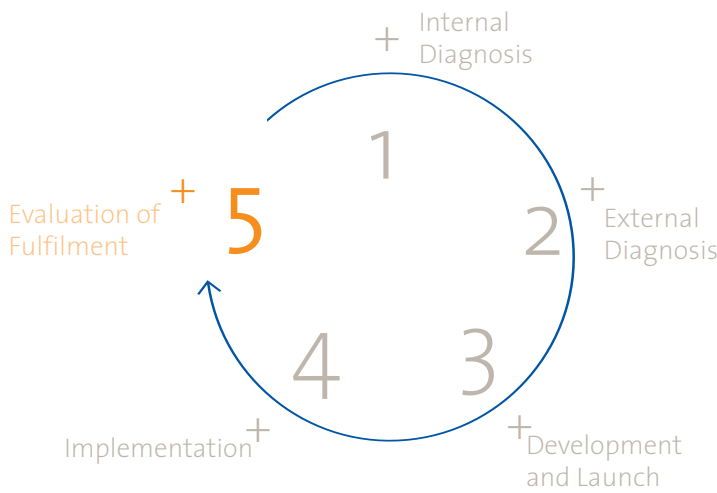
The corporate responsibility policies are presented, from their concept, as Group policies. The aim in this sense is to achieve a better cohesion and a stronger internal Group culture. However, the principle of flexibility and adaptability, seeks to respect the social, political and economic environment in each country where the Telefónica Group operates, as well as the specific nature of each business unit.

Flexibility and adaptability is also reflected in the order of priorities when it comes to implementing one or other plan of action, which can sometimes be altered by the social needs of a country, the risk maps of a line of business or the demands of stakeholders in each country.

In order to guarantee this principle, the internal regulations and policies have a period of time for their implementation by the lines of business. It is not about suddenly changing the way of carrying out activities, but rather of taking advantage of their redesigns and plans to gradually and softly introduce the principles and criteria established by the corporate responsibility policies in the business processes.

Follow-up of the degree of implementation of the different actions is a key element when it comes to ensuring compliance, thereby establishing a process of continuous improvement. To this aim, from 2006, actions will be carried out in collaboration with the Internal Auditing Department and with External Auditors, geared towards verifying the degree of compliance with the established goals. This will allow the Group to define the corresponding actions for improvement, as well as provide strategic follow-up indicators for Telefónica.

Among the policies to be implemented, is the approval of the Code of Ethics in the operations of Telefónica Group. In July 2005 the Board of Directors of Telefónica S.A. approved the extension of the Grupo Telefónica Móviles Code of Ethics to all companies of the Group. During 2006, one of the key goals is to consolidate the implementation of this Code of Ethics.

```
            + Internal
              Diagnosis

          1
    +                    +
Evaluation of   5          2    External
Fulfilment                      Diagnosis

          4        3
Implementation +        +
                   +Development
                    and Launch
```

Phase 5
Evaluation of fulfilment of goals and communication of performance

"Principle of Information Transparency"

The annual report is undoubtedly the best presentation of the different Corporate Responsibility actions carried out by Telefónica and brings to light all the value of the company for its stakeholders. It is one of the most important communication channels with stakeholders and, therefore, should reflect their needs and expectations and the way in which the company is answering them. For this reason, the different lines of business and countries where Telefónica operates publish specific CSR reports, oriented to their respective stakeholder groups.

The chapter "About the 2005 Corporate Responsibility Report" explains the way in which Telefónica responds to its commitment of continuous improvement, sounds out the opinion of the stakeholders and the degree of acceptance of the Report; and presents and answers the suggestions, comments and even clarifications on the information included therein.

From an internal point of view, the reports are a tool for knowledge management, and for improvement of company performance in CSR, as they help to follow-up on the established goals, communicate achievements and management goals for future financial years. In addition, the verification of the reports gives credibility,

rigour and transparency, becoming a key tool for the detection of deficiencies in the management systems and policies, which will be improved in subsequent years.

From an external point of view, the best and most widespread use lies in making available to stakeholders information that they tend to demand from the Company: aspects related to human resources indicators, health risks of the antennae, handling of personal details, environmental impact, innovation, etc... It is on the basis of this information that the demands of socially responsible investors are answered. Lastly, the CR Reports are useful in the debate and dialogue with the stakeholder groups about the issues that most concern them.

Since December 2002, Telefónica has a section on its website devoted to corporate responsibility, which follows the same structure as the annual report, but allows updating of the information.

The corporate responsibility management model of Telefónica has generated a great number of queries and requests for information. It is the policy of the Department to answer, whenever possible, all the requests for information, queries or interviews. These are mainly related to: Socially Responsible Investment questionnaires, students, thesis and dissertation research, research projects, presentations at CSR forums and conferences

Corporate Responsibility Reports published by Telefónica

	1997	1998	1999	2000	2001	2002	2003	2004	2005
BY LINE OF BUSINESS									
Telefónica SA						●	●	●	●
Telefónica de España			●	●	●	●	●	●	●
Telefónica Móviles							●	●	●
Telefónica Móviles España			●	●	●	●	●	●	●
Telefónica I+D	●	●	●	●	●	●	●	●	●
TPI							●	●	●
BY COUNTRY									
Brazil								●	●
Argentina								●	●
Chile								●	●
Peru								●	●

● Environmental Report   ● Sustainability Report   ● CR: Corporate Responsibility Report

Note: The reports referring to 2005 may be in progress at the time of publication of this report

CASS STUDY

Telefónica's Company Social Reports from the 80s.

Telefónica's archives include the company social reports ("Balance Social") from the 80s with a structure and content very similar to that of current best reporting practices. This model has been an inspiration for the Telefónica Reports in the 2000s, and twenty years later, the structure of the report based on stakeholder groups, is still used.

Contents
1. Employees
2. Customers
3. Shareholders
4. The Telecommunications Sector (suppliers, distributors, other operators...)
5. The Community
6. The Environment
7. Financial Statements

One of Telefónica's approaches to corporate responsibility is to actively participate in initiatives, forums, work groups and institutions that generate opinions regarding the activity of companies in this field.

With its participation in the debate on corporate responsibility, Telefónica seeks to meet various aims:

- To make public practices with other social interlocutors.
- To gain knowledge and learn about social responsibility methodology of other companies and organisations.
- To identify opportunities for collaboration.
- To generate points of convergence and dialogue with bodies representing the stakeholder groups.

Telefónica in the debate on Corporate Responsibility

United Nations (UN)

The company of Telefónica signed the Global Compact in March 2002, which has generated most of the lines of work in collaboration with the UN and other organisations within the UN. In 2005, the following collaborations are worthy of mention:

- Participation in the Non-Discrimination in Employment Work Group, within the framework of the Spanish Global Compact Association (ASEPAM).

- Presentation by Telefónica at the Learning Seminars of the Audit on Human Rights carried out at Telefónica (ASEPAM).

- 3rd Meeting of Local Networks, Barcelona, September 2005.

- Collaboration in the drafting of the Practical Handbook for Progress Reports.

- Participation in Seminar on Progress Reports, Geneva, June 2005.

- Conclusion and presentation of Manual de Compromiso con los Stakeholders (Handbook of Commitment to Stakeholders), linked to the UN Environment Programme and in collaboration with AccountAbility (London, October 2005);

- Conclusion and presentation of results of the Global Responsibility Initiative Project managed by the European Foundation for Management Development (EFMD). Launch of its second phase, with the aim of incorporating the business models of social responsibility and ethics in the educational programme of academic bodies.

- Participation in the consulting process of businesses and human rights with the Special Representative named to this effect by the United Nations.

Global Reporting Initiative (GRI)

- Member of the GRI Stakeholder Council.

- Organizational Stakeholder since December, 2004.

- Participation in the organisation of the Sneak Peaks for the debate of the G3 drafts in Madrid, Barcelona, Sao Paulo, Rio de Janeiro, Santiago de Chile, Lima and Buenos Aires.

International Chamber of Commerce (ICC)

Telefónica takes part in the Social Responsibility and Anti-Corruption study groups since 2002. Follow-up of the activities of the International Standardization Organization (ISO), regarding international standardization of social responsibility.

Global e-Sustainability Initiative (GeSI)

An initiative that, promoted by the UNEP (United Nations Environment Programme) and the ITU (International Telecommunications Union), groups manufacturers and operators of the information technologies sector with the aim of promoting sustainable development.

Some of the lines of work for 2005 were:

- The development of standards and tools for collaboration in issues related to the supply chain.
- Development of dialogue panels with stakeholders regarding sustainability reporting In the ICT sector.

European Telecommunication Network Operators (ETNO)

ETNO groups telecommunications operators in Europe. Telefónica is present since 2002 in its Environment, Health and Safety groups.
In 2005 Telefónica:

- Collaborated in drafting the Regional Environmental Report 2005
- Participated in the work team on energy and optimisation of consumption.
- Collaborated in a report with WWF regarding the contribution of ICTs to sustainable development.

Hispanic-American Association of Research Centers & Telecommunication Companies (AHCIET)

Telefónica collaborates with AHCIET in the promotion of good practices in corporate responsibility issues in the Latin American telecommunications sector. In 2005 the department of Corporate Social Responsibility takes up the Presidency of the Commission of the Information Society.

Spanish Confederation of Business Organisations (CEOE)

Telefónica is a member of the CEOE's Commission for Social Reponsibility. In 2005, the most significant collaborations were:

- The participation and monitoring of the activities of the Spanish Association for

Standardisation and Certification (AENOR) and the International Standardization Organization (ISO) with regard to social responsibility issues.

- Under the coordination of the CEOE, Telefónica takes an active part in the creation of a collaboration project between the ILO and the Spanish Government, which seeks to promote employment for the young in Latin America.

International Organisation of Employers (IOE)

Telefónica is a member of the IOE's CSR Work Group. In 2005, the following collaborations were carried out:

- International Symposium for Employers' Organisations– The Evolving Corporate Social Responsibility Debate: Issues for Employers and their Organisations. Geneva, October. 2005.
- Consulting Process of companies with John Ruggie, Special Representative of the United Nations Secretary General for Business and Human Rights. Geneva, September 2005.
- Special Session of the Council: How companies and employer organisations see their role in society. Geneva, June 2005.
- Seminar on Management of Corporate Social Responsibility for members of the IOE, Telefónica Headquarters, September 2005.

Spanish Association of Accounting and Business Administration (AECA)

Telefónica takes part in its Study Commission of Corporate Social Responsibility.

CASE STUDY

Other participations in initiatives in Latin America:

Argentina
Argentine Institute of Corporate Social Responsibility (IARSE)

Brazil
Instituto ETHOS de Empresas e Responsabilidade Social
Fundação ABRINQ para os Direitos da Criança
GIFE– Grupo de Institutos, Fundações e Empresas
Instituto Akatu pelo Consumo Consciente
CEATS- Centro de Empreendedorismo e Administração do Terceiro Setor da Fundação Instituto de Administração da Universidade de São Paulo (FIA-USP)

Colombia
Colombian Business Council for Sustainable Development (CECODES), Colombian chapter of WBCSD
Colombian Centre for Corporate Responsibility (CRE)

Guatemala
CentraRSE; representative of WBCSD in Guatemala

Mexico
Mexican Centre for Philanthropy (CEMEFI), whose Decalogue for Socially Responsible Companies was signed by Telefónica Móviles México, obtaining the distinction "Socially Responsible Company".

Nicaragua
Nicaraguan Union of Corporate Social Responsibility (UniRSE)

Panama
IntegraRSE
Corporate Ethics Agreement of Panama

Peru
Peru 2021

Awards and Recognition for Telefónica's Corporate Responsibility

Responsible Investment

Telefónica was included in the European and worldwide Dow Jones Sustainability Index (DJSI), which lists companies that lead their sector in terms of sustainability. Telefónica also ratified its presence in the FTSE4good index. The presence of Telefónica in those indices is recognition to its conviction that corporate responsibility should be regarded as a basic axis in a telecommunications operator's business strategy.

Telefónica Móviles was included in the FTSE4good index and the SAM evaluation passed the minimum criteria for being included in the DJSI. However, the company was not included in the indices due to its low free-float.

Lastly, it is of interest to note that O2, a company acquired in 2006 by Telefónica, was awarded the distinction "Best in class" for the mobile telephony sector.

Corporate Responsibility Reports

European Environment Award in the category of Communication for Sustainable Development: Awarded by the "Fundación Entorno", in collaboration with the Spanish Ministry of Industry and the Ministry of Environmental Affairs, it prizes companies that show a firm commitment to sustainable development. The prize was handed out by the Prince and Princess of Asturias.

Telefónica leads the social responsibility study in the annual reports of the Ibex 35 companies, carried out by the CSR Observatory. However, the qualification obtained by Telefónica (1.90 in a scale of 4 points) shows the company must continue in its efforts to improve its information transparency in the future.

Telefónica's website provides the best quality information. Telefónica's website has obtained the most points, according to the report "Social action in websites of large companies and savings banks " drafted by Empresa y Sociedad on the basis of a comparative analysis of 65 large companies and 10 savings banks. In the comparative analysis, Telefónica obtained 746 points, significantly above the second and third in the classification, with 495 and 465 points respectively. The analysis has six sections: general framework, products and services, human capital, employment, financing and advanced resources.

Recognition for corporate responsibility projects in Spain

Empresa y Sociedad Award to the Best International Social Action: During the awards ceremony, presided by the Prince and Princess of Asturias, the jury pointed out that Telefónica's social action gives priority to education as a social integration tool, in projects in Latin America, Morocco and Spain.

Telefónica, the best performer in terms of social action, according to experts who took part in a survey carried out by the Empresa y Sociedad Foundation. The survey included 275 experts from companies, savings banks, social organisations, universities, business schools, public administrations and media. Telefónica maintains its position as leader as in 2004 and is once again the only body present in the first ten positions in the four types of programmes (products and services, in collaboration with employees, employment, sponsorship and financing).

PRnoticias users choose Telefónica as the company with the best CSR project.

The theme portal on spinal cord injury of the National Paraplegics Hospital, www.infomedula.org, sponsored by Fundación Telefónica, has been awarded the "Infanta Cristina Comunicación 2004" IMSERSO Prize "for its accessible design and ambitious structure that makes it possible to develop and provide services to its users", according to the jury.

The Spanish Committee of Representatives of People with Disabilities (CERMI) has awarded the Special Award CERMI.es 2004 to the publication "Solidaridad Latinoamericana" (Latin American Solidarity) of Fundación Telefónica's International Solidarity Network.

Recognition for Corporate Responsibility projects in Latin America

Telefónica de Argentina was awarded the award to most significant social work 2005, awarded annually by the Spanish Chamber of Commerce of the Republic of Argentina for its corporate social responsibility activities. In the choice of the jury, attention was drawn to the work and commitment toward society, through educational projects and especially the Corporate Volunteer programme, which groups over seven hundred members of the Group's companies.

In Peru, Aulas Hospitalarias, received three awards, in recognition to the uniqueness of the project in terms of corporate responsibility (Creatividad Empresarial, Perú 2021 and Premio Anda).

In Chile, the Government recognises the commitment of Fundación Telefónica to people with disabilities. On the occasion of the launch of the publication "Discapacidad en Chile, pasos hacia un modelo integral del funcionamiento humano" (Disability in Chile, steps toward a global model of human performance) of the National Fund for Disabilities (Fonadis).

Fundación Codespa Award to Corporate Solidarity, for educational projects developed in Latin America by Telefónica and Fundación Telefónica.

The Proniño programme carried out by Telefónica Móviles and Fundación Telefónica received many recognitions and awards in Argentina, Guatemala and Ecuador.

Milestones and Challenges in Corporate Responsibility

Corporate Responsibility
Code of Ethics
Corporate Reputation
Brand

Customers

Milestone	Challenge 2006	Milestone	Challenge 2006
Inclusion of the aim to be a "committed and responsible leader" in Telefónica's Strategic Map	Coordinate the CR strategy with O2	Consistent customer satisfaction measurement systems for TdE, TISA and Telefónica Móviles España	Establishment of consistent customer satisfaction measurement systems for Telefónica Móviles LATAM
Publication of Reports on Country Corporate Responsibility (Argentina, Brazil, Chile, Peru)	Auditing of CR Report in accordance with norm AA1000/AS in the countries	Projects for the improvement of assistance by solving the customer's problem in the first contact	Customer Defence Service in Spain
Pilot projects for dialogue with stakeholders in Spain	Pilot projects for dialogue with stakeholders LATAM 2006	Advances in ISO 9001 certification	Advances in ISO 9001 certification
Studies regarding the impact of telecommunications on sustainable development		Policy of Acceptable Use of Internet Service	Implement Policy of Acceptable Use of Internet Service
Approval of Code of Ethics for the Telefónica Group	Implementation of the Code of Ethics in Telefónica Group	Adult Content Management Regulations	Implement Adult Content Management Regulations
Implementation of the Code of Ethics in Telefónica Móviles	Alignment with O2's Business Principles	Customer handbook explaining the basics of mobile telephony	Customer Handbook explaining the basics of mobile telephony for LATAM 2006 customers
Start up of RepTrack as a measurement tool	Improve perception of Telefónica in the weakest dimensions by 5% in Latin American countries		Regulations for Management of Games as contents
Identification of reputational risk factors	Implementation of Corporate Model of reputation risk management		
Establishment of the Telefónica Brand Model	Alignment of Telefónica and O2 Brand Models		
Global launch of movistar, brand of Mobile Telephony	Launch of a commercial brand for the digital home		

Milestone

Challenge 2006
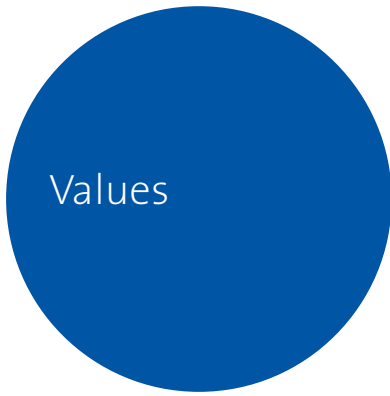
Employees

Increase employee satisfaction by over 5%	Increase employee satisfaction by over 5%	
Worldwide publication of vacancies in Intranet in order to encourage professional development and internal rotation	Personalised development plan for all employees	
Regulation for control of occupational risks in the contracting of works and services (as a preventive measure following the 2004 audit)	3rd and last phase of the labour audit of the Telefónica Group	
	Homogenisation of management procedures for Health and Safety in the Group	
Over 75% of employees evaluated by competencies	Development of model of Corporate University	
	Homogenisation of the social benefits for the Group's Management	
	New ways of working: dynamic office, mobile work; Policy for the Reconciliation between private and professional life.	
	Corporate Policy for the Integration of People with Disabilities in accordance with the LISMI Law (Law for the Social Integration of People with Disabilities)	
Launch of Internal Communication Plan Spain 2005	Launch of Internal Communication Plan LATAM 2006	

Society
Environment
Supliers

Strategic review of the working areas of Fundación Telefónica (educared, proniño, forum, volunteers)	Promotion of the Corporate Volunteer Projects
Telefónica Accesible Project (Spain 2005)	Telefónica Accesible Project (2 countries in LATAM in 2006)
	Promotion of "Digital Inclusion" Project in LATAM
Implementation of Norm "Minimum Environmental Requirements"	Implementation of the Norm "Minimum Environmental Requirements". A step in each company
	Improvement of waste management systems in LATAM
Programmes of paper consumption efficiency	Internal Regulations for environmental management and control
	Creation of Environment Committees per country
	Publication of an Environmental Policy for Telefónica Group
Supplier satisfaction survey	Responsible purchasing policy of the Telefónica Group
Increase of online contracting	Purchasing policy for social suppliers
Participation in the Supply Chain Group of the GeSI	Participation in the Supply Chain Group of the GeSI

Values

Telefónica's goal is for its customers, employees, suppliers, shareholders and companies in the countries where it operates to place their trust in its ability to fulfil the commitments it makes.

Telefónica's values are the basis on which to build a committed and responsible company.

Telefónica knows that trust cannot simply be expected, but is rather earned on a daily basis, by making the right commitments and fulfilling them, demonstrating that it is capable of delivering the goals it sets itself. Telefónica seeks to achieve this through an attitude of understanding toward the needs of its stakeholders; through constantly improving everything it does; accepting the responsibilities that come with leadership, and through being committed to behaving with transparency, integrity and ethics. That is our aim. These are our values:

Customers

Quality: Telefónica's products and services (aptitude) and its relationship with customers (attitude) fulfil and, whenever possible, exceed customers' expectations in terms of experience and performance.

Fulfilment: we commit to fulfilling the aims we set ourselves and the promises we make to our customers.

Shareholders and investors

Transparency: Telefónica makes readily accessible to shareholders and investors all the information regarding the company which is of relevance to their interests.

Profitability: Telefónica has a solid and future-oriented model that can generate profit in a sustained manner.

Employees

Clarity: Telefónica makes accessible to its employees any relevant information, both related to the evolution of the business and to aspects affecting them more directly.

Professional development: Telefónica provides its employees with opportunities to make progress in their professional career, and makes every effort for them to be able to fully develop their potential, in accordance with their interests as well as those of the company.

The values of the Telefonica Group

Employees
Clarity and
professional
development

Shareholders
Profitability
and
transparency

Suppliers
Equal
opportunities
and mutual
benefit

Trust

Customers
Quality and
Fulfilment

Environment
Respect and
protection

Media
Information
and
transparency

Society
Contribution
and proximity
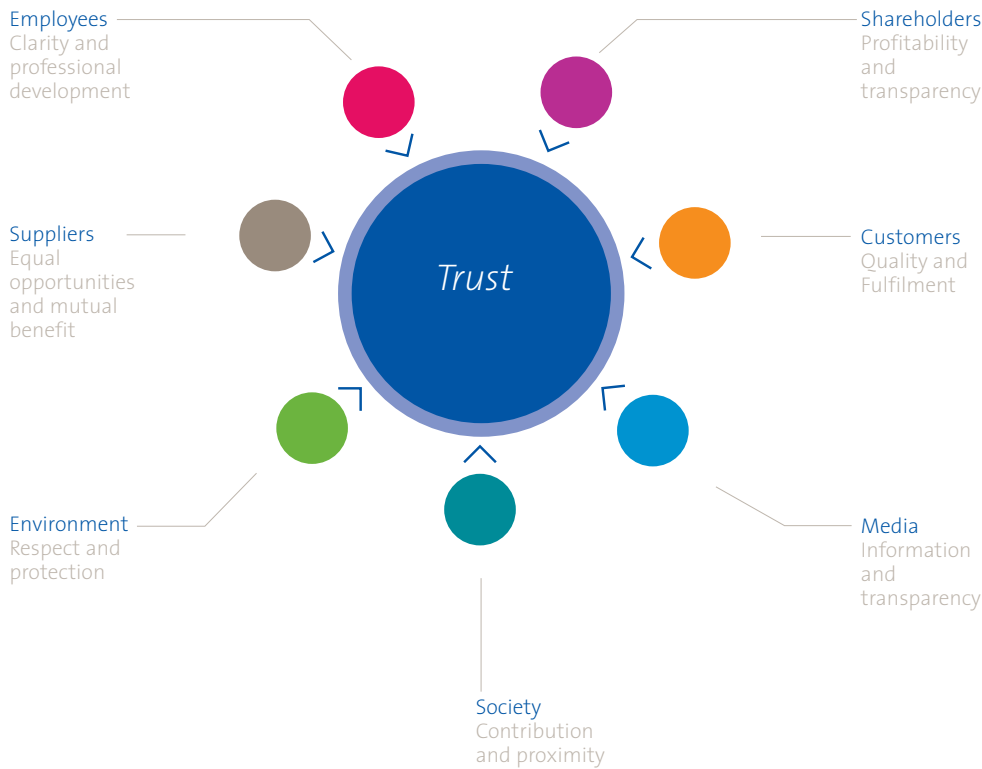
Society

Contribution: Telefónica has developed a relationship based on trust both by generating richness through developing the business and directly, by investing in social commitment.

Proximity: Telefónica is a global and multi-domestic company: it is multi-country and multi-business, and is understanding and aware of the needs and specific characteristics of the societies in which it operates.

Environment

Respect: Telefónica is committed to respecting the environment in all the activities it carries out.

Protection: the company collaborates in the protection of the environment through the extension to all members of society of services that are beneficial for the environment.

Suppliers

Equal opportunities: Telefónica guarantees a transparent and equal selection process for suppliers, based on objective grounds.

Mutual benefit: Telefónica has defined a constant improvement process in the supply chain and carries out a large volume of local purchases which translate into mutual profit for Telefónica, suppliers and the societies in which it operates.

Media

Information: Telefónica is aware of society's interest in the activities it carries out, and commits to providing information on these activities.

Transparency: Telefónica proactively provides the media with full, exact and true information regarding the aspects which are relevant at any given time.

Code of Ethics

Ethical Principles

Our Behaviour

Anti-corruption

Ethical Principles

Towards our shareholders
To keep, protect and efficiently use the company's assets and to develop a professional management geared to ensuring the creation of value for our shareholders.

Provide full, true, precise and clear information, guaranteeing that the investors' interests are satisfied and that the requirements of the market authorities in which the group or any of companies is listed are complied with.

Towards our customers
Make available to our customers quality products and services that are innovative, safe, and meet with the advertised description.

Respect the privacy of communications and protect our customers' data against any use which is not authorised by the law in force.

To not carry out illegal or misleading promotions or advertising in the marketing of our products and services.

Towards our employees
Establish work conditions that guarantee safety and protect the health of employees, in an environment free from any kind of threat or abuse.

Provide fair remuneration to our employees.

Guarantee equal opportunities and encourage the integral development of employees, both on a professional level and on a personal level.

Towards society
To contribute to the social and economic development of the countries in which the company operates.

To act in accordance with applicable national and international laws and regulations. Under no circumstance, resort to or tolerate bribes of third parties to the Company or its employees, or vice versa.

To respect the regulations that guarantee the free market, to compete legally in every market and to not sign agreements with other companies in order to reduce competition.

To respect human rights and public freedoms recognised in the Universal Declaration of Human Rights, to not exercise any form of discrimination and to not tolerate underage working or any type of work abuse, making this commitment apply to all our suppliers and collaborating companies.

To identify the environmental issues related to the development of the activity of the Company, with the aim of reducing their impact as much as possible.

To promote the development of services that encourage social inclusion and make it possible for people with disability to have an improved quality of life.

To guarantee the safety of our installations and minimise their impact on their surroundings, within the technological limitations and safeguarding the needs of the service. To favour the integration of local suppliers in our activities, providing all of them with equal opportunities.

In July, 2005 the Board of Directors of Telefónica S.A. approved a Code of Ethics that must be observed by the employees of the Telefónica Group in their daily activities.

Telefónica Móviles already had a Code of Ethics, on the same terms as that of the Code approved for the Group.

During 2006 one of the key aims of the Group is to consolidate the implementation of this code across the entire Telefónica Group, as well as to align O2's "Business Principles" and Telefónica's Code of Ethics.

Our Behaviour

Obligations of employees

Comply with regulations in force, and respect the internal policy and regulations of their companies.

Act with integrity towards customers, always providing clear and truthful information.

Act with integrity, not taking advantage of the position or contacts obtained as a result of the company's activities, for personal benefit.

Use the company's facilities, equipment or services exclusively for the functions which they have been assigned with.

Respect colleagues and safeguard the harmony in the work environment.

Reject and not offer bribes, including gifts which, due to their value, could result in subsequent obligations.

Safeguard the company's physical and intellectual property.

Protect and avoid the dissemination of information under their responsibility. All the strategic information of the Telefónica Group as well as any data regarding stakeholders must be considered confidential and therefore treated as such.

Use only IT equipment assigned for carrying out their functions. It is forbidden to transmit pornographic images, generate or transmit viruses, illegally copy software or distribute emails with political or commercial aims.

Inform the company of any conflict of interest derived from other professional activities or economic or family ties with competitors and suppliers.

Show respect for the workplace by dressing appropriately and not being under the influence of alcohol or drugs.

Obligations of the company

Respect its employees. Act unequivocally against any form of discrimination, be it for reasons of gender, race, age, nationality, disability, ideology or religion.

Help employees who have family or social problems. Provide help for employees with relatives under their care with disabilities or serious illnesses, as well as those with problems with alcohol or drug addiction.

Safeguard confidential information of the employees.

Establish fair and objective mechanisms of salary remuneration.

Ensure that the internal contracting and promotion policies are founded upon the criteria of professional skills and abilities.

Offer training and make available to employees the necessary tools to carry out their work.

Comply with all regulations in force regarding health and safety at work. The company will have a programme for preventive management of occupational risks as a general policy.

Respect freedom of association.

Respect the right to participate in any non-professional activity.

Establish the mechanisms for monitoring and control of the Code of Ethics. The Office of the Code of Ethics has been created for this purpose.

Anti-corruption

Telefónica has expressed institutionally, in its Code of Ethics approved by the Board of Directors, communicated to its employees and published for the knowledge of its different stakeholder groups, its firm commitment to "act in accordance with applicable national and international laws and regulations and, under no circumstance, resort to or tolerate bribes of third parties to the Company or its employees, or vice versa. Likewise, the Code includes the obligation of its employees to "reject and not offer bribes, including gifts which, due to their value, could result in subsequent obligations".

Likewise, in the same text it restates the validity and commitment to the UN Global Compact, signed by Telefónica in March 2002 and which, in its Principle 10, indicates that "companies should work against corruption in all its forms, including extortion and bribery".

From an organisational point of view, Telefónica is implementing the Office of the Code of Ethics for the study of queries, complaints or reports, dissemination and evaluation of compliance with the Code of Ethics; a subdirectorate general of Corporate Reputation and a Corporate Inspection Unit which acts for the preventively and reactively, verifying specific acts and situations.

The Group also has reporting channels that guarantee the confidentiality of the reporter and has established rules for his/her protection. In addition, the Group's internal regulations establishes controls for the processes that link decision-making and fund releasing that provide reasonable certainty that no manager or employee may, unilaterally, make undue payments or, should payments of this sort be made, that they will be detected in time.
Among these controls are the following:

- Restrictions to decision-making capacities of line managers who have power of attorney, access profiles to the computer systems and the signature structure, especially those that are sent to banks for verification purposes.

- Control of the existence of prior and sufficient budget assignment for the purchase of any goods or services.

- Separation of functions between the person who makes the decision and orders the purchase of good and services and the person who assigns the purchase.

- Intervention units that verify financial transactions and, for payment of invoices, ensure that the details correspond with the previously agreed terms.

- Separation of functions of Treasury and Intervention and double signature for payment documents (the control signature verifies amount, currency and recipient).

It should be noted that there are no conclusions in the Inspection reports prepared by the Group that suggests the existence of payments to political parties, bribes or payments to people or companies that could act as intermediaries to provide funds to political parties or candidates.

Telefónica, together with other companies and bodies, has informed the examining members of the OECD, at the request of the Spanish Ministry of Industry, of the means at its disposal for compliance with the Convention signed by our country for Combating Bribery of Foreign Public Officials in International Business Transactions.

Specifically, our company informed the OECD of the regulatory frameworks in place at the Telefónica Group (Code of Ethics, Company By-Laws, Internal Regulations, Auditing Committees, Internal Controls, specialised units, etc. and explained how any act of this type was contrary to these regulatory frameworks and thus not permissible and sanctionable

CASE STUDY

Implementation of the Code of Ethics in Telefónica Móviles

Telefónica Móviles was Telefónica Group's first company to approve its Code of Ethics. 2005 was the first anniversary of the creation of its Ethics Committees. Including both the activities of the operators' Corporate Committee and Ethics Committees, the total number of cases dealt with during 2005 was 306.

Although the classification of the cases can sometimes be subjective, the cases related to behaviour, regarding the attitude of bosses or relationships between colleagues, favouritism and harassment were the most common issues dealt with by the Committees, representing 44.5% of the total.

Work related issues such as the review of sanctioning processes, selection processes and work conditions in general represented 24.7% and were the second most common category. In terms of work sanctions derived from these issues, it should be noted that the Committees have supervised the reasons for 12 layoffs, ensuring complete transparency in decisions related to these cases.

It is important to note that the communication related to these two types of issues, treatment of employees and work issues, have referred to situations caused by personal behaviour and specific situations. There have been no corporate policies or procedures that have been deemed to be in breach of the Code of Ethics. Conflicts of interest account for 19.24% of the issues dealt with. It is important to note that 89.2% of the issues were queries made by workers who were informing the company of a family link with suppliers or other companies that carried out activities for our companies. Only in one case was it necessary to negotiate severance due to conflict of interests.

This kind of issue has also been essential for unifying criteria regarding conflicts of interests arising from accepting gifts or attention, or hiring relatives.

The issues related to compliance, including possible irregular contract awards, incorrect sale assignment and undue handling of goods, accounted for 6% of the cases, which is proof of the contribution of the Channel of Ethics in detecting possible fraud or infractions regarding procedures. In these cases, the Ethics Committees informed the auditing departments, who were then put in charge of the relevant investigations.

In addition, five issues resulted in the review of the company's internal processes. In no case did any of the communications point to an infringement of the Code of Ethics, but rather to the existence of badly defined processes which were causing conflict and uncomfortable situations. This kind of issue has also proven that the activity of the Committees, together with the cooperation of employees, can also contribute to an improved management of the company.

To summarise, last year served to strengthen the mechanism which Telefónica Móviles put into practice to make explicit its commitment to company responsibility, creating a line of communication for employees with the company, at the highest level, which is proving to be useful, not only for channelling claims, but also as a discussion forum where employees can express their views regarding the organisation and the procedures established, in order to find the best way of complying with all the commitments established. The challenge for FY 2006 is to put into action this methodology across the Telefónica Group.

Corporate Reputation

Telefónica considers corporate reputation, understood as the perception of a company by its stakeholders, is a key asset to guarantee the sustainability of its business.

MERCO: Spanish Monitor for Corporate Reputation 2005

In accordance with the results of the last edition of the Spanish Monitor for Corporate Reputation, presented in the first quarter of 2006, Telefónica occupies the second position among the 100 most reputable companies in Spain. With regard to the company leaders, the Chairman of Telefónica, César Alierta is in the fourth position in the list of the 100 most reputable Spanish leaders.

Corporate Reputation Model

In December 2001, Telefónica put into action the project of Corporate Reputation for the Telefónica Group, and from the beginning, it was established that in order to guarantee good reputation, it is necessary for companies to have a balance between the way they behave (what they do) and their messages (what they communicate). Telefónica was the first Spanish company to have a Board of Directors Committee in charge of supervising the management of reputation at Telefónica.

In order to have a good reputation, it is necessary (though not sufficient) to develop business activities in a responsible manner. This is why, at Telefónica, reputation and corporate responsibility issues are managed from the same department: the Directorate General of Corporate Communication.

The corporate reputation management model shares the same five stages described in the chapter on corporate responsibility:

- Internal Diagnosis and identification of areas for improvement

- External Diagnosis: dialogue with stakeholders to gauge expectations and opinions.

- Development and Launch of initiatives and projects

- Implementation in business lines and countries

- Evaluation of Fulfilment of aims and communication of performance

Monitoring Indicator

The main difficulty in applying these steps lies in the follow-up of corporate reputation that companies have in society. For this reason, Telefónica has taken part in the project of the Corporate Reputation Forum and the Reputation Institute, geared towards establishing a Corporate Reputation Model which can be monitored periodically.

The result of this is RepTrack, an indicator with 7 dimensions and 21 attributes, used to ask survey respondents about each of the companies included in the study. The main advantage brought by RepTrack is that it is capable of isolating the quality of a company's reputation, therefore achieving a better measurement of society's qualitative perception of a company.

The model shows that the "offer" dimension is the most significant for the perception of corporate reputation in every country. The dimensions of Leadership, Work and Citizenship have equal significance; followed by the dimensions of Governance and Innovation. The financial dimension of companies is that with the least importance regarding corporate reputation in society.

Since June 2005, the Telefónica Group has monitored its reputation, with quarterly surveys in Spain, Argentina, Brazil, Chile, Mexico and Peru. In each of these countries, over 3,300 people have been surveyed (the figure rises to 4,800 in Spain and Argentina). Some of the different attributes measured with RepTrack are used by managers in different company activities.

Corporate Reputation Management Model

What is done? + What is comunicated?
• Business processes   • By the company
• Suport processes   • By others

Perception is reality

Corporate reputation

Clients • Employess • Society
Shareholders• Suppliers
Media • Regulators • Opinion leaders
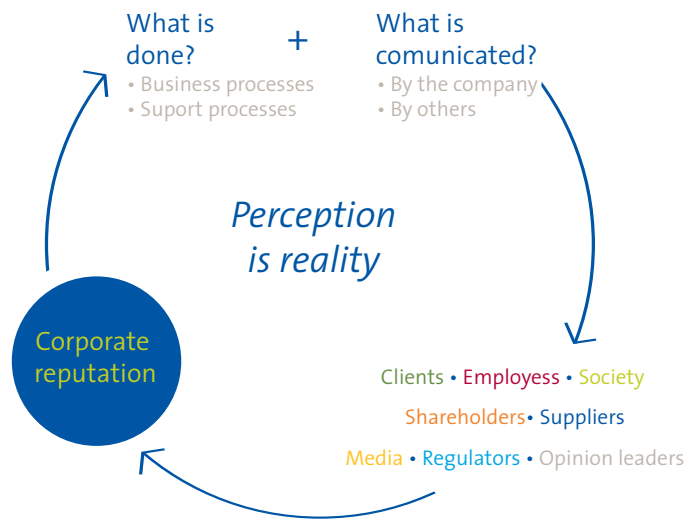
Alliances

Despite Telefónica having a good reputation among professionals and country managers (2nd position in the Spanish Monitor of Corporate Reputation – MERCO 2005), the RepTrack results show areas for improvement in society's perception of the company in all RepTrack dimensions and in all countries.

The total results present strengths in the dimensions of leadership, finances and innovation; at the same time as clear areas for improvement in the governance and citizenship. By countries, Spain is the country with best results compared to the average, and Argentina and Brazil are the countries where the Group's reputation is weakest.

Throughout the different RepTrack measurements, improvements have been recorded regarding the company's reputation in society in all countries except Brazil. Aware that there are many public myths about Telefónica, the company's management has established RepTrack as one of the key indicators to monitor the compliance of the strategic aim of being a "committed and responsible leader".

The report on corporate responsibility includes Telefónica's results in the different RepTrack attributes.

Alliances for understanding how to manage Corporate Reputation

Corporate Reputation Forum
Founded in September 2002 by Aguas de Barcelona, BBVA, Repsol-YPF and Telefónica, the FRC (Spanish acronym for Corporate Reputation Forum) is an initiative by which companies share knowledge and experience in management of corporate reputation.

With the incorporation of Abertis, Ferrovial, Gas Natural, Iberdrola, Iberia, and Renfe in 2003, the FRC groups almost 50% of the IBEX 35. The FRC primarily aims to become a meeting place for the analysis and dissemination of trends, tools and models of corporate reputation in company management.

Reputation Institute
In 2004, el Reputation Institute (RI) and the Corporate Reputation Forum (FRC) signed an Alliance by means of which the FRC became the representative of RI in Spain and channels its activities. (see Corporate Reputation Forum above).

In 2005 the Reputation Institute held its Annual Conference in Madrid with the collaboration of the Corporate Reputation Forum.

REPUTATION INSTITUTE

fRC FORO DE REPUTACIÓN CORPORATIVA
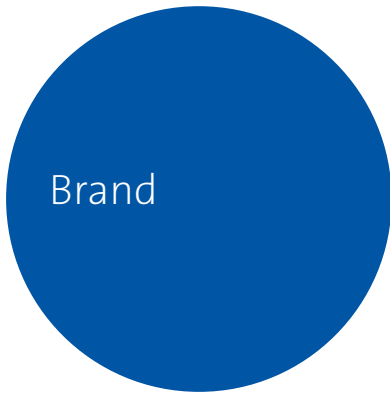
During 2005, the Telefónica Group has reviewed its brand strategy and architecture model. The aim is to strengthen the commercial relation with customers and to transmit corporate values to the company's stakeholder groups.

Brand

Strategy Model and Brand Architectur

Over 13,000 brand registrations

2,650 domain names

This model defines the roles, criteria and hierarchies of the Group's brands, described through the principles of identity and a graphic coherence between brands. Some of its main features are:

Masterbrand
Telefónica, the Group's main brand, thanks to its institutional profile and the values associated to it, provides the backing and guarantee to the commercial offer associated with the commercial brands, providing them with prestige.

Commercial brands
They provide the commercial offer with closeness and freshness, differentiation and relevance, making it more approachable and believable. They also rejuvenate and refresh the "masterbrand".

Brand family system
The family system is strengthened by means of a solid and inseparable relationship. It does not involve co-branding or endorsements, but it is rather a system that favours mutual benefits between the Group's different brands. The graphic system defines colours, codes, formats, styles and typography that transmit a balanced and coherent vision of the Group.

Principles of Brand Strategy and Architecture
Telefónica manages it brand strategy and architecture by means of its identity principles and a graphic coherence between its brands:

Corporate Values are the Foundations of the Group
They are the starting point and establish the path along which the commitments acquired by Telefónica towards its stakeholders to gain their trust are provided with specific content.

Brand attributes
Telefónica builds its brands based on two main functional attributes: Leadership and Innovation, which take form in the Group's capacities; and two emotional attributes: Proximity and Commitment, which seek to provide the brand with personality and to make the relationship with customers closer.

Telefónica's Positioning
For Telefónica, understanding and satisfying the needs of the people it relates to are its ultimate aims. Only this way, the company will be able transform its technological innovations into accessible communication solutions that make customers' life easier and better, and contribute to developing society.

Tone of Voice
During 2005, Telefónica's voice perimeter and tone of communication has been implemented, as reflected in its "Brand Manifesto".

Telefónica Group's Brand Portfolio
As at December 31, 2005, the portfolio of brands and domain names of Telefónica, S.A. exceeded 13,000 brand registrations and 2,650 domain name registrations worldwide.

Mobile Telephony Brand Name Recognition

Data from Telefónica Móviles (Accumulated for year 2005). The brand Movistar was launched in 2005.

■ Top of mind ■ Market position based on total mentions
■ Total mentions
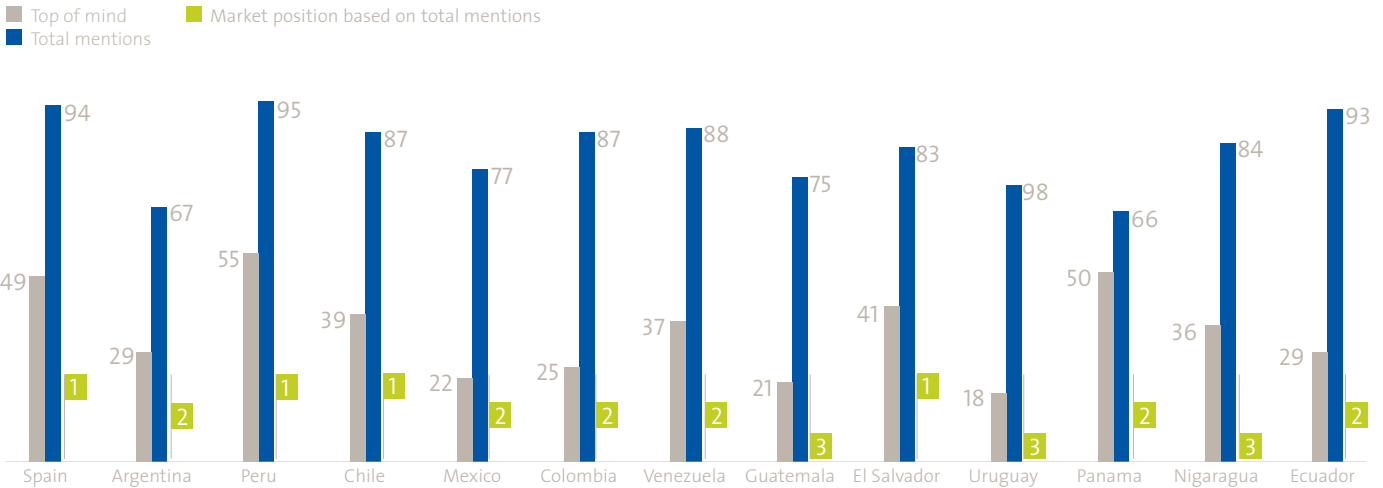
Source: Advertising Tracking and Brand Equity 2005. Millward Brown

Brand Committee

The Brand Committee has consolidated itself during 2005, and is a technical body reporting directly to the Management Committee, led by the General Director of Corporate Communication and comprised of the technical managers of the various business lines and country corporate centres, on occasions involving other corporate departments for specific issues. Its mission is to safeguard the correct execution of the Group's new Brand Strategy and Architecture Model.

To this aim, the committee has full competencies to:

• Catalyse the visions, objectives and needs of the lines of business and the countries, as a consulting body of Telefónica S.A.'s Management Committee

• Channel all the Group's initiatives related to brand (communication, advertising, sponsorships, fairs, events, etc.) with the aim of ensuring its correct alignment with the established Brand strategy and architecture model.

• Promote the process of implementation of the brand architecture system, developing regulations, processes, projects and initiatives in order to strengthen the system if necessary.

Tools for measuring brand strength

Telefónica has developed a set of common tools for information management and analysis for all lines of business and countries, with the aim of constantly and systematically monitoring recognition, image, satisfaction and suitability of its brands with regard to its different publics.

• In the category of fixed telephony, the Telefónica brand has high levels of recognition.

• In the category of mobile telephony, taking into account the launch of the new commercial brand in countries where it was not present, the Group's mobile telephony operations have achieved similar and in some cases higher recognition levels with regard to previous brands.

Fixed Telephony Brand Name Recognition

Source: Advertising Tracking and Brand Equity 2005.

■ Top of mind ■ Market position based on
■ Total mentions   total mentions
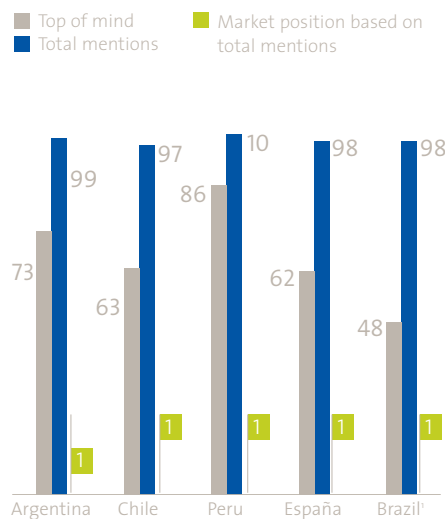
¹Non-accumulated data corresponding to December, 2005

Main Principles of Telefónica Group's Brand Strategy and Architecture Model

1 Telefónica es la masterbrand del Grupo

2 La marca Telefónica proporciona identidad y cultura común a todos los negocios del Grupo

3 Telefónica es el interlocutor único desde el punto de vista institucional

4 Telefónica se relaciona con sus clientes a través de sus marcas comerciales

5 Las marcas comerciales no compiten sino complementan a la masterbrand Telefónica

6 Las marcas comerciales refrescan a la marca Telefónica

7 Las marcas comerciales se comunican de forma simple y clara

8 Los productos no son marcas comerciales

9 Telefónica y sus marcas comerciales conviven a través de un sistema

10 El sistema de convivencia asegura la coherencia de valores y mensajes entre las marcas comerciales y Telefónica
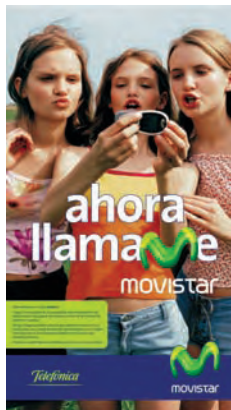
¹ Telefónica is the Group masterbrand
² Telefónica

Chile

Nicaragua

Ecuador

Argentina

Uruguay

Colombia

Mexico

Peru

Spain

Guatemala

Venezuela

Panama

El Salvador

CASE STUDY

World launch of "movistar"

movistar was the first commercial brand to adapt its identity to Telefónica Group's new strategy and architecture. This new model can be seen through the co-existence of the Telefónica masterbrand and the commercial brand movistar on a blue band that acts as a visual link for both brands.

The brand was launched simultaneously in 13 countries. The first phase started on March 28, with the advertising campaign, whose aim was to create great expectation. On April 6 the Group's brand Strategy and Architecture model and movistar's new image, was unveiled to the world, entering into the life of 400 million people. The image campaign was complemented with attractive discount promotions and services, and brought about the brand image replacement in 25,000 movistar shops.

After the launch, we can say that the co-existence system between the Telefónica and movistar brands, has proved that this degree of linkage improves customer recognition of both brands.

Sponsorships

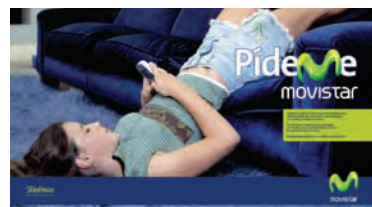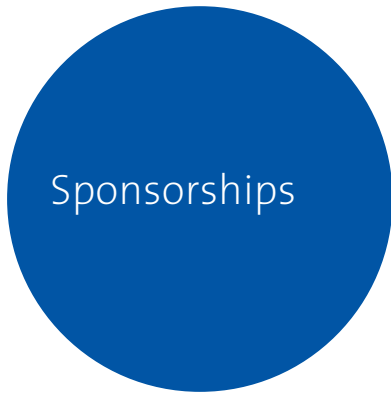Telefónica takes part in many activities in society through the sponsorship of sports, technology, culture and social events. In total, during 2005 819 sponsorships projects were carried out.

Telefónica wishes to communicate its presence and support to activities carried out in society, and to this aim it has a sponsorship portal (www.telefonica.es/patrocinios) which is the external window for the actions it promotes and carries out in all fields: sports, culture, society, etc...

Culture sponsorships

Diccionario Panhispánico de Dudas (Pan-Hispanic Dictionary of Queries), which is the result of a collaboration agreement with the Real Academia Española de la Lengua (Royal Academy of Spanish Language). This significant work has been carried out with the participation of the 22 Spanish Language Academies, among which all Latin American countries are represented. With this project, Telefónica has intended to strengthen its interest in the dissemination and promotion of the Spanish language worldwide.

Monographic exhibition on artist Juan Gris at the Museo Nacional Centro de Arte Reina Sofía, which has received over 160,000 visitors.

4th Centenary of El Quijote: Telefónica has wanted to be present in this important homage through the development of a webpage aimed at schools, with interactive educational content which allows users to learn through games about important aspects of this novel and its historical context. Over 10,000 Spanish schools have taken part in this project through EducaRed, as well as people from different countries: 60% percent of the 194,000 visits made have been international, while 40% came from Spain.

Music

As in previous years, Telefónica Movistar has wanted to approach the younger public through music, and has sponsored concerts and tours in Latin America and Spain of artists such as Shakira or Carlinhos Brown.
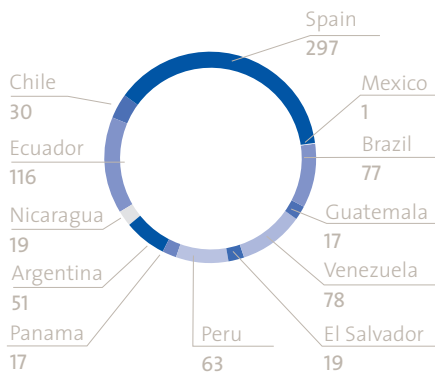
Sports sponsorships

Telefónica Group has continued backing Spanish Formula 1 driver Fernando Alonso and the Renault F1 Team. 2005 has been an important year for them, with their Spanish pilot becoming the first ever Spanish Formula 1 World Champion, and the team itself winning the team World Champion title.

Telefónica continues to support football as the sponsor and exclusive supplier of telecommunications for the two main Spanish teams: Real Madrid C.F. and F.C. Barcelona, and has signed a support agreement for Expo Zaragoza 2008 through the Zaragoza S.A.D. football club. Likewise, it has started a social sponsorship programme for football that successfully promotes initiatives such as the Movistar Cup of Cultures and the Mundialito Solidario, both aimed at an important sector of the population: immigrants. With this programme, Telefónica wishes to use this popular sport as a tool for integration.

In addition to the initiatives mentioned above, Telefónica wishes to be closer to the societies in which it operates by supporting local activities of a cultural or sports nature. In this sense, in Spain Telefónica sponsored Madrid's Popular Marathon in 2005, which brought together 13,000 runners, whereas in Latin America it supported a large number of popular and cultural festivals such as the San Pedrito de Chimbote festivities in Peru or the Carnival in Rio de Janeiro in Brazil, among others. These are examples of these activities which all transmit an image of proximity, that of a global operator with a local focus.

Distribution of sponsorships by Countries
Data in number of sponsorships

Spain
297

Chile
30

Mexico
1

Ecuador
116

Brazil
77

Nicaragua
19

Guatemala
17

Argentina
51

Venezuela
78

Panama
17

Peru
63

El Salvador
19

Distribution of sponsorships by line of business
Data in number of sponsorships

LATAM
133

Telefónica
Móviles
436

Telefónica
S.A
83

Others
82

Telefónica
de España
105

Distribution of sponsorships by activity
Data in number of sponsorships

Others
362

Sports
174

Social
102

Culture
181

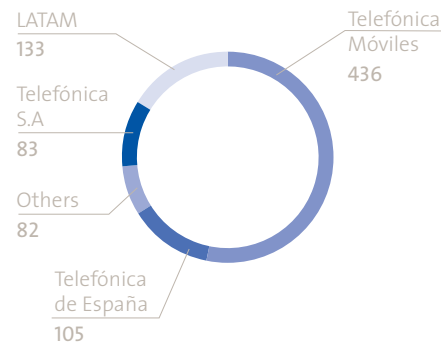Other includes technological, academic, exhibition
and forum sponsorships.

Social action

The Group's social action is mainly channelled through the Fundación Telefónica, whose strategy and activity programme is especially focused on the field of education, which accounts for most of the budget and is complemented with other volunteering activities and art and technology programmes.

Within the field of education, the following are some of the most important programmes: EducaRed, which is a network of 10,000 schools across Spain and Latin America connected via Internet for training and sharing resources, aimed at teachers and students (both children and adolescents), and the Proniño project, whose main aim is to eradicate child labour trough training and support to children in Latin American countries.
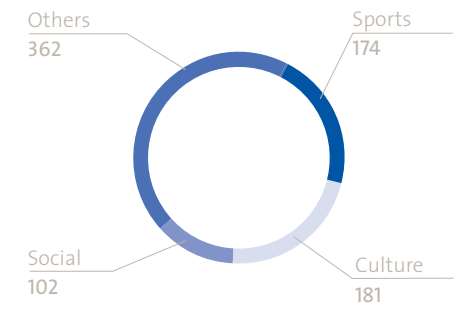
Other sponsorships

Telefónica also takes part in other types of sponsorships whose aim is to actively involve and commit the company to the promotion and development of the Information Society. To this aim, it works hand in hand with public and private bodies who share this aim, through the sponsorship of business forums, conferences and international symposiums that bring together the sector's main representatives, such as: Internet Global Congress 2005, Broadband World Forum Europe 2005, etc....

This strategic line is also reflected in the participation in Technical Institutes, Academies, University Chair Programmes, etc. It therefore involves collaborating with sources which generate knowledge in the field of Information Technologies.

In 2005, once again, Telefónica has provided technological support, by means of the installation of lines and telecommunications services, for the main meeting of internet users in Europe: Campus Party at Valencia.

CASE STUDY

Management of Telefónica's Sponsorships

During 2005, 2,657 requests for sponsorships have been received from all over the world, which were processed internally by Telefónica. Of these requests, approximately 30% were approved.

The Sponsorship Office is the department that receives sponsorship requests from institutions and bodies presenting their sponsorship proposals. On a monthly basis, committees are held where all sponsorship projects are presented and discussed by Telefónica Group's lines of business. These sponsorships have previously been approved by the lines of business and their budget justified.

Credits

Departments that collaborated in the preparation of the report

Capitulo	Areas implicadas
01 Corporate Governance	Secretariat General / Internal Auditing Department
02 Identity	Communication (Brand, Reputation and CSR) / Human Resources Office / Sponsorship / Internal Auditing Department
03 Driving Force for Progress	Finance (Consolidation, Management Control), Tax, Regulatory Affairs, Innovation, Telefónica I+D, Institutional Relations, Information Systems, Investor Relations
04 Customers	Corporate Marketing Development / Quality, marketing and customer service departments of the main business lines (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica) / Secretariat General / Communication / Security
05 Shareholders	Shareholders' Office / Investor Relations / Secretariat General
06 Employees	Corporate Human Resources / Human Resources Departments of the main lines of business (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica, TPI, Terra, Atento, T-Gestiona) / Communication / Health and Safety / Fundación Telefónica / ATAM / Fonditel
07 Society	Main lines of business (Telefónica de España, Telefónica Latinoamérica, Telefónica Móviles) / Institutional Relations / Management Control / Regulatory Affairs / Reputation and Corporate Social Responsibility / Fundación Telefónica / ATAM / Sponsorship
08 Environment	Internal Auditing / Reputation and Corporate Social Responsibility / Environmental Departments of the main lines of business (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica)
09 Suppliers	Purchasing / Internal Auditing / Reputation and Corporate Responsibility
10 Media	Communication
Annex 1: About the Report	Reputation and Corporate Responsibility
Annex 2: Verification Report	Ernst&Young. Report
Coordination	Reputation, Brand and Corporate Social Responsibility (G.D. of Communication)