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Driving economic development

Impact of Telefónica's activity

Distribution of income

Evolution of Rates

Impact of Telecommunications on Productivity

Impact of Telefónica's activity

In the course of 2005, Telefónica has consolidated its position as the operator of reference in each of the countries where it operates, as a result of its firm commitment to economic, technological and social progress and development, as well as its will to adapt to the reality and needs of each of these countries.

Telefónica, as one of the leading national companies in each of the countries where it operates, assumes its role as a driving force behind the national economy. In 2005, Telefónica has become a more regional company, as a result of its commitment to investment and to adapting to the needs of each of the markets where it operates. This regional character is reflected in the distribution of its revenue; 48% of its revenue in 2005 is from countries other than Spain (40% in 2004).

During 2005, Telefónica has once again shown its commitment to the development of its economies; generating an average of 1.7% of the GDP in the main countries where it operates. Moreover, Telefónica Group plays an important role in redistributing wealth among all its stakeholders; approximately 45% is redistributed among its suppliers, 16% goes to the various Public Administrations and 8% is devoted to financial remuneration to its over 200,000 employees worldwide.

Investments in infrastructure (Capex) corresponding to FY 2005 amounts to over 5,358 million euros, a 42% increase with regard to FY 2004. Broken down by business line, Telefónica de España contributed 26% of the total, Telefónica Latinoamérica contributed 20% and Telefónica Móviles contributed 43%, the two latter representing an increase in investment close to 40% compared to 2004. These figures do not include UMTS licenses, or capitalisation of expenses, but do include activation fees.

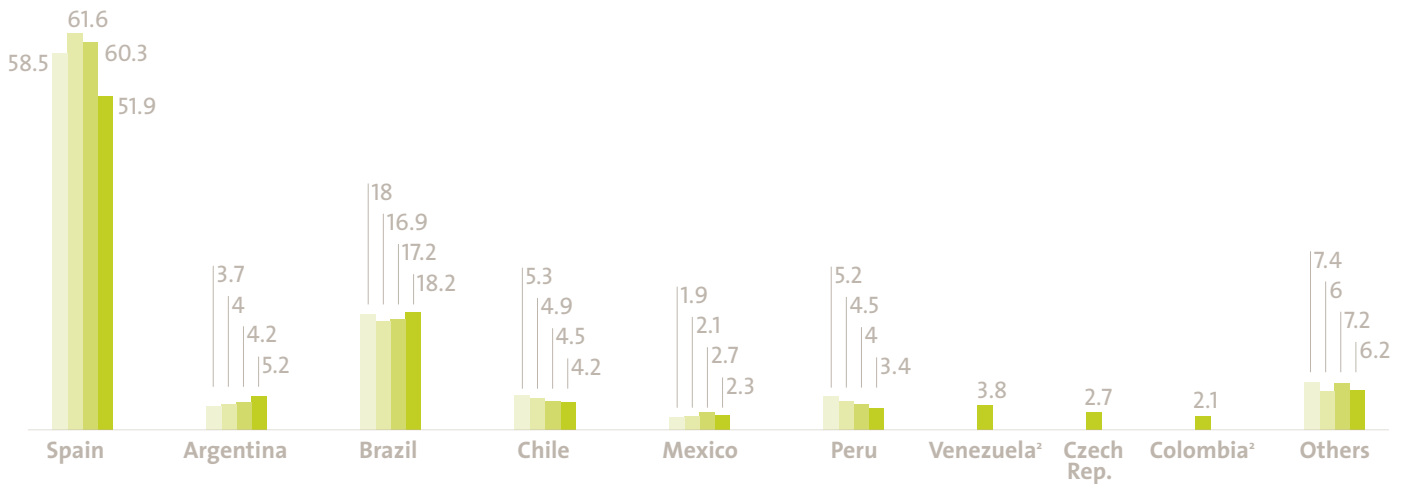
The number of suppliers awarded contracts with Telefónica Group worldwide exceeds 18,000. An average of 85% of the total sales volume is awarded to local suppliers. The company has paid over 7,200 million euros in taxes, including direct taxes, indirect taxes, tax withheld, local taxes and levies. This figure does not include social security payments or licenses. On the other hand, the Group has benefited from tax deductions valued at 340 million euros, understanding as such the tax credit granted for certain activities or investment. Of this amount, 333 million euros correspond to Spain, 2 million euros to Brazil and 5 million euros de Chile.

¹This information has been consolidated on an accrual basis, whereas the redistribution of income has been calculated on a cash basis.

Distribution of revenue of Telefónica by country¹

In percentages

2002 2003 2004 2005



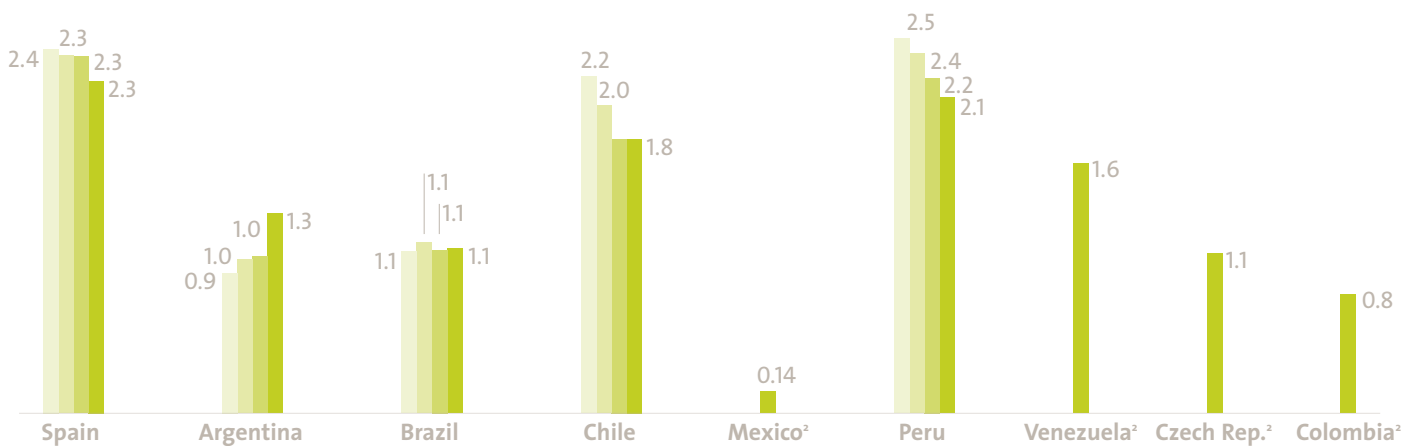
¹Taking into account the contribution of each country to Telefónica Group's consolidated revenue

²Data corresponding to 2002, 2003 and 2004, not significant.

Percentage of revenue of Telefónica with regard to GDP¹

In percentages

2002 2003 2004 2005



¹Taking into account the contribution of each country to Telefónica Group's consolidated revenue

²Data corresponding to 2002, 2003 and 2004, not significant.

Impact of Telefónica's activities in the World

Present in **19** countries

Income of **37,882.1** million euros

>**1.5** million shareholders

54 million euros in social and cultural action

181 million accesses

18,000 suppliers

207,000 employees

2,900 million euros in innovation



(1) Million euros (2) Fixed + mobile + DSL + TV

The information published on this page has been obtained from internal cash flow evolution sources of Telefónica Group, and verified by the auditor of this report. The mentioned data could be subject to variations as a result of subsequent events and evolutionary effects that could cause changes in their content.

This information has been consolidated on an accrual basis, whereas the redistribution of income has been calculated on a cash basis.

For a detailed analysis of the consolidated financial statements of Telefónica Group, the audited information is included in the annual accounts report.

Countries representing over 2% of Telefónica's revenues are included. Telefónica revenues in each country are taken as the country's contribution to Telefónica Group's consolidated revenue.

Country

% TEF revenues: Percentage contributed by the country to Telefónica's revenues, calculated on the basis of the contribution to Group's consolidated revenue. (%)

% TEF revenues / GDP Ratio of Telefónica's revenues (contribution of the country to the consolidated revenues of Telefónica Group) and the estimated GDP for the country. (%)

CAPEX 2005: Consolidated investment in country by Telefónica in the Financial Year (millions of euros).

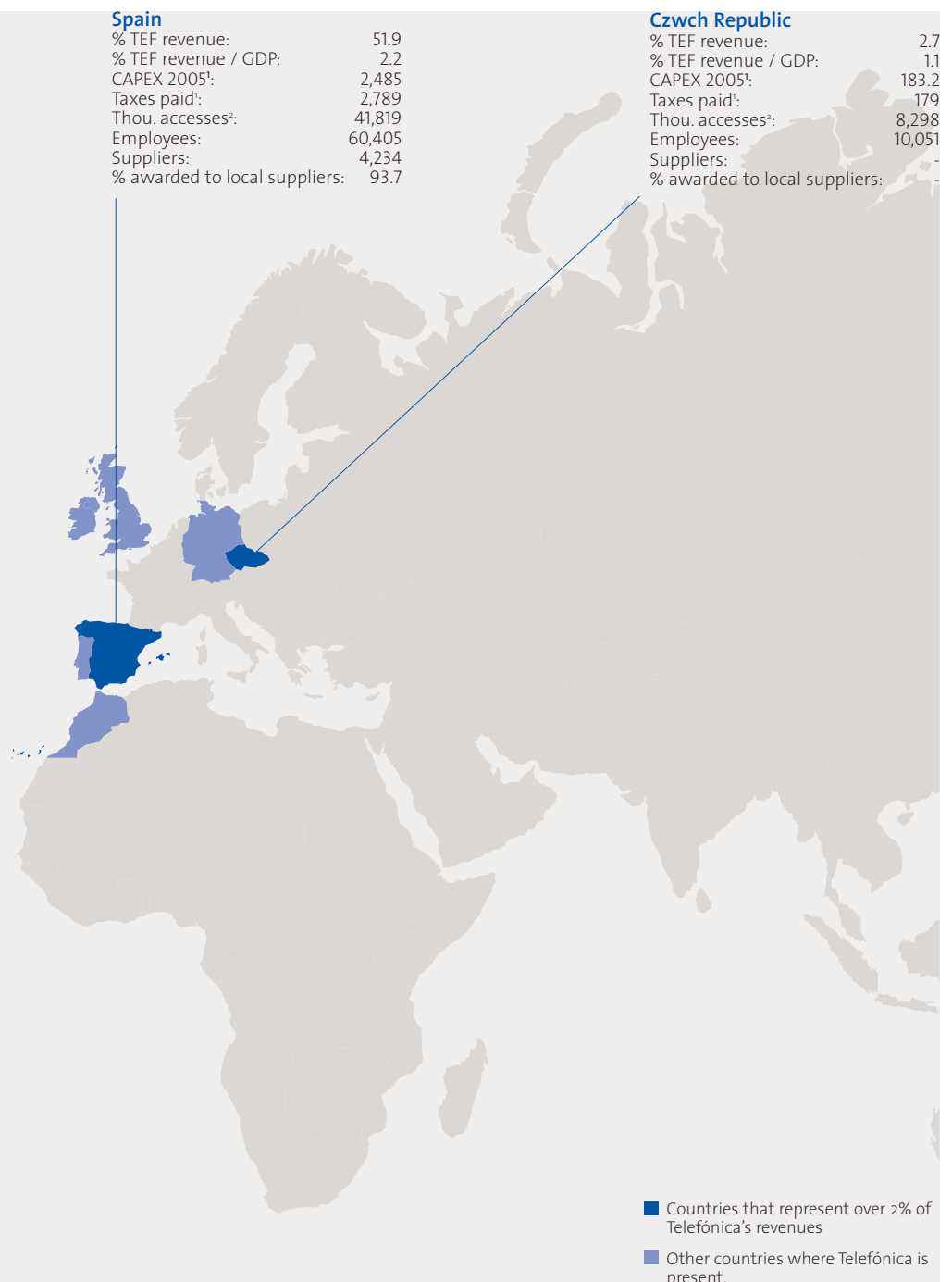
Taxes Paid: Taxed paid in the country during the financial year (millions of euros).

Thou. accesses: Number of fixed + mobile + DSL + TV accesses (thousands).

Employees: Direct employees of Telefónica Group in the country (as at December, 31, 2005)

Suppliers: Suppliers awarded contracts in the country in 2005.

% of contracts awarded to local suppliers: percentage of contracts awarded to suppliers with registered address in the country with regard to total number of contract awards, based on awarding volume.



Distribution of income

These pages aim to provide a summary of the contribution by telefónica economic activity to society. The examination of the economic flows the Telefónica Group is involved in, shows the distribution effect among the different social groups, such as suppliers, employees, public administrations, lending institutions, shareholders and customers.

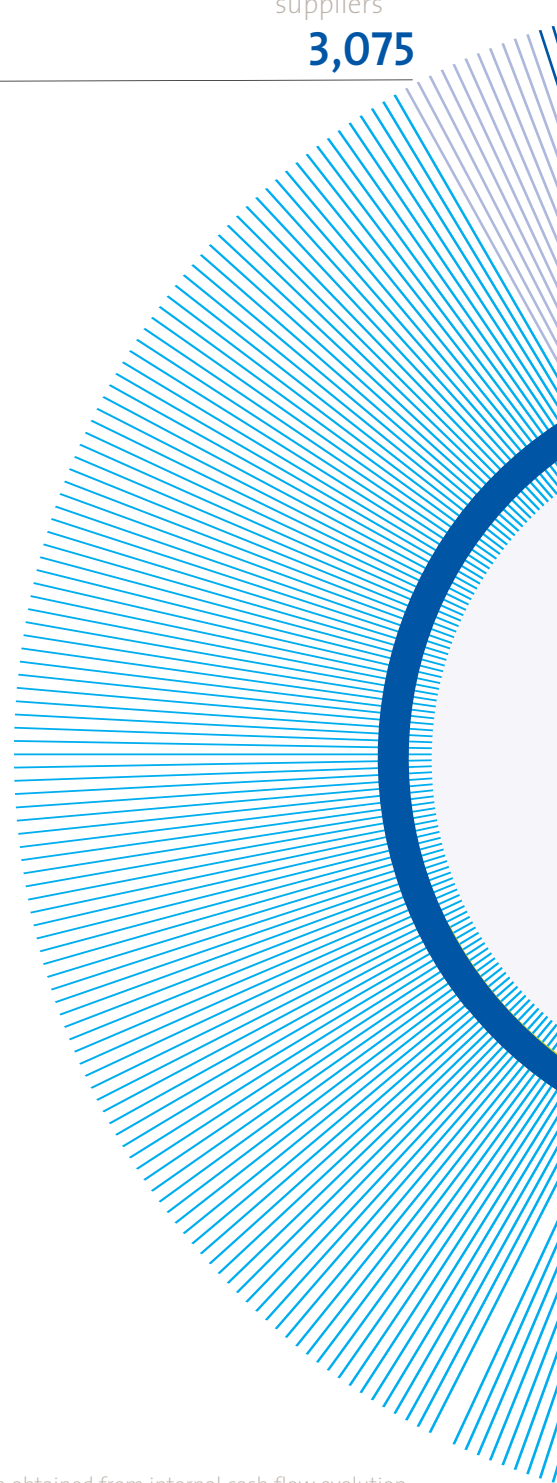
Credit institutions represent a source of funds for growth and development. In this sense, the Telefónica Group develops an intense financial activity, bringing dynamism to the sector in some of the countries where it operates

The 154 million customers worldwide as at the end of FY 2005 appreciate the added value provided by the services offered by the Telefónica Group. This figure includes income from customers and from the rest of operators. On average, these services account for approximately 1.70% of the Gross Domestic Product of the main countries where the Group operates (average figure for Spain, Argentina, Brazil, Chile and Peru).

Customers
43,482

Financial suppliers
3,075

Other
905



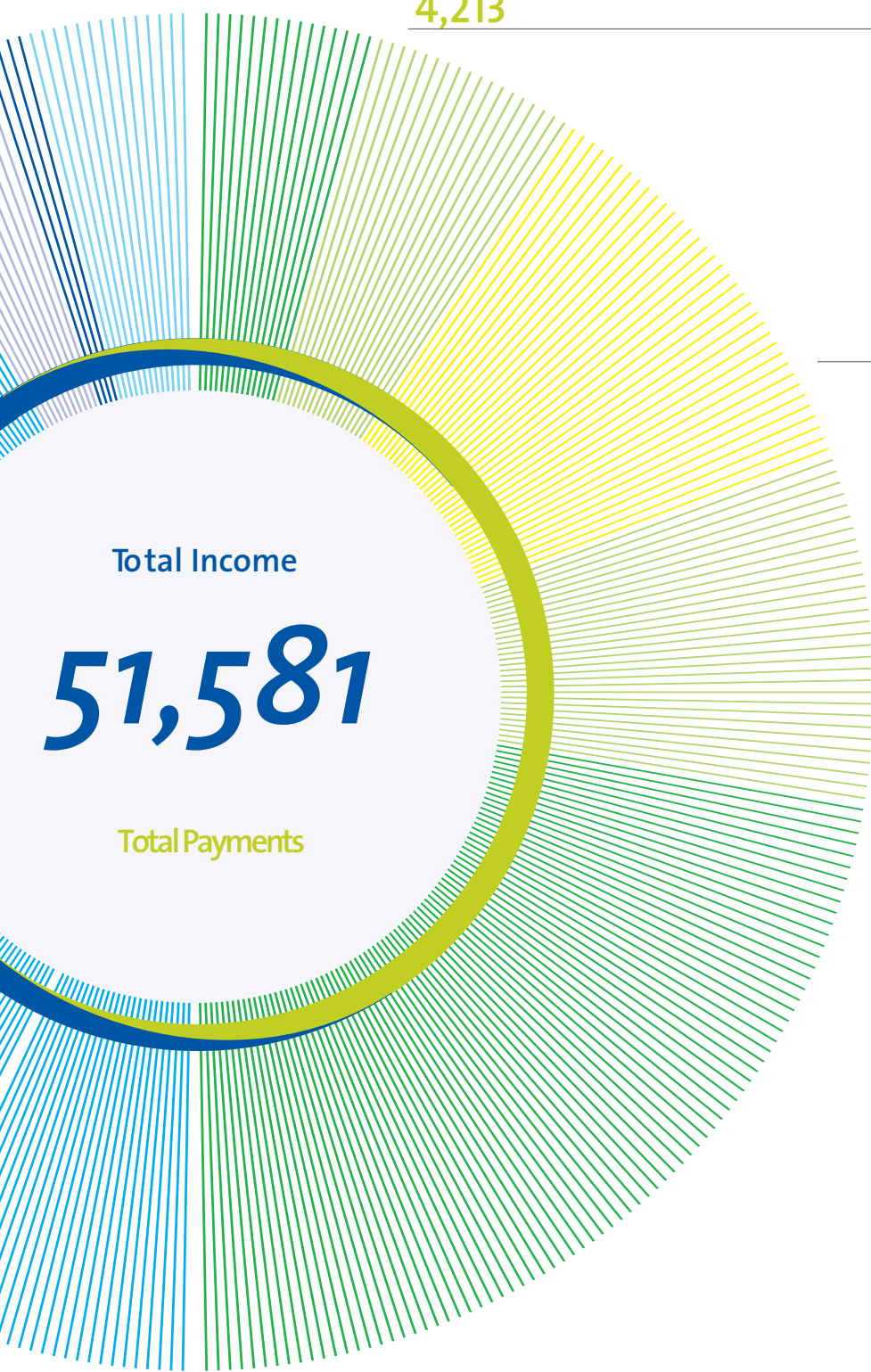
(1) Million euros (2) Fixed + mobile + DSL + TV
The information published on this page has been obtained from internal cash flow evolution sources of Telefónica Group, and verified by the auditor of this report. The mentioned data could be subject to variations as a result of subsequent events and evolutionary effects that could cause changes in their content.
This information has been calculated on a payment basis, whereas the the information contained in earlier pages has been calculated on an accrual basis.
For a detailed analysis of the consolidated financial statements of Telefónica Group, the audited information is included in the annual accounts report.
This data only includes countries that represent over 2% of Telefónica's revenue.

Remuneration to shareholders is one of the basic aspects of the market economy in which the Telefónica Group operates. To the direct payment of dividends, whose total amount is included in the chart, other non-monetary retributions are added, such as the re-purchase of shares and their subsequent amortisation.

Divestiture
4,119

Shareholders
4,822

Employees
4,213



Total Income

51,581

Total Payments

Telefónica Group has over 207,000 employees, and is one of the companies that generates the most employment in Spain and Latin America. The figure includes salaries, pensions and employee benefits, other remunerations and incentives for early retirement, and leave.

Investment
10,524

Telefónica's profitable growth strategy is based on the investment in assets which make it possible to expand the business in the future (mainly investment in innovation, market development and one-off acquisitions) and the divestiture in non-strategic assets.

Public Administrations
8,511

A Group of the size of Telefónica makes an important contribution to the public funds of the countries where it operates through direct taxes, license fees and indirect taxes. The figure also includes payments to Social Security, the transfer of value-added taxes, taxes on consumption, local taxes and retained taxes.

Suppliers
Commercial
19,087
CapEx
4,423

Telefónica Group redistributes great part of its income across the over 18,000 companies with which it collaborates in the countries where it operates. This contribution is of a local nature in each country, as can be seen from the fact that, on average, 85% of the purchasing volume for each country is made to local suppliers. The figure provided here also includes payments for interconnection services with the rest of the operators.

Evolution of Telefónica's basic rates

| | Accumulated change 1998-2005 | Average Annual change | Average Annual change with regard to CPI |
|----------------|------------------------------|-----------------------|--|
| Metropolitan | 4.1 | 0.5 | IPC- 2.9 |
| Provincial | (47.1) | (-5.9) | IPC- 9.3 |
| National | (64.8) | (-8.1) | IPC- 11.5 |
| International | (53.7) | (-6.7) | IPC- 10.1 |
| Fixe-mobile | (51.8) | (-6.5) | IPC- 9.9 |
| Average | (40.6) | (-5.1) | IPC- 8.5 |

Evolution of Rates

Rate reduction provides consumers with higher purchasing power and has an anti-inflation impact on society

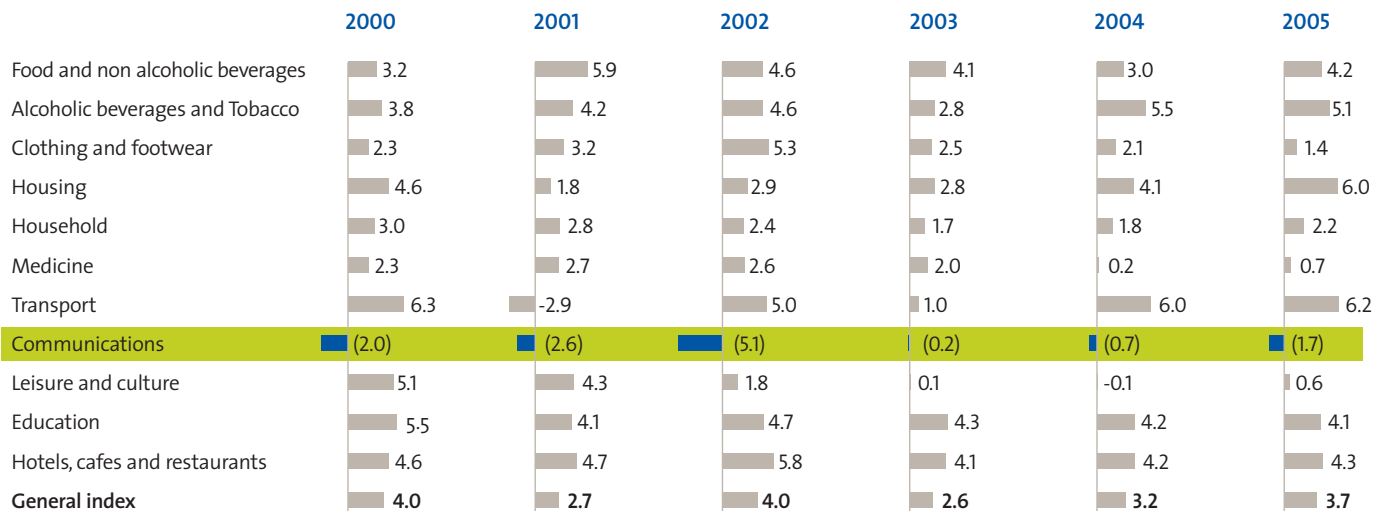
Telefónica de España has been applying constant reductions to their rates over recent years, which has contributed to improving customers' purchasing power and has made telecommunication services more accessible for society in general. Specifically, customers of Telefónica de España have witnessed an average annual cut in rates for traffic services of 5.1% since 1998.

In the sector of mobile telephony, it is important to point out that the rates for Movistar customers in Spain saw an average reduction of 12% in FY 2005. Given that Movistar customers represent 50% of the Spanish population, it is natural to identify this reduction in the rates with an increase of available income for citizens.

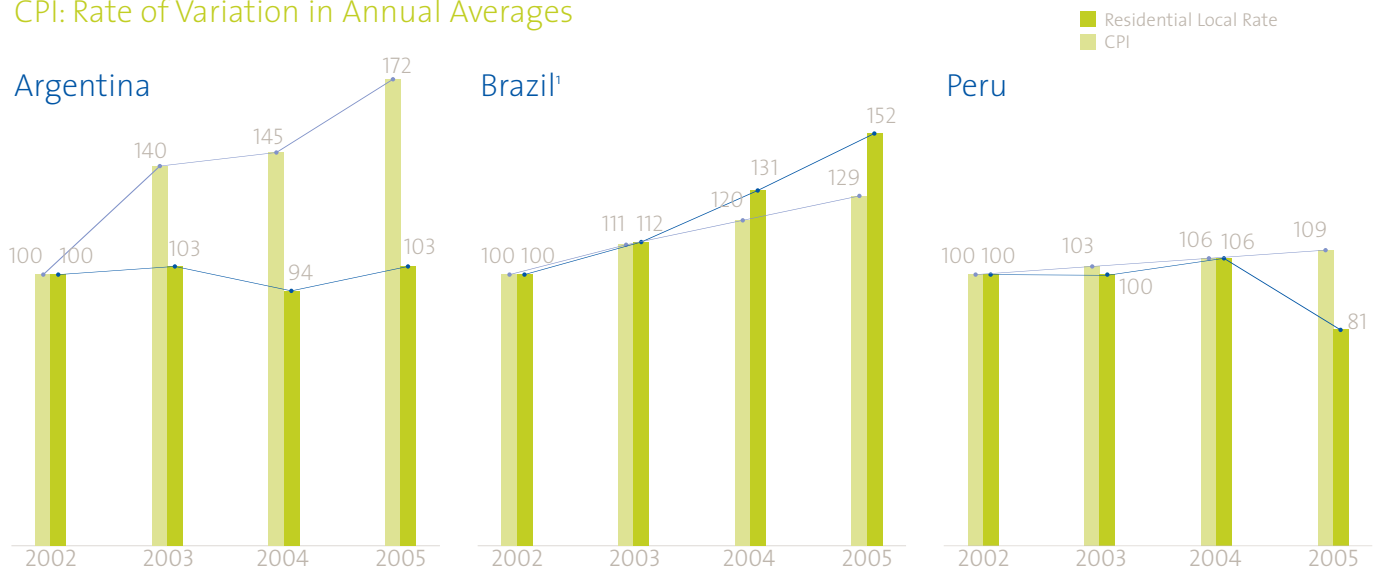
As a result, it is important to note that in Spain, communications are the only component of the consumption basket and the only sector within public utilities whose rates have constantly been going down since the year 2000.

In Latin America, rates have evolved at a slower pace than inflation in most countries, especially in Argentina, where rates have been frozen.

CPI Spain: Rate of variation in Annual Average Source: INE



CPI: Rate of Variation in Annual Averages



Source: Internal

¹ In Brazil, in accordance with the government concession contract, the CPI is not used as a variation index. The index used up to December 2005 was the IGP-di (General Price Index, Domestic Availability), which comprises 10% of civil construction prices, 30% of consumer prices and 60% wholesale prices, with the latter being subject to substantial fluctuations in exchange rates.

CASE STUDY

Impact of rates on revenue per customer

These rate reductions have been passed on to the customer, as is reflected in the 5.7% average annual reduction in mean monthly revenue.

The regulation of the telecommunications sector has given priority to price competition rather than to service innovation, as the favourable access conditions to Telefónica's network has allowed the incoming operators sufficient margin to make attractive offers to the end customer.

Estimated evolution of average consumption basket of Fixed Telephony Customers in Spain (Constant euros per line)



Impact of telecommunications on productivity

It is important to note the indirect impact of the services offered by the Telefónica Group companies on the dynamisation of the economy in the main countries where it operates. Thus, the actions carried out to reduce the digital divide, the reduction of service rates, the increase of broadband in Internet access and connectivity, have a significant impact on the increase in productivity levels of the different economies.

Positive impact of ICTs on the productivity of companies

The adoption and use of Information and Communication Technologies (ICTs) on behalf of companies and citizens seems to have a positive impact on productivity and economic growth in general. This is due to the fact that these technologies have brought opportunities for the development of new business, and the improvement of existing business processes. The possibility of reducing costs, the efficient use of resources and the possibility of increasing markets have contributed to citizens benefiting from products of increasing quality at lower prices.

The following is a summary of some of the positive impacts of ICTs on the improvement of productivity in business sectors and countries:

Wider commercial reach: companies that use the Internet as a channel for their relations with clients offer better access to their services, with fewer physical office and human resources requirements. In addition, they can extend their offer to other regions.

More efficient commercial transactions: the possibility of accessing, in real time, information regarding availability, prices, warehouse products or delivery times, brings valuable benefits in terms of negotiation with clients.

Improvement in internal management to offer better service to clients: offering the possibility of personalising the offer, with a higher degree of flexibility to adapt to clients' needs and coordinating relations between clients and suppliers.

New approaches to work: more focused on achieving aims than on fulfilling time-tables; thanks to connectivity it is easier to work, regardless of time-tables and places.

Modernisation of primary and industrial sectors: global positioning systems, geographic information, remote control... have had a spectacular impact on the improvement of the performance of natural resources, industrial machinery, and distribution sectors.

Implementation Difficulties

Despite the benefits associated with new technologies, the penetration of ICTs in the business environment is a slow process, as there is no consensus as to the link between the use of ICTs and increased productivity.

Ignorance and lack of training in new technologies are the main obstacles faced by companies that do not perceive the advantages of investing in ICTs for their companies.

The clearest conclusion from this brief diagnosis is that investment in ICTs will not improve business productivity and society's productivity in general unless employees and work processes are adapted to the use of these technologies. It is not only a question of companies connecting to the Internet, but rather of them integrating the ICTs in their business processes in a productive manner.

CASE STUDY

Effects of the investment of ICTs on productivity

There is general consensus regarding the importance of ICTs for economic growth, and their contribution to the growth of productivity, which the literature divides into three channels of influence:

- Firstly, the ICT sector itself is expected to see an increase in production and productivity as a consequence of the innovation implemented in the sector.
- Secondly, and as a result of the first point, the rest of the production lines are likely to experience a reduction in costs derived from a decrease in prices and improved quality of ICT goods and services, which would allow an increase in investment in new technologies for these sectors.

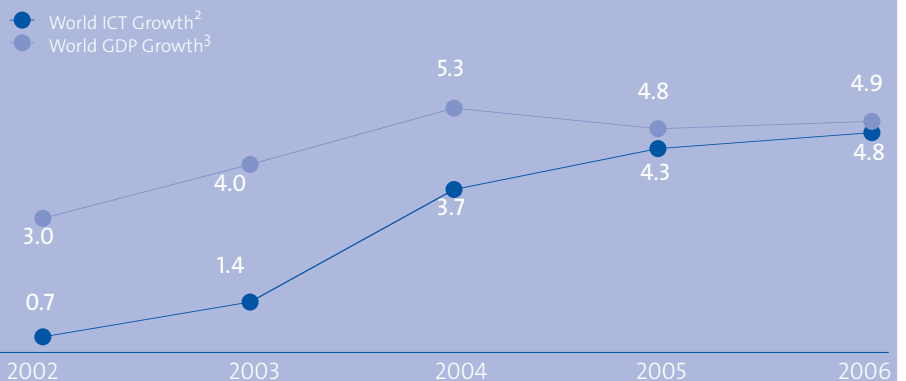
- Lastly, it is likely that the improvements in the organisation of the production linked to the use of ICTs have a positive effect on the total productivity of the factors.

Studies of the European economy show that the growth of ICT production lines and the increased use of these goods as a productive factor, have had a positive effect on GDP growth.

ICT investment, therefore, is a necessary condition to gear the economy towards the levels of growth seen in the more developed countries. Undoubtedly, the stimulation and incentives to invest in technology must be carried out in collaboration with the Administration and with the private finance sector.

Source: Gaptel
 "Productividad, Crecimiento Económico y TIC"
 (Productivity, Economic Growth and ICTs) Report.

World GDP Growth vs. World TIC¹ Growth



¹ Information and Communication Technologies

² Source: EITO 2005 European Information Technology Observatory 2005

³ Real GDP. Source: IMF (April '06)



Driving Technological Progress

Information Society

Innovation

Telefónica I+D

Collaboration with the University

Information Systems

Information Society Report

Institutional Collaboration

Information society

Home and Citizen Inclusion

Telefónica de España takes part, by means of contributions and dissemination activities, in the initiative Todos.es, promoted by the Ministry of Industry, Tourism and Commerce and the public business entity Red.es, whose main objective is to sensitise citizens and increase their awareness of the advantages of the Information Society, and this way, try to breach the digital divide.

Telefónica de España is sponsor-founder of FUNDETEC, a foundation that participates in the initiative regarding the “Literacy and good use of digital contents”. It is aimed, in particular, at collectives that are uninitiated in the digital world, and that are therefore at risk of digital exclusion, or belong to what is known as the “digital divide”: Housewives, immigrants, senior citizens, rural citizens and disabled people. The foundation organises training sessions for these collectives, collaborations with public and private entities to undertake projects for these collectives, and, every year, awards the FUNDETEC prizes, in recognition of the work of public or private entities that contribute to the digitalisation of these less favoured collectives.

Telefónica Móviles de España has published a Catalogue of Mobile Services for Social Integration: Information regarding the offer of mobile services aimed at becoming a tool for overcoming specific situations of disability and special needs (elderly citizens, etc.).

Telefónica de España has reached the figure of three million ADSL lines in operation, of which 92% are retail accesses.

Telefónica ADSL services offer different prices and packages to cover a wide range of citizens’ Broadband Internet access needs: Línea ADSL 24 horas (24-hour ADSL Line), ADSL Mini (ADSL Mini), ADSL a tu medida (ADSL made to measure), Tiempo Libre ADSL (ADSL Leisure), Dúo ADSL (ADSL Duo), Trío ADSL (ADSL Trio), etc.

Telefónica de España achieved its aim of exceeding the figure of 200,000 Imagenio customers during its first year of operation in the Spanish market. Telefónica de España’s interactive digital television is available to four million homes in the 140 most populated cities. The marketing of Imagenio started in Madrid and Barcelona and was extended to the entire national territory within six months.

The Multisectorial Association of Spanish Electronics and Communications Companies (ASIMELEC), of which Telefónica de España forms part, approved the first set of regulations to achieve standardisation and normalisation of technologies for the Digital Home. This first set of regulations has the aim of establishing a framework of reference for the design of these services, which enables both the evaluation of homes and the establishment of a solid foundation for its approval, promotion and adoption.

ASIMELEC has also approved the timeline for delivery of other services that will conclude at the end of this year with the creation of a Digital Home Quality Seal, which will be of great use for real estate developers, construction companies and end users.

The key to the promotion of the Information Society lies in managing to transform its potential benefits into actual benefits for its users. To achieve this, together with the development of basic infrastructure and significant efforts in terms of studies, meetings and publications, Telefónica develops, in collaboration with other companies, services geared to improving productivity of the different business sectors and Public Administrations.

The following are some of the activities carried out by Telefónica within the framework of the classification established by the “Plan Avanza 2006-2010 para el desarrollo de la Sociedad de la Información” (Plan Avanza 2006-2010 for the Development of the Information Society).

Competitiveness and innovation

Telefónica’s position with regard to the SMEs, Businesses and Professionals segments is to provide a range of customer-oriented services, in such a manner that the user is not only buying a product, but also acquiring global communications solutions adapted to each specific case, in an integrated, modular manner and with a single interlocutor.

In 2002, Telefónica launched a wide range of DSL Solutions for SMEs, which attempts to offer a value-added service to business professionals, so that they can focus exclusively on advancing their businesses. In this sense, during 2005, Telefónica launched the solutions “ADSL Jurídico” (ADSL Legal), “ADSL Gestión y Estrategia” (ADSL Management and Strategy), “ADSL Legal Construcción e Inmobiliarias” (ADSL Legal Construction and Real Estate), “Sector Calzado” (Footwear Industry)... Telefónica and the Fundación Banesto promote the implementation of electronic invoicing between Spanish companies. The implementation of electronic invoicing brings important savings to companies, which can reduce their invoice management expenses by 90%, before even taking into account elimination of errors.

In 2002, Telefónica de España launched the electronic phone bill, e-Factura, accessible through its website telefonicaonline.com. The aim of this initiative is to minimise postal delivery of bills to the customers’ homes, with the consequent savings in paper, postal costs and the increase in comfort for the customers brought by the possibility of referring to their bill as and when they wish, by simply accessing the website.

Telefónica de España signed an agreement for the installation of WiFi coverage at 118 delegations of the Asociación Española de Centros de Negocio (Spanish Association of Business Centres), which handles 30,000 business people a year, to whom it provides secretarial, diary management and physical space services...

Telefónica has signed an agreement with the Council of Spanish Medical Societies whereby it has become its technology partner for everything related to information technology and telecommunications projects.

Telefónica de España will implement a private network of over 3,000 chemists in Catalonia to support the launch of electronic prescriptions.

Education in the Digital Era

The Programme EducaRed, created in 1998 by Fundación Telefónica, who manages it, aims to universalise the use of the Internet in primary and secondary education and promote the educational use of the Net by teachers, pupils, parents and schools. Over 11,000 schools are registered with EducaRed, with over 350,000 teachers and more than 3,500,000 pupils. The EducaRed portal has almost half a million pages of contents, tools and services, and it is considered by the experts to be one of the educational portals of reference in Spanish language.

Telefónica Móviles España has organised, for the fourth consecutive year, a tour of the Universities to showcase the latest mobile telephony services.

Telefónica signed an agreement of collaboration with Microsoft, HP and Intel to help SMEs and Public Administrations access European Union aid and subsidies. To this aim, they will develop the European Union Grants Advisor (EUGA) programme. There are numerous initiatives for Digital Training (Internet Educativa, Telefónica Accesible, Educared...), details of which are provided in the chapter Society, under the section on Digital Inclusion.

Public Digital Services

Telefónica, in a Temporary Business Association with Indra and Software AG, will develop the new Electronic Spanish National Identity Document for the General Directorate of State Assets. This National Identity Document will incorporate an electronic chip that will allow the use of digital identity certifications and electronic signatures, offering a higher degree of security in e-commerce transactions and the deployment of advanced electronic administration services.

Ciudad Móvil (Mobile City) is a portfolio of services aimed at modernising the services and management of the Central Government with citizens through their mobile phones. To date, its implementation in Zaragoza and Madrid has received an award in each city from the user association Autelsi.

Telefónica de Argentina and AHCET held the First Digital City Symposium, with a view to presenting the best practices in Latin America.

Telefónica Empresas took part and sponsored the II Digital City Forum, organised by the Ministry of Industry, Tourism and Commerce in collaboration with the governments of the "Comunidades Autónomas".

Telefónica del Perú, Cisco and Intel have joined forces for the launch of the project "Cusco Inalámbrico" (Wireless Cusco), which was presented within the framework of the Colloquium of the Organisation of World Heritage Cities.

Telefónica de Argentina sponsored the first binding voting poll via the Internet in Latin America, which took place in December in the province of Mendoza. The voting poll, organised by the Ministry of Health, allowed over 15,000 doctors to place their vote from more than 35 centres connected to the Internet.

Digital Context

Telefónica de España has won the tender launched by the Government to provide DSL coverage in rural areas in eleven Autonomous Communities in Spain. This project includes carrying out almost 15,000 installations in 12,000 areas without current broadband coverage over four years, using a wide variety of technologies.

Telefónica offers its Internet connection service customers a Security Pack with antivirus and firewall to increase security in their accesses to the Internet.

Telefónica de España offers a service called Canguronet ("Babysitternet") that allows parents to restrict access to certain webpages or websites on the Internet. This way, parents can select a series of pages that their under-age children will not be able to access.

Telefónica took part in the second phase of the World Summit on the Information Society, which, promoted by the United Nations, brought together 20,000 representatives of governments, international bodies, companies and civil organisations in Tunisia.

Telefónica took part in the VIII Summit of Latin American Regulators and Operators, organised by AHCIEET, under the motto "convergence and broadband: a proposal to build the future". This event was celebrated in conjunction with two workshops on "the universalisation of accesses" and the "Transformation of services in the IP world"

CASE STUDY

Autelsi awards Telefónica four prizes

During the II Convention of AUTELSI (Spanish Association of Telecommunications and Information Society Users), the Association awarded its prizes. This second year of the awards, there were 74 candidates, opting for 11 award categories. Telefónica Group received four awards:

A mobile portal with information on Madrid City (Telefónica Móviles España), in the category of Digital City. This is a project carried out in collaboration with the City Council of Madrid, which consists of a mobile portal for all citizens and visitors to visit and receive information of interest about the city on their mobile phones.

The application developed by Telefónica Móviles España called "Mobile Phone Protection against gender violence". This is a computer programme with a clear social orientation that processes calls or emergency calls from victims at risk of abuse.

Telefónica I+D received an award in the category of Environmental Care and Protection, for its project of "contribution of telecommunications to sustainable development".

Lastly, Mercadis, a virtual employment market for people with disabilities, is the project from Fundación Telefónica that was awarded the prize in the Category of Social Commitment.

Telefónica is aware that only those companies with a solid commitment to innovation will be in a position to lead and promote the development of the Information Society.

During FY 2005, Telefónica devoted 2,900 million of euros to technological innovation, 533 of which were invested in R&D. Over 6,800 people collaborate with Telefónica in its innovation activities.



Innovation

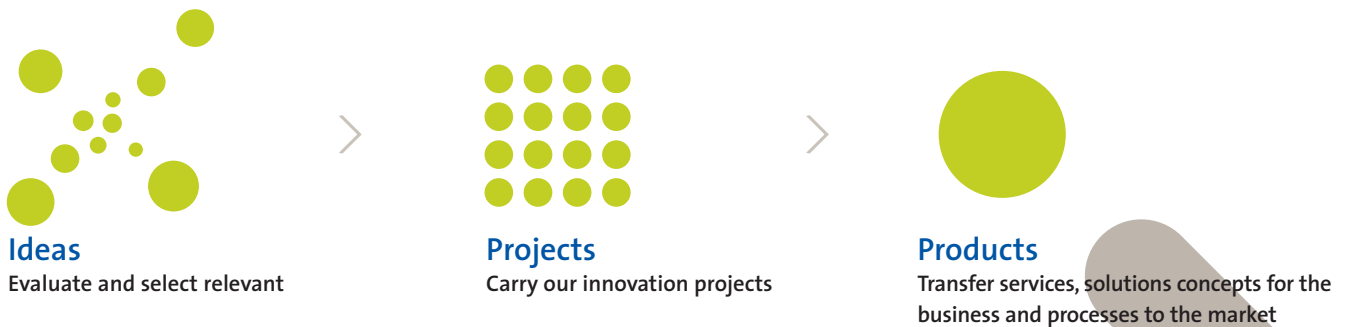
For Telefónica, innovation constitutes the key to profitable and sustained growth. Innovation is based on transforming ideas into business processes that are substantially more efficient and provide competitive advantages; into profitable products and services that provide value to the customer; into a flexible and personalised offer; into services that provide solutions and into a close approach to each individual customer. As a result, any innovation should imply revenue growth, increased customer satisfaction, or a reduction in costs. To achieve these aims, Telefónica has defined innovation as one of the five strategic axes of its programme “Forging ahead to gain leadership”.

Technological Innovation Model

In 2005, Telefónica launched its new Innovation Model, defined in 2004. This model focuses not only on technological innovation, but also on innovation in commercial, management or process and work organisation areas. Its deployment has been led by the Corporate Innovation Committee, comprised of top executives of Telefónica with the aim of focusing on innovation proposals aligned with strategy.

The Innovation Model encourages collaboration with other players, who will become “technological allies” (clients, Public Administration, suppliers, other companies, etc.), as well as the participation of all Telefónica employees within a new innovating culture.”

Diagram of Telefónica’s innovation process



Generation of value for the customer, for the organisation itself, for society
Collaboration with technological allies, clients, Public Administrations, other companies, universities, R&D centres

CASE STUDY

A New Innovation Culture

An essential factor for Telefónica's transformation into an even more innovative company is the development and promotion of a new innovation culture that reaches all employees. To this aim, Telefónica is creating specific organisations to manage and promote innovation within the Group.

An example of the transformation that is taking place within the new Innovation Model is the case of Telefónica de España that, during 2005 and within the Innovation module of the meta:cliente programme, offers a framework from which to promote and cultivate innovation. In order to favour its development in all the areas of the organisation, the module is divided into three different areas for action: Innovating Culture, Idea Generation Cycle and Emblematic Innovative Projects.

The Culture block has undertaken to ensure that innovation forms part of the day-to-day work of all employees. To this aim, different activities and measures have been carried out, such as training sessions, contact with other companies, creativity technique sessions, internal communication actions and projects for the dissemination of innovation, work sessions with people recognised for their innovative character, recognition to employees, identification of innovative projects, etc

The Ideas block promotes and encourages the contribution of ideas by the employees, providing the means for these ideas to be adequately evaluated, implemented and recognised. Of special interest is the creation of a new contest, Emprendedores (Entrepreneurs), which has allowed the Group to identify two ambitious projects with high financial impact that are currently under development. The contest Ideal@b has also continued its development, with over one thousand ideas presented during the year.

The Projects block includes a group of highly ambitious projects that are deemed emblematic due to their strategic implications:

- New Ways of Working, whose aim is to take advantage of the move to the new headquarters, Distrito C, as an opportunity to perform a cultural shift in working habits among all the employees of Telefónica de España. This transformation will be achieved with changes in technology, space and environment that aid this cultural shift.
- Home Offer, within which aspects such as the evolution of the Imagenio service, voice over IP, home domotics services, home broadband connectivity and customers' home equipment have been addressed.

- Business offer, focused on improving services for business clients and designing a new service combining and significantly improving current service features.
- Rationalisation of products and services portfolio and processes, that aims to transform and optimise products and services management at Telefónica de España. To this aim, we have worked on simplifying the development process and rationalising the product portfolio that makes up our commercial offer.

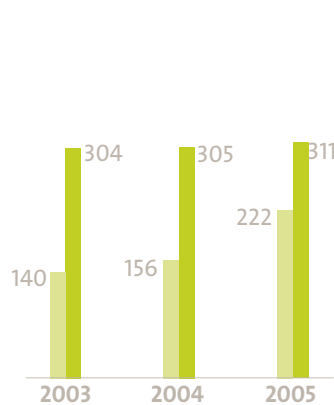
In addition, during 2005, Telefónica Móviles España has launched the second Patenta, Fábrica de Ideas, (Patenta, Factory of Ideas) competition, organised to recognise the best initiatives of employees related to the Improvement of Efficiency. This year, 95 proposals were presented.

Telefónica Internacional and TPI have also made significant progress during 2005 in aspects related to management and promotion of internal innovation, with activities geared to generating and gathering ideas, incentive policies and recognition schemes, etc.

R&D distribution by country

In millions of euros

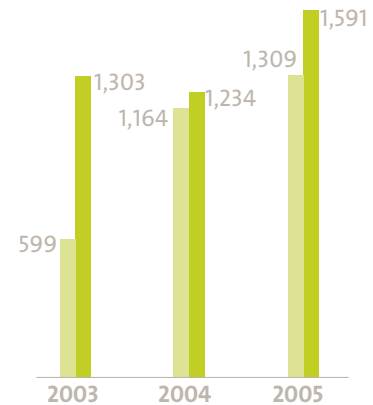
- R&D Spain
- R&D Other countries



Distribution of Innovation by country

In millions of euros

- Innovation Spain
- Innovation Other Countries



Technological Innovation in Telefónica Group in 2005

In 2005, Telefónica earmarked 2,900 million of euros, following the OECD criteria, for technological innovation. This is a 20.9% increase with regard to the previous financial year, mainly due to the incorporation of the new businesses in Latin America and the Czech Republic. 45% of this investment went to technological innovation carried out in Spain, 23% to that carried out in Brazil and 6% to the activities carried out in Argentina. Telefónica Móviles is, once again, with its investment accounting for 52% of the total, the company of the Group with the highest proportional investment in innovation.

Telefónica believes that in order to achieve better positioning in an increasingly complex market, innovation cannot only be based on technology acquisition. It is essential that the research and development activities be made the axis and focus for the rest of innovation activities in order to guarantee differential advantages over competitors. During 2005, R&D investment rose 15.6% with regard to the previous year, reaching 311 million euros in Spain and more than 533 million of euros worldwide. The latter figure is equivalent to 1.41 % of Telefónica's total revenues.

According to data from the European Commission, in 2004, Telefónica was the Spanish company, including all sectors, which devoted the most resources to research and development, with an investment three times that of the second company in the classification. In 2004, Telefónica's investment represented 8% of private investment in R&D in Spain. With regard to the companies in the ICTs sector, according to the Spanish Association of ICT Companies, in 2004, the sector devoted 1,334 million of euros to R&D, and 5,249 million of euros to technological innovation in general. According to these figures, Telefónica accounts for 23% of the ICT sector's investment in R&D, and 22% of its technological innovation investment.

Technological innovation in Telefonica 2005



CASE STUDY

Measurement of innovation, following OECD criteria

The Organisation for Economic Co-operation and Development (OECD) has carried out a series of studies to establish useful indicators for innovation. These studies were gathered in what are known as the Frascati Manuals for R&D and the Oslo Manual for innovation in general. According to these Manuals, the concept of innovation refers both to the result and to the process itself.

With regard to the result, technological innovations include the technologically important products and processes of the innovations. An innovation is considered to be such when it is launched on the market (product innovation) or used in a production process of goods or services provision (process innovation).

As to the process, innovative activities that lead to the development or introduction of technological innovations are: technological research and development (R&D), acquisition of material and immaterial technologies for innovation, industrial design, engineering and

planning activities, as well as new product commercialisation.

Thus, in the innovation figures published by Telefónica, the following concepts are included:

1. Internal R&D expenses
2. External R&D expenses
3. Expenses derived from purchase of machinery and equipment related to products and processes that are technologically new or improved
4. Expenses for acquisition of immaterial technology
5. Expenses for design and industrial engineering, service planning, and service launching
6. Training expenses related to technologically new or improved products and processes
7. Commercialisation of new or improved products.

According to the OECD, R&D activities are the creative work carried out within the organisation, undertaken in a systematic manner with a view to increasing the volume of knowledge that enables the development of new products or processes or the improvement or already existing ones. The R&D results can be protected under industrial or intellectual property rights. If these activities are carried out internally or commissioned from another organisation, one can speak of internal R&D or external R&D. In either case, the company financing the activities assumes the costs and will eventually be the industrial or intellectual owner of the result. The following activities are not included under R&D: education, general data collection, ordinary standardisation works, routine tests, administrative and legal work regarding patents and licenses, routine software development activities, etc.

1,509 patents and utility models

1,546 protected intellectual property rights (software products)

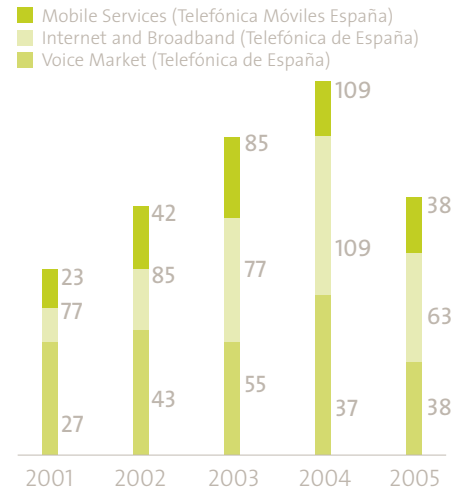
296 new products developed by Telefónica I+D in 2005

Technological Innovation

The technological activities carried out by Telefónica in 2005 were geared mainly towards the creation of value for Businesses, especially with regard to broadband services and mobile services. The following activities are some of the highlights of 2005:

- The activities developed within the framework of TV over ADSL, the Imagenio Service, that have allowed the launch of different offers in the market, such as the “triple play” products, combining telephony, data and television services. At the end of 2005, Imagenio had over 200,000 customers in Spain, and it was being launched in the Czech Republic.
- The development of the Broadband Service Selection Portal, a joint project aimed at increasing the range of broadband services in Latin America, especially in Brazil, Chile, Argentina and Peru. In 2005 Telefónica exceeded the figure of two million retail ADSL accesses in Latin America.
- The new mobile services developed, among which the prepayment platform deployed in practically all of Telefónica's mobile operators, and those developed within the framework of the new generation of mobile technologies, taking advantage of the emerging capacities of UMTS and the new mobile terminals. These new services have contributed, for instance, to Telefónica Móviles España's revenue during the first nine months for download, navigation and data transmission already accounting for 17% of its total revenue, a 45% increase with regard to the same period of the previous year.

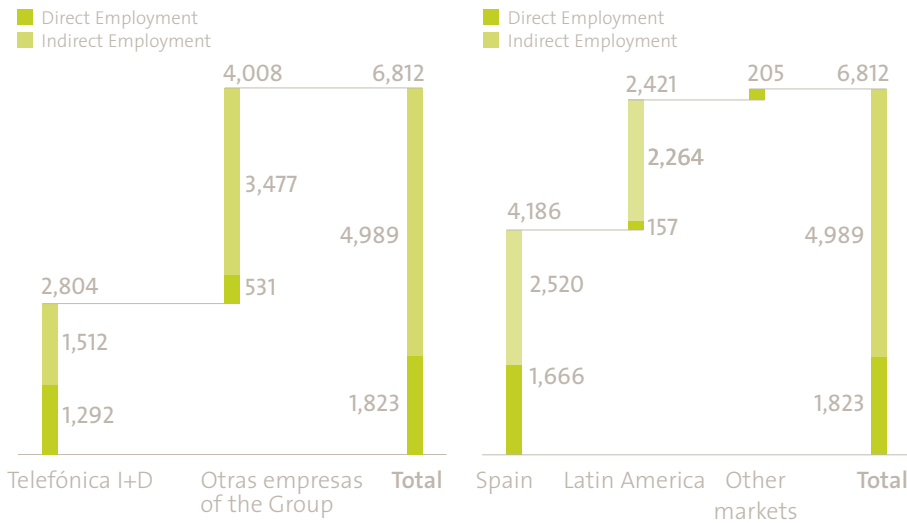
Number of new products of Telefónica Móviles España and Telefónica de España



- During 2005, TPI launched the search engine Noxtrum, one of whose main features is that it combines access to all information available on the Internet with information about companies, shops and businesses (Yellow Pages), commercial information, telephone books, (White Pages), images, news, etc.
- Telefónica generates employment for over 6,800 people in the field of technological innovation, with over 1,800 professionals in companies belonging to Telefónica Group and 5,000 employees at partner companies.

Another of the results stemming from Telefónica's innovation efforts is the Portfolio of Proprietary Products of Telefónica, which, as at December 31, 2005, included 3,055 patents, models and industrial designs, for which the Group has obtained a total of 26.4 million euros in royalties, of which 77% from products and technologies developed by Telefónica I+D.

Employment Generated by Telefónica's R&D Activities
By Business Line By Country



Management and Process Innovation

Telefónica's efforts in the field of innovation are not only focused on the launch of new services, but also on commercial and processes innovation and new models of work organisation. Thus, Telefónica has developed new management systems and substantially improved those already in place, within the framework of commercial and operational management, aimed at designing innovative solutions for business processes, with a view both to providing them with further intelligence and increasing profitability and efficacy of the processes of Provisioning, Invoicing, Customer Service and Infrastructure Management.

There has also been significant activity in the field of network and service management Systems, aimed at improving infrastructure and its quality, through innovative solutions.

CASE STUDY

MovilForum: a joint innovation effort

Within the innovation tools of Telefónica Móviles, it is interesting to point to the establishment of the MovilForum, an initiative launched by Telefónica Móviles España five years ago to promote the collaboration with the business world with a view to strengthening and encouraging development and commercialisation of mobility services and applications.

Movilforum, which offers companies its platforms and networks to carry out tests, free terminals and training courses, currently has 5,400 partner members and 150 registered companies, who already have a catalogue of products and services with over 200 different applications based on mobile technology to improve business management in various sectors such as Transport, Health, Insurance, Banking, Public Administration or Leisure, among others.

Telefónica Innovation timeline



Innovation for our clients

Telefónica movistar users can now **use their mobile to pay in food and drink** vending machines

Mobipay tests **bus ticket payment through mobile phones** in Málaga

Telefónica Movistar España presents ruta movistar, the **first online navigation service for mobiles**

Telefónica Móviles launches in Mexico '**oficina movistar**', a business management system via mobile

Telefónica de España launches **MMS web** service, for multimedia content exchange from fixed telephony networks

Telefónica de España launches new "ADSL mini" service **for high speed navigation, paying only for information downloaded**

Telefónica de España launches **new service** "solución adsl copia de seguridad" (dsl back-up copy service)

Telefónica Móviles España develops a service for **payments under six euros**

Telefónica de España tests the **virtual private IP** network centrex service with four clients

Movistar **launches 'multivoz' in spain**, a service where each client pays for part of the call

Telefónica launches in Peru the first **IP network with giga ethernet** capacity in Latin America

Telefónica launches the first **landline phone with camera and multimedia message functions**

Innovation in collaboration

Telefónica, a member of the technological corporation of andalusia, collaborates in the **promotion of R&D&i among companies from Andalucía**

Banesto and Telefónica Empresas reach an agreement for the development of an **electronic billing service**

César Alierta and other european Telecommunications company presidents ask brussels to **favour investment and innovation**

The new centre of Telefónica **I+D in Huesca** promotes the development of projects with EU backing

Telefónica Móviles and Microsoft sign an agreement to **support software developers**

Telefónica I+D leads a european project **to improve the quality** of voice and video over IP communications

Imagenio, **chosen as best innovative idea** by the magazine Actualidad Económica

Telefónica's text messaging services receive Frost & Sullivan **award to leadership in Marketing Strategy**

'movistar emoción' incorporates **exclusive video channel** with Antena 3 news for 3G mobiles

Telefónica Empresas advances its interconnection with a **new generation technology**

Telefónica I+D's centre in méxico celebrates its **first anniversary** with most solutions already implemented

Telefónica I+D develops a **Wi-fi service platform based on free software**

Telefónica sponsors the series "**España Innova**" (Spain Innovates) that is being repeated on television



Telefónica de España concludes first worldwide experience of **simultaneous navigation by sea and via the internet**

Telefónica Movistar España launches **Wifi internet** service for clients with contract

Telefónica Móviles México opens its **demonstration centre**

Movistar launches its new **"tu tiempo"** (your time) contract, **offering call invoicing by seconds** from the first second

Movistar Argentina launches **International data Roaming** with Spain and Chile

TelesP launches a service offering the best download **speed in Brazil**

Movistar launches **first pocket computer with videoconferencing**

Movistar and Telefónica de España introduce the **first landline-mobile videoservices** in the spanish market

TPI launches pilot version of **Noxtrum**, its internet search engine

Telefónica de España launches its **new "dúo ADSL mini (2mb) + llamadas nacionales"** offer (DSL mini duo (2mb) + national calls)

Telefónica Móviles launches **third generation** services in Venezuela

Telefónica Empresas is a **technology partner** of the seminar on Electronic Signature in Barcelona

Telefónica organises an international conference on service **standards for the digital home**

Telefónica de España holds a session with Apple within the initiative **"conectando con la innovación"** (connecting to innovation)

Telefónica Móviles and symbian join forces **to support developer communities**

Telefónica is a **founding member** of the spanish organisation itil, recommended by the industry

Telefónica Móviles españa participates in the first tests of **digital television for mobiles**

The Chinese Minister of Science and Technology visits Telefónica's stand at the **first hispanic-chinese science and technology forum**

Telefónica and NTT Docomo analyse ways of strengthening their strategic alliance

Telefónica Móviles creates **the largest blackberry community** in Latin America

Telefónica internacional and the Fundación Instituto de Empresa **launch a research grant programme** in Latin America

Its mission is to contribute to increasing Telefónica's competitiveness by means of technological innovation, keeping in mind that the R&D results must always be transferable to customers.

Location of Telefónica I+D Centres

Mexico City

São Paulo

Telefónica I+D (Research & Development)

A great part of the R&D activities is carried out at Telefónica I+D, a subsidiary fully owned by Telefónica. This company works mainly for the Group's lines of business, and participates in other research projects, both nationally and internationally.

In 2005, Telefónica I+D worked on 1,800 projects (1,660 in 2004), devoting its work to developing products, services and processes for Telefónica's businesses, and to applied research financed by the Corporation. This activity reflects Telefónica's strategy, followed for many years now, of promoting its own research and development activities, as a guarantee to ensure competitive advantages with regard to its competitors, and to drive the rest of innovation activities.

Thus, Telefónica I+D drives the Group's technological innovation, with a double role: on the one hand it develops solutions, platforms and networks required by Telefónica, and on the other hand, it identifies emerging technological options which could have a relevant impact on business.

During the last financial year, Telefónica I+D has continued consolidating its Network of Centres of Excellence, transforming its company into a Network of Technological Innovation on an international scale.

- On an international front, the percentage of activity developed in its Centres in Mexico City and São Paulo in Brazil has increased. These centres now share the mission of supporting technological innovation in the Group's companies that operate in Latin America.
- In Spain, a new Centre has been opened in Granada, which complements the activities that Telefónica I+D carries out in the rest of its centres in Barcelona, Huesca, Madrid and Valladolid.
- In 2005, the Barcelona Centre has grown significantly, with the implementation of a new organisational structure. The staff has tripled, and a new technological strategy regarding the activities to be developed has been established.

Valladolid | Madrid | Granada | Huesca | Barcelona

Applied Research

The new innovation model has encouraged research activities aimed at obtaining results in the medium and long terms, which can be applied transversally to several business lines. The goal is to detect, understand, develop and apply specific aspects that may influence the evolution of technologies related to networks, service and content platforms, business and home solutions or information systems.

These Applied Research activities, within the framework of Telefónica's corporate environment, are complemented by an extensive participation in European R&D projects, backed and financed in part by the EU, which have contributed decisively to Telefónica being the first European company in terms of participation in this type of project.

Telefónica I+D is participating from 2004 to 2008 in 71 projects promoted by the EU, focused mainly on new multimedia services, mobile and global communications and software solutions to provide new services. In addition, it has an important role in the EU's initiatives to promote R&D through three European technological platforms: eMobility, NEM (Networked Electronic Media) and NESSI (Networked European Software and Services Initiative).

CASO PRÁCTICO

Telefónica I+D's Scientific Advisory Council

Telefónica has created an advisory body to support the Group's new Technological Innovation Model, which establishes a new framework in the development of its R&D&i activities. It is Telefónica I+D's Scientific Advisory Council, an external body called upon to contribute to the creation of new ideas, formed by world-renowned experts in the fields of science, business and Public Administrations, from different contexts and locations where the Telefónica Group is present.

The Scientific Advisory Council was created with the aim of providing guidance regarding the possible scientific-technical evolution of the ICT sector; identifying its most relevant aspects, and lastly, providing recommendations regarding the focus of Telefónica I+D's research and development activities. Its current structure is as follows:

Chairman:

Andreu Mas-Colell (Chair of Economy at Barcelona's UPF)

Members:

Enric Banda (Director General of the Fundació Catalana per la Reserca i la Innovació)
 Carlos Enrique de Brito Cruz (Scientific Director of the Fundação de Amparo a Pesquisa do Estado de São Paulo)
 Fernando Fournon González-Barcia (CEO of Telefónica I+D)
 José Luis Huertas (Director of the Centro Nacional de Microelétrica of Seville)
 Julio Linares (Director General of Coordination, Business Development and Synergies, Telefónica S.A.)
 Gonzalo León Serrano (Vice-Dean, Research, UPM, Madrid)
 Juan Mulet Melià (Director General, COTEC)
 Juan Pérez-Mercader (Director, Centro de Astrobiología (CAB))
 Fernando Rey (Director of Research, Marketing and Design, Grupo Antolín-Irausa)
 Mateo Valero Cortés (Director, Centro Nacional de Supercomputación)
 Juan Vázquez García (President, Council of Deans of Spanish Universities)
 Sergio Verdú (Professor, University of Princeton)
 César Vohringer (Chief Technology Officer, Philips Consumer Electronics)

Secretary:

Diego Ruiz Quejido (Director General, Planning and Control, Telefónica I+D)

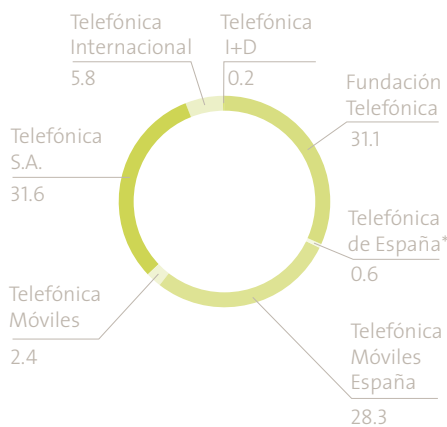
Telefónica is aware of the importance of the need to be in contact with all the players that take part in the process. That is why the promotion of the relationship between Universities and Businesses is a priority goal for Telefónica.

In Spain, Telefónica Group carried out 100 initiatives in 2005 with Universities and Business Schools and awarded 1,100 grants to students from different Universities across the country.

Collaboration with the University Sector

Distribution of investment in initiatives with the University Sector by business line in 2005

In percentages



* Includes Telefónica Empresas and Telefónica Soluciones

The initiatives launched by Telefónica in this field support both basic research and applied research, encourage the training of future professionals, not only in the field of ICTs, but also beyond the scope of this sector, and generally aid the expansion of new technologies throughout the country's economy.

Telefónica has three great aims in its relationship with the University Sector:

- Contribution to innovation, supporting University research groups to enable them to innovate, train and disseminate in subjects of their expertise.
- Development of the information society, collaborating in the design of training activities and grant funding for projects or theses related to the implementation of new technologies.
- Support for the social projection of Telefónica, through awards of prizes in this field and dissemination of publications and results in the media.

The agreements and collaboration relationships of the different Business Lines of Telefónica Group with Universities and Business Schools are mainly focused on the following:

- The creation of Telefónica Chairs. The origin of the sponsorship of Telefónica Chairs goes back to the year 2000, although it was in 2001 when most of the agreements with the Universities were signed. The Telefónica Chairs are joint collaboration projects between the Universities and Telefónica S.A., focused on specific subjects related to the Information Society, and which are held by a University Chair.
- Academic collaboration with the University through the organisation, participation or sponsorship of an academic course.
- Technological collaboration with the University through projects or promotion plans specifically created to encourage research on specific subjects.
- The development of educational portals: EducaRed and CampusRed. The Fundación Telefónica, with the collaboration of the educational community—social organisations, institutions and Administrations—has been, since 1998, investing significant efforts in the incorporation to its educational portals of the most useful and innovative tools in the field of educational technology.
- The financial investment of the Telefónica Group aimed at supporting University training programmes exceeded eight million euros in the last financial year, distributed among the Telefónica Chairs, grants (with a total investment of approximately five and a half million euros) and other initiatives related mainly to academia.

Telefónica Chairs

| University | Telefónica Chairs | 2002 | 2003 | 2004 | 2005 |
|----------------------------|--|------|------|------|------|
| Politécnica de Madrid | New Generation Internet | ● | ● | ● | ● |
| Carlos III de Madrid | Studies in Telecommunications Economy | ● | ● | ● | ● |
| | Studies in Telecommunications Technology | ● | ● | ● | ● |
| | Advanced Networks and Services | | | ● | ● |
| Autónoma de Madrid | Service Economy | ● | ● | ● | ● |
| Complutense de Madrid | Master APIE (Association of Finance and Economy Journalists) | ● | ● | ● | ● |
| Las Palmas de Gran Canaria | Multimedia Experimental Services | ● | ● | ● | ● |
| La Laguna de Tenerife | Unesco Chair of Telemedicine | | ● | ● | ● |
| Politécnica de Valencia | Broadband and Internet | ● | ● | ● | ● |
| Politécnica de Cataluña | Technological Specialisation and Knowledge Society | | ● | ● | ● |
| Pompeu Fabra | Multimedia Production | ● | ● | ● | ● |
| Zaragoza | Quality, New Networks and Telecommunications Services | ● | ● | ● | ● |
| Oviedo | New Information and Telecommunication Technologies | | | ● | ● |
| Santiago de Compostela | Telemedicine | | | ● | ● |

Telefónica Chairs

The Telefónica Chair programme has been up and running since 2001, and in its fifth year, the activity has continued its consolidation process. In 2005, the financial year was closed with 12 Telefónica Chairs and 2 master courses at different Spanish Universities. In addition, Telefónica Móviles has two Chairs at the ETSIT of the Universidad Politécnica de Madrid and at the Universidad de Deusto.

The activity of the Telefónica Chairs is evaluated on the basis of a combination of various criteria that include turnover (30%), technological innovation (20%), academia (15%), training (10%), projection and visibility (10%), transparency (10%) and initiative (5%). On the basis of these criteria, the Chairs that are best regarded are the Chair of the Universidad Politécnica de Madrid and the Chair of the Universidad Politécnica de Cataluña.

CASESTUDY

Criteria for assessing the activity of the Telefónica Chairs

Its degree of technological innovation, bearing in mind the quantity and quality of the projects and activities carried out within the framework of the Chair as well as the degree of collaboration of the Chair with other institutions, schools and companies of the Telefónica Group in said projects.

59 technological innovation projects (41 in 2004)

10 projects of collaboration with Telefónica I+D (11 in 2004)

45 projects in collaboration with other opportunities and information centres (17 in 2004)

Its academic contribution, bearing in mind the quality and quantity of the courses offered by the Chairs, as well as the number of students attending them.

35 courses taught (26 in 2004)

1,969 students attending (1,254 in 2004)

1,990 training hours (2,538 en 2004)

Its training contribution, bearing in mind the grant programme linked to the Chair (both for End of Degree Projects and Theses, and in general, for the collaboration with the Chair)

91 grants related to the Chairs (91 in 2004)

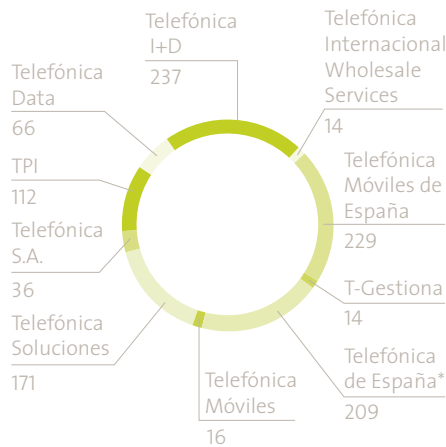
Its projection and visibility, assessing the repercussion of the Chair in the field, the quantity and quality of the relationships established and, generally-speaking, the visibility of the Chair in the Autonomous Community.

Participation in **28** forums, conferences and meetings (32 in 2004)

37 publications (26 in 2004)

Almost all Chairs have their own website

Distribution of grants by business line



Grants

Another line of collaboration of Telefónica with the University is related to the award of grants to students in the last years of their degree. In 2005, Telefónica Group offered 1,104 grants to students of technical degrees from various Spanish universities (1,014 in 2004). For this collaboration, the Telefónica Group holds 178 agreements with Universities and Business Schools.

In 2002, Telefónica launched a grant programme, in collaboration with the Fundación Carolina with a view to establishing a line of collaboration with institutions working in the field of postgraduate training in new technologies in Latin America, for the development of qualified professionals with international interests. The twenty-six participants in 2005 came from the different companies of Telefónica in Argentina, Brazil, Chile and Peru. The grant receivers follow trainee programmes at the Group's companies in Spain, while complementing their training with postgraduate programmes at Spanish institutions.

Telefónica Internacional has launched a joint call for grant applications with the Centro Euro-Latinoamericano (CEULA) of the Instituto de Empresa. The programme promotes applied research on subjects related to the Information Society and the development of Latin American countries. The programme is aimed at Latin American university teachers and researchers working in fields related to the proposed study subjects. The call for grant applications for 2005-2006 is focused on subjects related to the digital divide and the development of Latin America.

CampusRed

CampusRed.net, the portal for Universities and university students, is an initiative sponsored by Telefónica and Fundación Telefónica. With a clearly intercampus approach, it provides a powerful technological platform that offers not only the possibility of managing and administrating courses, developing research or supervising doctoral theses, but also the programmes and tools required to share work.

Within the framework of this initiative, collaborations have been established with the Universidad Internacional Menéndez Pelayo, Universidad Pompeu Fabra, Universidad Complutense de Madrid, Universidad Politécnica de Valencia, Universidad de las Islas Baleares, UNED, Instituto Universitario de Investigación Ortega y Gasset, Universidad Rovira i Virgili, Universidad Carlos III de Madrid, Universidad Autónoma de Barcelona, Universidad Antonio de Nebrija and Universidad San Pablo CEU.

R&D Prizes to Innovation

Since 1999, Telefónica I+D annually awards the "Premios I+D a la Innovación" ("R&D Prizes to Innovation"), for which all officially registered students in their third year or above in the current academic year, studying Telecommunications or Computer Studies, from any University belonging to the Autonomous Communities of Madrid, Castilla y León, Catalonia and Aragon are eligible.

The main aim of the awards is to encourage and reward initiative and innovation efforts of students at Spanish Universities, within the fields of telecommunications and computer studies. The idea is to recognise original and innovative ideas of the students, either individuals or teams.

Other collaborations with the University Sector

Together with the Telefónica Chairs, the Company closely collaborates with the University to promote the debate about new technologies and the information society: The IESE in the organisation of the “XI Telecommunications Sector Conference”, which focused on the convergence of services. In addition, it is a member of its Centro de Estudios Sector Público-Sector Privado (Centre of Studies of the Public and Private Sectors).

It is a board member of the ENTER studies centre, of the Instituto de Empresa, focusing on the analysis and evaluation of the Information Society and Telecommunications.

It has collaborated for some years with the Universidad Internacional Menéndez Pelayo in the organisation of the Encuentro sobre Telecomunicaciones (Telecommunications Conference). In 2005, the XIX Telecommunications Conference was held, focusing on “Time for convergence”

Telefónica de España / Telefónica Empresas España

I Forum Ipv6 red Iris. Universidad de Valencia
 II Conference of Distance Learning of Castilla y León: “Promoting the Knowledge Society”. Universidad de Burgos
 IV Professional Guidance Exhibition. Universidad de Salamanca
 Party UHU: Seminar on New Technologies, Communications and Computing. Universidad de Huelva
 Festivity 2005, Universidad de Barcelona.
 Murcia LAN Party 2005, Universidad de Murcia
 Expomanagement 2005. IESE
 17th Euromicro Conference on Real Time System. Universidad de las Islas Baleares

Telefónica Móviles SA / Telefónica Móviles España

Seminar on Telecommunications and Disabilities at the School of Telecommunications Engineering. Universidad Politécnica de Madrid
 Seminars on Corporate Social Responsibility. ESIC.
 Agreement for expert legal advice and consultancy in the scientific-medical field. Universidad de Valladolid
 Summer courses. Universidad Politécnica de Cartagena.

Collaboration agreement. Universidad de Sevilla.
 Collaboration agreement. Universidad de Córdoba.
 Collaboration agreement. Universidad de Extremadura.
 Collaboration with the Gamelab department. Universidad de Oviedo
 Summer courses. Universidad Europea de Madrid

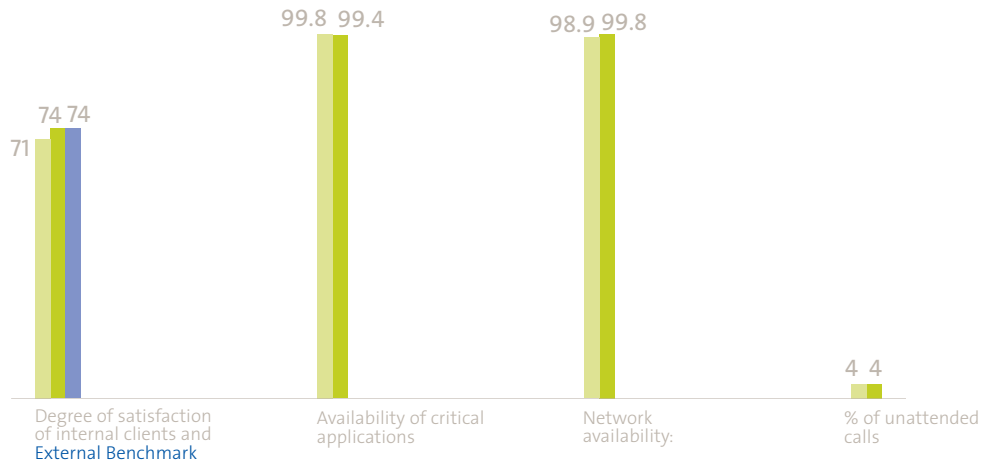
Telefónica I+D

Science Week of the Autonomous Community of Madrid
 Universidad Politécnica de Madrid, participation in the SATELEC seminars.
 Universidad Alfonso X el Sabio: company presentation.
 Participation in several Technology and Employment Forums: U. Carlos III de Madrid (Forempleo-05), U. de Valladolid (Presentation at Technical Employment Forum), U. Alcalá de Henares (Alcajob-05), U. Complutense de Madrid (Presentation at Employment Days and Computecno), U. de Salamanca (Employment Forum).
 U. Politécnica de Cataluña participation in the Telecommunications and Electronics Forum.
 U. Pompeu Fabra sponsorship of the Forum U-Feina 05.

Indicators of information system performance in Telefónica Group

In percentages

■ 2004
■ 2005



Information Systems

The mission of the areas of Information Systems is to define, develop, implement and manage the systems that provide **optimal support and competitive advantages** to the business processes of the companies.

Telefónica contributes to the improvement of productivity of many of its clients by means of communication solutions and information systems. Information systems are an essential resource for evolution of the businesses and the alignment of operations in the transformation process of Telefónica.

In addition, the way in which Telefónica often explains to its clients the possibilities offered by the new systems is by demonstrating the solutions on their own systems. An example of this is e-Domus, the Intranet of Telefónica de España, which has served as a demonstration platform for all clients who requested a similar solution.

The Information Systems costs incurred by the different companies of the Telefónica Group during FY 2005 exceeded 1.3 billion euros (1 billion euros in 2004), with a staff of their own human resources of almost 4,000 employees (3,300 in 2004).

The following projects are some of the milestones reached in FY 2005:

- Integration of economic-financial and logistics IT systems of Telefónica de España and t-gestiona, with the integration of the IT systems TeleSAP and CorpoSAP
- Evolution and integration of the commercial systems in Telefónica Latinoamérica (systems technically called ATIS, SCL and Altamira)

- Integration of ERPs of the Latin American companies, managing to optimise their operational infrastructures and reduce the number of current data processing centres. (Candelaria project)

In addition, important progress is being made in the dissemination and application of common methodologies applicable to the entire life cycle of the Information Systems by means of standards such as ITIL (Information Technology Infrastructure Library) together with CobiT (Control Objectives for Information and Related Technology) and CMMi (Capability Maturity Model Integration). These standards are acquiring increasing importance in the methods of managing the exploitation of information technologies and can benefit the different areas of Information Systems, outsourcing businesses in general and all companies offering services based on IT infrastructure. At the forefront of these initiatives, Telefónica has once more become a key driving force behind technological development.

The information systems department evaluates performance with the aid of a series of indicators. The results obtained in FY 2005 place Telefónica above market standards: the degree of satisfaction of internal clients reaches 74%, compared to the external benchmark of 71%; the response time of the internal network the applications run on is 13 milliseconds, the Availability of Critical Applications is 99.4% and the Network Availability is 99.8%.

“Information Society” Report

In 2000, Telefónica was a pioneer in publishing the first Information Society report, a document that year after year, has analysed the state of the Information Society in Spain. Together with the traditional Round Table cycles aimed at providing a space for debate on the Information Society, during 2005, the Telefónica Group companies promoted the following publications:

- Telefónica published the sixth edition of the report on the information society. This edition pays special attention to SMEs, under the premise that the incorporation of information and communication technologies to companies is a basic pillar for development.
- Telefónica CTC Chile presented the book “La Sociedad de la Información en Chile: 2004-2007, Presente y Perspectivas” (Information Society in Chile: 2004-2007, Present and Outlook”).
- Telefónica Móviles España presented M-Sociedad, with the aim of promoting an increasingly mobile society and improving people’s lives through mobile telephony. In a Seminar, promoted by the TME Chair of the Universidad Politécnica de Madrid, projects were presented related to the possibilities offered by the new mobile telephony services in fields such as mobile administration, mobile health or new mobility trends.
- Telefónica I+D, in collaboration with AHCINET, published the book “Telecomunicaciones y Movilidad en la Sociedad de la Información” (Telecommunications and Mobility in the Information Society)

CASE STUDY

Information Society Portal

In 2005, Telefónica launched the information society portal. With the aim of continuing with the work carried out for the publication of annual reports and becoming a window for all citizens to access information about the latest technological innovations and their repercussion on sustainable socioeconomic development.

In its first nine months of existence, the portal has published over 1,200 information entries, including:

- Over 850 news items related to the development of the information society
- Opinion and dissemination articles regarding new technologies and their implications for society
- Reports on the Information Society published by Telefónica (and other publications related to ICTs)

- Documents from round tables on the Information Society
- Articles analysing the contribution of telecommunications to sustainable development
- Documents, links, courses, tutorials...

In order to keep users informed of the portal news, an Information Society, Technology and Innovation Bulletin was created. This Bulletin is distributed to over 2,000 users subscribed on a weekly or daily basis, depending on the option chosen.



Institutional Collaboration

Telefónica collaborates with prestigious and recognised associations and bodies worldwide, contributing to the development of technology standards and the professionalisation of the businesses. The main associations and forums with which Telefónica participates actively are those related to telecommunications, mainly in the regions where the company operates (Spain, Latin America and Europe)

International Associations and Bodies

- AHCIET (Asociación Hispanoamericana de Centros de Investigación y Empresas de Telecomunicación)
- AEPIA (Asociación Española para la Inteligencia Artificial)
- Benchmarking Plus
- BRT (Brussels Round Table)
- CITELE (Comisión Interamericana de Telecomunicaciones)
- DSL Forum
- DVB (Digital Video Broadcasting)
- EIF (European Internet Foundation)
- ELRA (European Language Resources Association)
- ERT (European Round Table of Industrialists)
- ESF (European Services Forum)
- ETP (European Telecommunications Platform)
- ETNO (European Telecommunications Network Operators)
- ETSI (European Telecommunications Standards Institute)
- FS-VDSL Forum
- GBDe (Global Business Dialogue on e-commerce)
- GeSI (Global e-Sustainability Initiative)
- GSMa-GSMe (GSM Association - GSM Europe)
- ICANN (Internet Corporation for Assigned Names and Numbers)
- ICC (International Chamber of Commerce)
- Ipv6 Forum
- MPEG (Moving Picture Experts Group)
- MEBF (Mercosur European Union Business Forum)
- OMG (Object Management Group)
- OSGI (Open Services Gateway Initiative)
- SDR Forum (Software Defined Radio)
- Telemanagement Forum
- Transatlantic Policy Network
- UIT (Unión Internacional de Telecomunicaciones)
- 3GPP (3rd Generation Partnership Project)

Spanish Associations and Bodies

- AECE (Asociación Española de Comercio Electrónico)
- AETIC (Asociación de Empresas de Electrónica, Tecnologías de la Información y Telecomunicaciones de España)
- AESPLAN (Asociación Española de Planificación y Dirección Estratégica)
- APD (Asociación para el Progreso de la Dirección)
- AUI (Asociación de Usuarios de Internet)
- AUTELSI (Asociación Española de Usuarios de Telecomunicaciones y de la Sociedad de la Información)
- Asociación de Ejecutivos de Finanzas
- CEOE (Confederación Española de Organizaciones Empresariales)
- CIECAT (Círculo Español para la Calidad en Telecomunicación)
- Círculo de Empresarios
- Club Gestión de la Calidad
- COTEC
- Foro de Comunicación Interna
- Foro de Reputación Corporativa
- Fundación Iberoamericana de Gestión de la Calidad
- Movilforum 2320
- N-ECONOMÍA
- SEDIC (Sociedad Española de Documentación e Información Científica)

Argentine Associations and Bodies

- CÍCOMRA (Cámara de Informática y Comunicaciones de la República Argentina).
- AmCham (Cámara de Comercio de los Estados Unidos en la República Argentina : Comité de Telecomunicaciones y Comité Legal & Tax).
- COPITEC (consejo Profesional de Ingeniería en Telecomunicaciones, Electrónica y Computación)
- Cámara Argentina de Comercio – CAC
- Unión Industrial Argentina – UIA
- Cámara Española de Comercio de la República Argentina
- AEA – Asociación Empresaria Argentina
- Fundación Mediterránea
- Fundación Capital
- Fundación de Investigaciones Económicas Latinoamericanas – FIEL
- Instituto para el Desarrollo Empresarial de la República Argentina –IDEA
- Instituto Argentino para el Desarrollo de las Economías Regionales – IADER
- Fundación Carlos Pellegrini
- Cámara Argentina de Telecomunicaciones y Afines – CATYA
- Cámara de Empresas de Software y Servicios Informáticos – CESSI
- Asociación Argentina de Usuarios de la Informática y las Comunicaciones – USUARIA
- Cámara Argentina de Bases de Datos y Servicios en Línea . CABASE :

Brazilian Associations and Bodies

- AMCHAM - Câmara Americana de Comércio
- Câmara Oficial Espanhola de Comércio no Brasil
- CDES – Comitê de Desenvolvimento Econômico e Social, ligado à Secretaria de Relações Institucionais do Governo Federal Brasileiro
- CEAL - Conselho Empresarial da América Latina / Consejo Empresario de América Latina
- CPqD - Fundação Centro de Pesquisa e Desenvolvimento
- FIESP - Federação das Indústrias do Estado de São Paulo, com participação nos seguintes órgãos: COPS - Comitê de Orientação Política e Social, COTRI - Conselho de Orientação Técnica em Relações Industriais, NAS - Núcleo de Ação Social e Instituto Roberto Simonsen
- IEDI - Instituto de Estudos para o Desenvolvimento Industrial

Chilean Associations and Bodies

- SOFOFA, Chilean Federation of Industry

Associations and Bodies from Colombia

- ASOCEL (Asociación de la Industria Celular de Colombia)
- CCIT (Cámara Colombiana de Informática y Telecomunicaciones).
- ASETEL (Asociación de Empresas de Telecomunicaciones)
- ANDI (Asociación Nacional de Industriales)
- FENALCO (Federación Nacional de Comerciantes)
- ANEP (Asociación Nacional de la Empresa Privada)

Associations and Bodies from Ecuador

- ASETEL (Asociación de Empresas de telecomunicaciones)
- CCQ (Cámara de Comercio de Quito)
- CCG (Cámara de Comercio De Guayaquil)
- Cámara Oficial Española de Comercio e Industria de Quito
- Cámara de Comercio Ecuatoriano-Americana

Associations and Bodies from Guatemala

- Gremial de operadores de Guatemala
- CASETEL (Cámara de Empresas de Servicios de Telecomunicaciones)
- Cámara de Comercio de Guatemala, Cámara de comercio Americana, Cámara de Industrial de Guatemala y Cámara de Comercio e Industria Guatemalteco Mexicana.

Associatons and Bodies from Nicaragua

- Cámara de Comercio, Cámara de Industrias de Nicaragua y Cámara Española.
- COSEP (Consejo Superior de la Empresa Privada)
- INDE (Instituto Nicaragüense de Desarrollo).

Associations and Bodies from Panama

- APEDE (Asociación Panameña de Ejecutivos de Empresas)
- Cámara de Comercio, Industrias y Agricultura de Panamá, Cámara Oficial Española de Comercio de Panamá
- INDESA (Asociación para la Investigación y Desarrollo)

Peruvian Associations and Bodies

- ADEPSEP (Asociación Privada de Empresas de Servicios Públicos)
- Cámara Oficial de Comercio España en el Perú
- Club Empresarial
- PERU 2021.
- CONFIEP-CRECE PERU (Confederación Nacional de Empresas Privadas – Comité de Promoción del Perú).
- AMCHAM (American Chamber of Commerce)
- COCEP (Cámara Oficial de Comercio de España en el Perú)
- APESAN (Asociación de empresas patrocinadoras de la Escuela Superior de Administración de Negocios)
- SNI (Sociedad Nacional de Industrias)
- Cámara de Comercio de Lima
- IPAE (Instituto Peruano de Administración de Empresas)
- Procapitales
- SENATI (Servicio Nacional de Adiestramiento en Trabajo Industrial)



The 21st century will be characterised by the unstoppable spread of the Information and Knowledge Society, but also by growing concern regarding issues related to the environment, the progress of developing countries, human rights, health, education, employment and development of local communities.

Driving social development

Use of **energy** in the Digital society



Positive Aspects

- Energetic efficiency of the networks
- Effect of replacing transports with telecommunications
- Use of ICTs as a means of creating awareness with regard to energy savings



Implementation Barriers

- Production and use of electronic equipment
- Consumption of equipment in stand-by mode
- Energy consumption of network operators

Digital **home**

- Improvement in quality of life
- Improvement of home health assistance
- Improved home security
- Increased leisure opportunities

- Power consumption
- Cost to citizens

Electronic **Administration**

- Speed, comfort and flexibility
- Simplification of bureaucracy
- Closer approach to the citizens and higher citizen participation
- Higher efficiency in bureaucracy procedures
- Reduction of errors and increased efficiency

- Need for connectivity
- Usability and accessibility
- Lack of experience and training
- Security and lack of trust
- Investments by the administration

Telecommunications at the service of **emergencies**

- Prevention and early warning
- Warning systems for citizens and speed of response
- Help for coordination tasks
- Mobilisation and channelling of humanitarian aid

- Vulnerability of telecommunication systems
- Dependence on geographic and social economic setting

Telecommunications and inclusion of people with **disabilities**

- Universal access to information
- Improved opportunities (study, work...)
- Solutions for integration of hearing, speech, sight, physical, intellectual, aging disabilities

- Design "for everyone" by manufacturers and service developers
- Implementation difficulties
- Cost of adaptation of services

Distance Learning



Positive Aspects

More educational resources for existing students
 Taking education to excluded groups (rural areas, people with disabilities, areas in conflict...)
 Improve education in developing countries
 More flexibility and wider reach for universities



Implementation Barriers

Need for equipment and infrastructure (investment required)
 Lack of motivation among students
 Lack of training of teachers
 "Life-long" training

Use of paper in the digital society

Efficiency in work place
 Mobility and collaboration
 Administrative procedures without paper
 Dematerialisation (commercial transactions, online publications, email, learning...)

Bad printing habits
 Implementation difficulties for the electronic signature
 Tired eyes due to reading on screen
 Need for new equipment and technologies

Electronic Commerce Applied to Tourism

Lower travel prices for tourists
 Increased information regarding tourist destinations
 Opportunities for regional development and development of countries with an incipient tourist market

Lack of trust in the security of electronic purchase processes
 Increase of greenhouse gas emissions (due to increase in travel)
 Improved adaptation to traveller's needs

New technologies at the service of health

Improved emergency management (early diagnosis and preparation)
 Improved diagnosis and training of health professionals
 Improved hospital management (clinical records, appointments, treatments)
 Patient attention where-ever and whenever details (privacy)it is needed (rural medicine, long-term patients, post-surgery recovery...)

Heavy initial investment in equipment and training
 Interoperability problems between health centres
 Adaptation of health staff to new technologies
 Lack of trust in the security of personal

Credits

Departments that collaborated in the preparation of the report

| Capítulo | Áreas 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) |

