



Advanced Purchasing Systems

As part of the permanent process for reducing costs, improving competitiveness and generating value for the **Group**, in 1998 the **Advanced Purchasing System (APS)** was implemented, aimed at obtaining maximum quality, cost-effectiveness and service in all purchasing requirements.

The most outstanding characteristics of this new management system are globalization and coordination through joint purchasing and the establishment of common policies and strategies, transparency in the processes and decision-taking, speeding up bureaucratic procedures and more fluid communication between the technical and purchasing areas.

Application of **APS** started last year in the largest companies operating in Spain and since the end of the year it is being adopted by American operators. In 1998, this management system has achieved important cost reductions, with savings of 15% on purchase volumes of 500 billion pesetas. This approach will no doubt be consolidated in 1999 when purchases to the value of 2 trillion pesetas are foreseen.

Real-estate activity

The application of new management models during the year has made it possible to rationalize services, optimize patrimony and reduce expenses by approximately Pta. 3 billion.

In this context, **Telefónica's «Communications City»** project aims to provide the **Group** with a new office complex whereby the use of rental property will be substituted by property ownership, providing annual savings of Pta. 3.8 billion

In December, within the overall framework of company reorganization of the **Telefónica Group, Inmobiliaria Telefónica**

was set up with assets of 62 buildings and a book value of Pta. 224.542 billion. The process of incorporating assets will continue in 1999, defining a market position, while maintaining the focus on providing a real estate service for the **Telefónica Group**.

The Millennium and Euro corporate projects

During 1998, and in the context of the **Millennium**, decisive progress has been made in adapting the systems installations and other facilities to ensure correct functioning of the computer systems in the year 2000. In the first quarter of 1999, all elements will have been adapted and tested, and throughout the year comprehensive trial runs of business processes will be carried out. A **Contingencies Plan** has also been prepared.

Additionally, the **Euro Project** embraces the combined actions necessary to adjust operations to the new monetary unit, adapting

to the needs of our customers and shareholders.

Since October 1998, telephone billing information in euros has been offered through **Telefónica's Virtual Shop** and through the **Consumer Information Service**, as well as through the «on line» billing service.

European Regional Programs

In the past year, **Telefónica** has maintained its participation in the European programs backed by the Structural Funds (Feder and FSE) aimed at correcting imbalances through actions in the field of communications, applications, training and technological research and development.

In this regard, **Telefónica** has taken steps to modernize infrastructures, promote advanced services and develop new applications and solutions that could contribute to furthering the information society in underprivileged regions.

Telefónica, leader in solidarity

Telefónica is carrying out an enormous technological, financial and business effort to face the new challenges posed today by telecommunications and the information society, because it intends to be in the group at the head of the sector worldwide.

But **Telefónica** is also a business group committed to the development of the countries and societies where it is present as an operating company, and it also wants to be a leader in solidarity and social commitment, developing social applications from the technologies in order to respond in solidarity with the needs of today's society.

Therefore, **Telefónica** has set up **Foundations** in Argentina, Brasil, Chile, Spain and Peru as instruments capable of channeling its social action in those countries and thus promote the human side of technology.

Education and promotion of equality of opportunity, improvement of the quality of life of the underprivileged, community development and art and culture are the basic fields of activity of these institutions, to which important economic and management resources are allocated.

