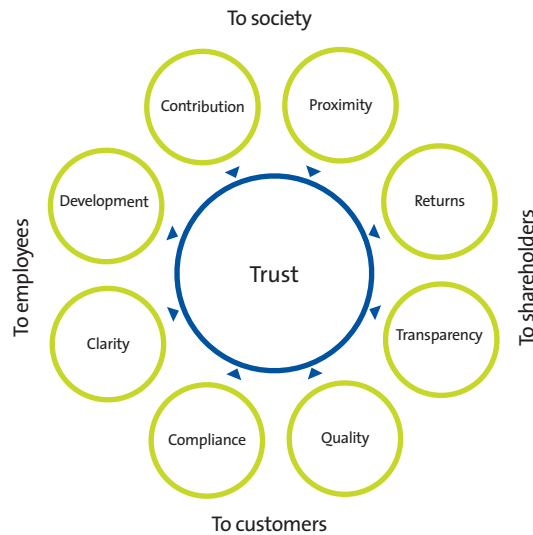# *Intangible assets*

**Telefonica's leadership
is based on its values...**

→ **To shareholders and investors**
• Transparency
• Returns

→ **To customers**
• Quality
• Compliance

→ **To employees**
• Clarity
• Development

→ **To society**
• Contribution
• Proximity

To society

To employees

To shareholders

Contribution

Proximity

Development

Returns

Trust

Clarity

Transparency

Compliance

Quality

To customers

## 2 ... and on the awareness of its brands...

### 2.1 Brand strategy and creation

Business strategy → Brand strategy → Brand architecture

### 2.2 Brand architecture

*Telefónica*

### 2.3 Brand management

Registered trademarks (December 2002)
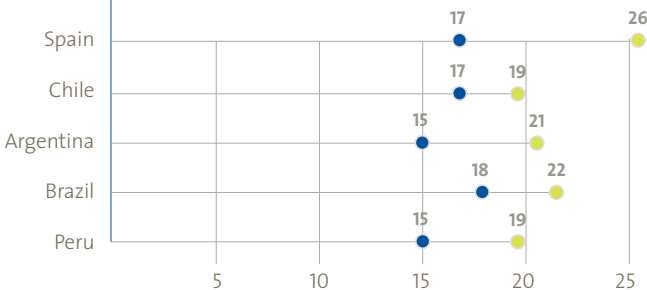
**7.706**

Registered domain names (December 2002)

**2.182**

### 2.4 Measurement systems

Contribution of Telefónica brand to the revenue generated
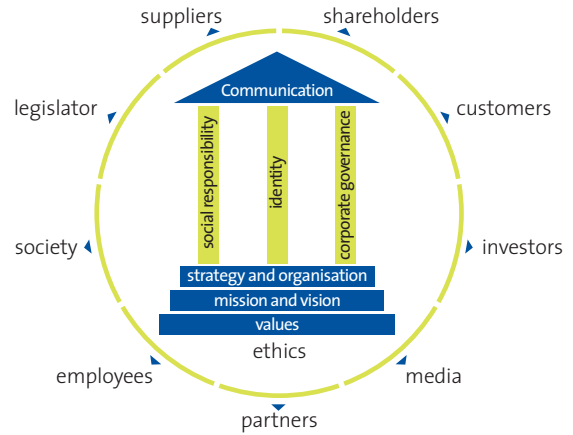*(data in percentages)*

● *Mobile telephony operations*  ● *Fixed-line telephony operations*

| | |
|---|---|
| Spain | 17 · 26 |
| Chile | 17 · 19 |
| Argentina | 15 · 21 |
| Brazil | 18 · 22 |
| Peru | 15 · 19 |

(x-axis: 5 · 10 · 15 · 20 · 25)

## 3 ... so as to build its corporate reputation

### 3.1 Integrated Corporate Reputation Model



suppliers · shareholders · legislator · customers · Communication · social responsibility · identity · corporate governance · society · investors · strategy and organisation · mission and vision · values · ethics · employees · media · partners
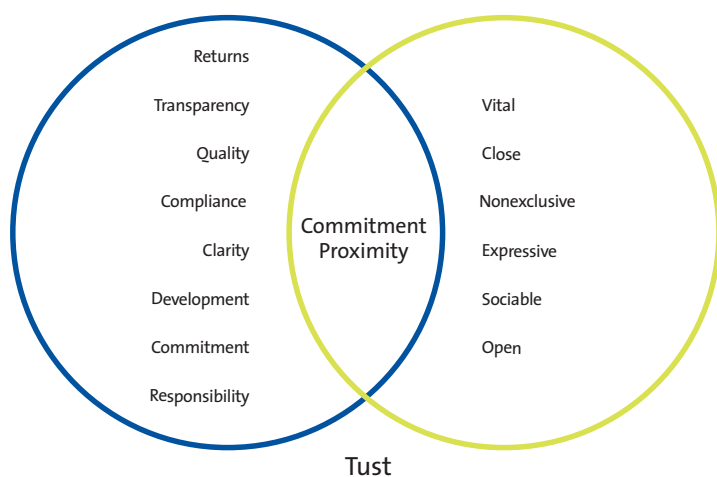
### 3.2 Foro de Reputación Corporativa

fRC FORO DE REPUTACIÓN CORPORATIVA

*commitment to manage*
# *intangible assets*

**Brand values and features**

▬ *Values shared by target public*
▬ *Brand attributes*

Returns

Transparency

Quality

Compliance                    Vital

Clarity                        Close

Development                    Nonexclusive

Commitment    Commitment      Expressive
              Proximity
Responsibility                 Sociable

                               Open

Tust

## Telefónica's leadership...

At Telefónica, our aim is that all of our customers, employees, shareholders and the communities in which we operate will trust our ability to deliver on our promises.

Based on this relationship of trust, Telefónica intends to build a new leadership approach that will enable it to be among the world's major telecom operators. The company aims to be acknowledged as a pre-eminent multidomestic group operating both on a global and local scale.

### 1 ... is based on its values...

Telefónica's leadership is based on the Group's values, which reflect its aim of winning its stakeholders' trust. These core values define the company's philosophy: proximity and commitment.
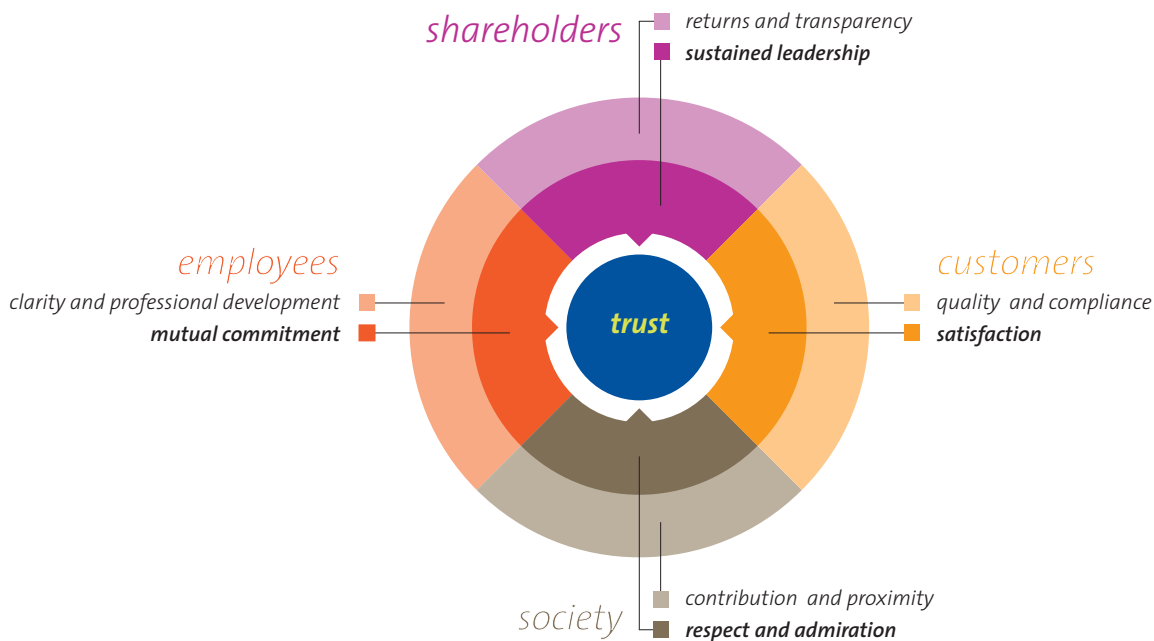
Telefónica's values are central to its relations with stakeholders. That is why the company is intends to achieve returns and transparency for shareholders; quality and compliance for customers; clarity in relationships and professional development for employees; and contribution and proximity in relation to society. Combined together, these values allow the Company to establish a relationship of trust with its stakeholders.

Telefónica is aware that talking about trust is one thing, but building trust day after day by making the right commitments and by meeting them consistently is another. In other words, Telefónica's aim is to show that it is capable of «walking the talk».

**Telefónica Group values**

*(stakeholders)*

■ ■ ■ ■ *What we do*
■ ■ ■ ■ **What we achieve**

*shareholders*   ■ *returns and transparency*
■ **sustained leadership**

*employees*
*clarity and professional development* ■
**mutual commitment** ■

**trust**

*customers*
■ *quality and compliance*
■ **satisfaction**

*society*   ■ *contribution and proximity*
■ **respect and admiration**

**To our shareholders and investors**

- **Transparency.** Meeting our committment to provide our shareholders, investors and other stakeholders with all the information they need.
- **Returns.** Deploying a robust and sustainable business model.

**To our employees**

- **Clarity**. Making sure that all employees of the Group are always provided with complete and quality information.
- **Professional development.** Ensuring that Telefónica's staff are offered the best career opportunities.
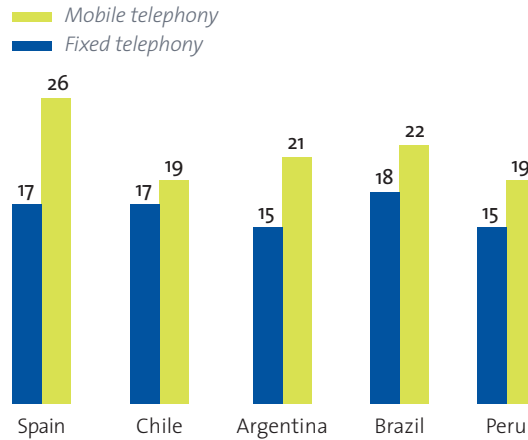
**To our customers**

- **Quality.** Ensuring that our products, services and customer service meet the highest standards.
- **Compliance.** Committing ourselves to delivering on our promises.

**To society**

- **Contribution.** Building a bond of trust with the communities it serves, based on its contribution to society through targeted policies in the field of social responsibility, environmental impact and integration.
- **Proximity.** Providing global services whilst endeavouring to meet the needs and unique circumstances of the communities in which it operates.

**Contribution of Telefónica's Brand
to Group's total revenue**[1]
*(data in percentage)*

- Mobile telephony
- Fixed telephony

| | Spain | Chile | Argentina | Brazil | Peru |
|---|---|---|---|---|---|
| Fixed telephony | 17 | 17 | 15 | 18 | 15 |
| Mobile telephony | 26 | 19 | 21 | 22 | 19 |

## 2 … and on the awareness of its brand…

Telefónica's brand can be defined as a valuable strategic asset which conveys the Company's value statement; a symbol that can be readily identified by all our stakeholders and which creates value for the business.

Telefónica's brand portfolio is estimated to be worth 16,600 million[1]. This calculation only refers to brands that are highly visible and which have been backed by a substantial marketing investment. This high value highlights the need to have an efficient strategy based on well-targeted management and control mechanisms. One of the methods used to calculate the value of a company's brand portfolio consists of determining its ability to create demand. Brands which include Telefónica as part of their wording account for approximately 90% of the total brand value. As regards their contribution to revenue creation, it ranges from 13% to 26% depending on the characteristics of each business and the scope of its direct customer base.
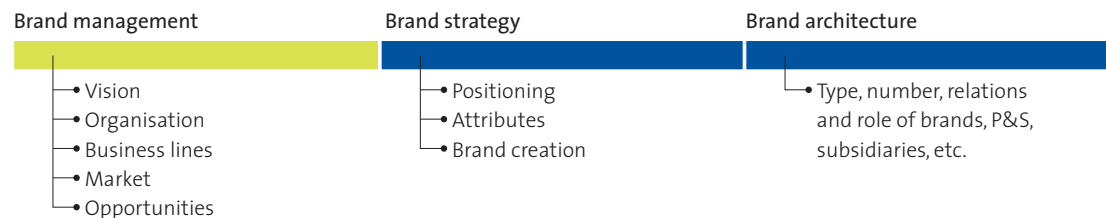
### 2.1 Brand strategy and creation

The brand has a global impact on all of the Group's operations, including its communication services marketing, the communications carried out by the company as a whole and its contacts with stakeholders. As a result the Group's brand strategy is designed to serve the interests of its overall business strategy, and it is developed by means of architecture, management and measurement systems.

Telefónica's brand strategy is primarily focused on ensuring that its products and services are identified, communicated and marketed in a clear, efficient and consistent manner, not only on a global scale but also on a local level.
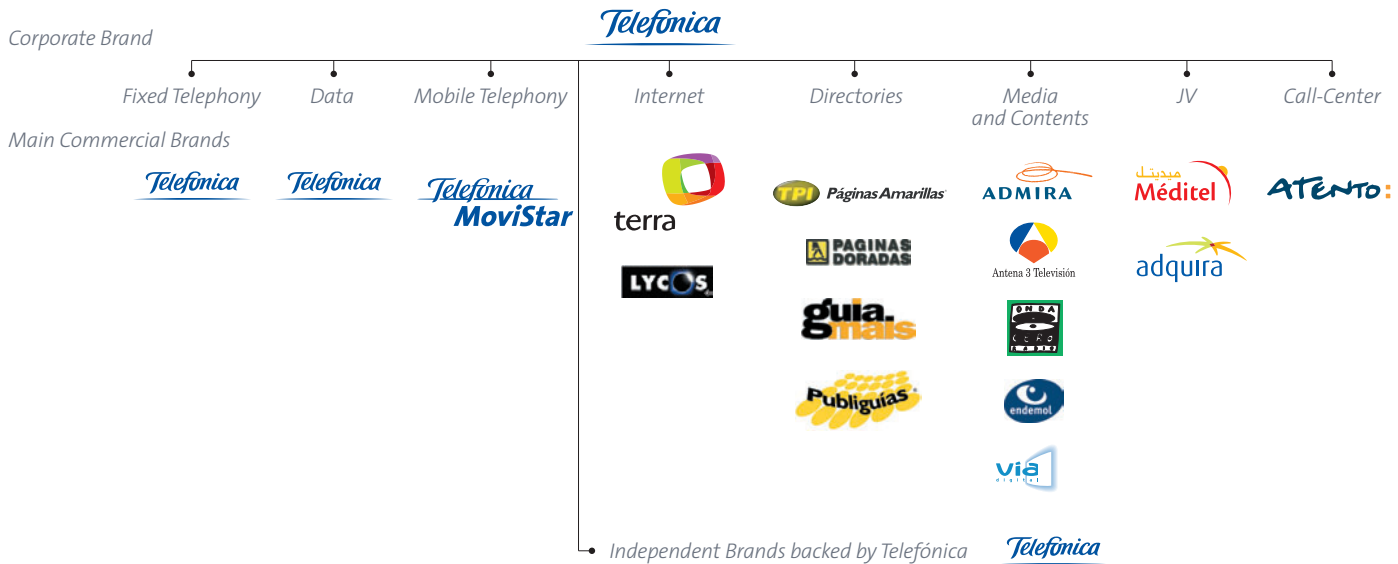
### 2.2 Brand architecture

Brand Architecture is designed to optimise the position of the corporate brand within the organisation. This is

**The Brand Strategy is intended to boost the Business Strategy**

| Brand management | Brand strategy | Brand architecture |
|---|---|---|
| • Vision | • Positioning | • Type, number, relations |
| • Organisation | • Attributes | and role of brands, P&S, |
| • Business lines | • Brand creation | subsidiaries, etc. |
| • Market | | |
| • Opportunities | | |

## Global Brand Architecture



*Corporate Brand*

**Telefónica**

Fixed Telephony | Data | Mobile Telephony | Internet | Directories | Media and Contents | JV | Call-Center

*Main Commercial Brands*

achieved by setting a series of hierarchical relationships between the various brands, sub-brands and products and services, both on a local and global level.

The Group's Brand architecture includes brands that are directly connected or associated with Telefónica, on one hand, and independent brands, on the other, depending on the brand's connection with Telefónica's traditional activities, its degree of participation and the historical links between both organisations.

The evolution of the brand architecture over time reflects the evolution of the Company itself, which turned from being a leading telephony service provider in its domestic market to providing telecom services and achieving a global leadership position in the area of multimedia and multiplatform services and solutions.
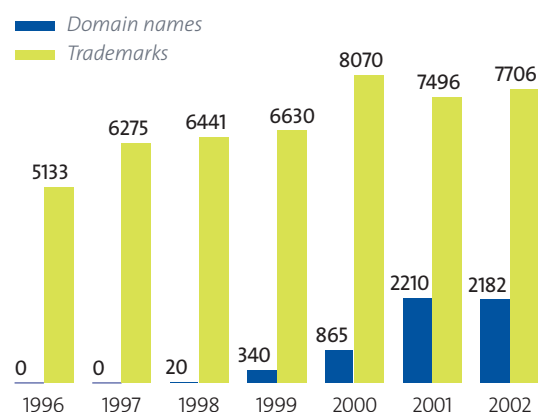
### 2.3 Brand management

Some of Telefónica's brands are leaders in their sectors and in the markets in which the company is present. As a result, the company needs a centralised system to manage its brand portfolio which enables it to produce guidelines, implement regulations and deploy tools for measuring the brand's image on a global scale. This Brand managment is applied to its copyright and patent rights portfolio wich includes up to 2,182 domain names and 7,706 trademarks.

### 2.4 Measurement systems

Telefónica is committed to maintaining and enhancing the brand's reputation, image, satisfaction and rela-

**Telefónica's copyright and patent right portfolio**



- Domain names
- Trademarks

| Year | Domain names | Trademarks |
|------|-------------|-----------|
| 1996 | 0 | 5133 |
| 1997 | 0 | 6275 |
| 1998 | 20 | 6441 |
| 1999 | 340 | 6630 |
| 2000 | 865 | 8070 |
| 2001 | 2210 | 7496 |
| 2002 | 2182 | 7706 |

## Brand Awareness on the fixed telephony market

| Fixed Telephony | Spain | Chile | Argentina[1] | Brazil | Peru |
|---|---|---|---|---|---|
| Spontaneous awareness 2002 | Telefónica | Telefónica CTC | Telefónica | Telefónica | Telefónica |
| Position | 1ª | 1ª | 1ª | 2ª | 1ª |
| Top-of-mind awareness | 79% | 74% | 52% | 43% | 92% |
| Number of people who mentioned the brand | 98% | 98% | 95% | 93% | 99% |

*Source: «Tracking de publicidad y salud de marca». Millward Brown. (1) last data available for Argentina 2001.*

## Brand Awareness on the mobile telephony market

| Mobile Telephony | Spain | Chile | Argentina | Brazil | Peru |
|---|---|---|---|---|---|
| Spontaneous awareness 2002 | T. Movistar | T. Móvil | Unifón | T. Celular | T. Movistar |
| Position | 1ª | 1ª | 2ª | 1ª | 1ª |
| Top-of-mind awareness | 51% | 24% | 22% | 34% | 51% |
| Number of people who mentioned the brand | 90% | 68% | 60% | 62% | 86% |

*Source: «Tracking de publicidad y salud de marca». Millward Brown.*

## Brand Awareness of Terra as an Internet portal

| Internet | Spain | Chile | Mexico | Brasil |
|---|---|---|---|---|
| Position | 1ª | 1ª | 2º | 3º |
| Top-of-mind awareness | 15,2% | 14,4% | 10,5% | 8,8% |
| Number of people who mentioned the brand | 24,4% | 28,2% | 25,2% | 18,6% |
| Suggested awareness | 99,5% | 91,7% | 93,2% | 98% |

*Source: Brand Audit (December 2002). Ikerfeld.*

tionship with the target public. To do this, the Company has developed a system to manage and assess the information shared by the various business lines and countries, which includes an array of processes, metrics and information systems that are applied consistently throughout the Group.

According to marketing surveys conducted in 2002, Telefónica is among the top two brands mentioned by customers in all the markets in which operates. The following studies provide information about the Company, which ranks first in terms of top-of-mind awareness and overall brand awareness (number of people who mentioned the brand) in all the markets and countries in which the company is established.

### 3 … so as to build its corporate reputation

A Company of the size of Telefónica daily deals with millions of communications with its stakeholders, whether these have a direct or indirect interest in the business, such as customers, shareholders, investors, employees, partners, the media, suppliers, etc.

In the light of this, Telefónica has embarked on a Corporate Reputation Project with a twofold aim: firstly, to identify and draw up a list of all the contact points in its day-to-day relations with its stakeholders; and secondly, to put in place an efficient and consistent system for managing these contact points.

The analysis led to the following conclusions. First of all, more than 750 contact points were identified around six main themes (finance, communication, management, technology, social issues and legal mat-
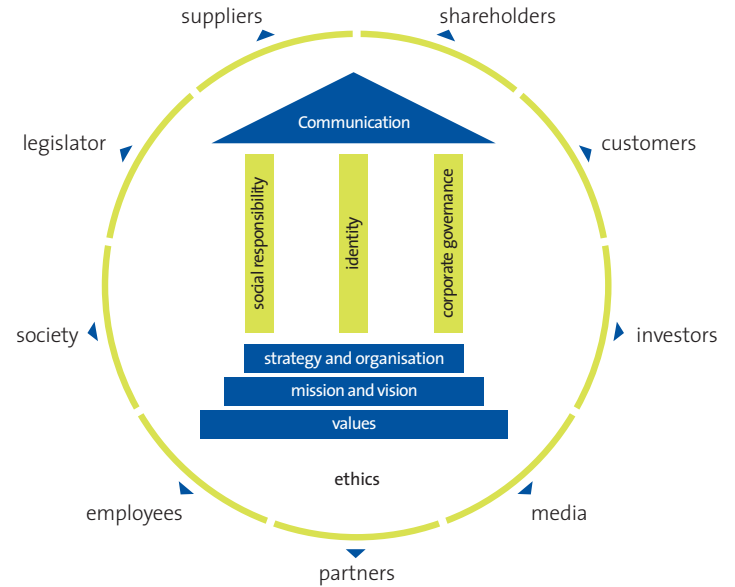
ters); out of these, over 150 points (20% of total) were considered «critical», not only because of the damage they can cause to the Company's reputation, but also because of the likelihood of such damage occurring. In a second stage, the 150 contact points were grouped together and divided into 8 groups representing the intangible assets that have an impact on corporate reputation: ethics, values, company mission and vision, strategy and organisation, corporate responsibility (social, environmental and working practices), identity, corporate governance and communication. In the third and final stage, Telefónica's aim is to design a series of procedures on the basis of each contact point that will be applied globally across the Group.

Integrated management of intangible assets:
the Integrated Corporate Reputation Model (MIRC)
Telefónica has set up an Integrated Model of Corporate Reputation (MIRC) with the aim of integrating the management of non-financial assets so as to create more value for stakeholders in the long term. The MIRC can be defined as the guidelines to building reputation. It is composed of three different levels:
• The first level focuses on the variables that form the bedrock of corporate reputation: ethics; an essential foundation on which to build a relationship of trust; values; these outline the company's core philosophy and behaviour; vision and mission, which set out the company's ultimate goal; and organisation, which is critical to determining what steps must be taken in order to bring the Company's vision to fruition and the resources allocated to this objective.
• The second level is centred on the Company's philosophy, with the three main principles that are key to building a good corporate reputation: social responsibility, which includes social action, the Company's

**Telefónica's Corporate Reputation Integrated Management Model**



Ultimately, Telefónica's Corporate Reputation Project seeks to establish the Group's reputation, ensuring that its relations with stakeholders are an opportunity to earn their trust.

impact on society, working practices and environmental issues; corporate identity -the Company's backbone-; and corporate governance, which focuses on the mechanisms designed to ensure transparency and to control and monitor the Company's behaviour.
• The third and final level concerns communication with the target public within a consistent, coherent and transparent framework. The communication of all aspects of a company's activities, beyond purely financial issues, generates increased value.

• To evaluate intangible assets. To define indicators and develop corporate reputation measurement systems and other related methods that make it possible to quantify the impact of corporate reputation policies on business management.
• To study the influence of and interrelations between the main intangible variables of corporate reputation: ethics, social responsibility, identity, brand and corporate governance.

The Foro de Reputación Corporativa is committed to promoting private and public initiatives aimed at increasing confidence in the financial and business markets, with a view to protecting the interests of stakeholders as well as to responding to social concerns.

Foro de Reputación Corporativa
In September 2002, Aguas de Barcelona, BBVA, Repsol-YPF and Telefónica created the Foro de Reputación Corporativa. Through this initiative, all four companies aim to share their knowledge and experiences in the field of corporate reputation management.

The Foro is co-ordinated by the Instituto de Empresa, which acts as Technical Secretariat, and aims to offer a place where people can meet to analyse and disseminate corporate reputation trends, tools and models to be applied to corporate management. To that end, the Foro is supported by a network of academics and business experts. Its main goal is to increase the value of the member companies by using intangible assets as a means of generating value. Its main lines of action are:

• To share research and disseminate knowledge in the field of corporate reputation.
• To analyse different models for managing corporate reputation.

**Foro de Reputación Corporativa**