



09/01 | large number of suppliers

Telefónica's activities generate revenues for over 15,500 suppliers worldwide

AWARDEE SUPPLIERS

15,639

09/02 | objectivity and transparency

Telefónica manages its purchases through its Advanced Purchasing System (SAC)

CATALOGUE OF SUPPLIERS

34,688

suppliers registered as of 31 December

09/03 | mutual benefit

The new e-business systems facilitate and speed up the relationship with suppliers

ELECTRONIC MARKET BUSINESS VOLUME

3,990

(million euros)

09/04 | sustainable development

Telefónica extends its commitment to corporate responsibility to its supply chain

VOLUME OF PURCHASES FROM LOCAL SUPPLIERS

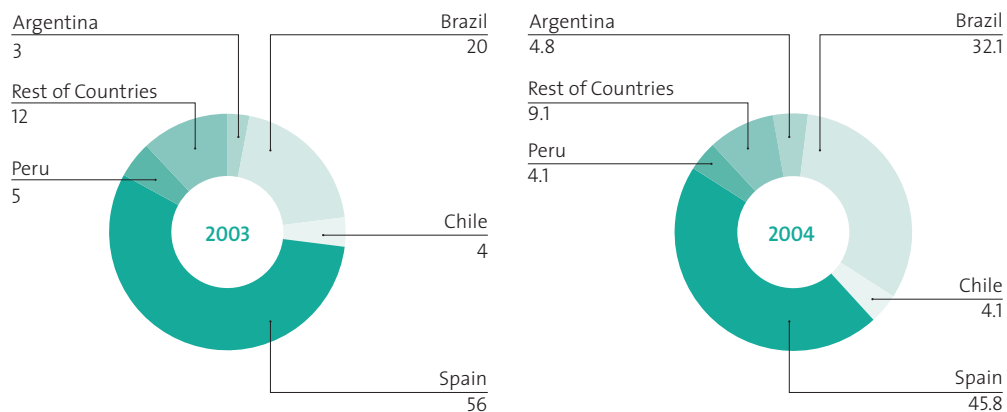
92%

Telefónica

The trust of our suppliers and partners is the consequence of transparency, equal opportunities and the quest for mutual benefit in all our shared activities

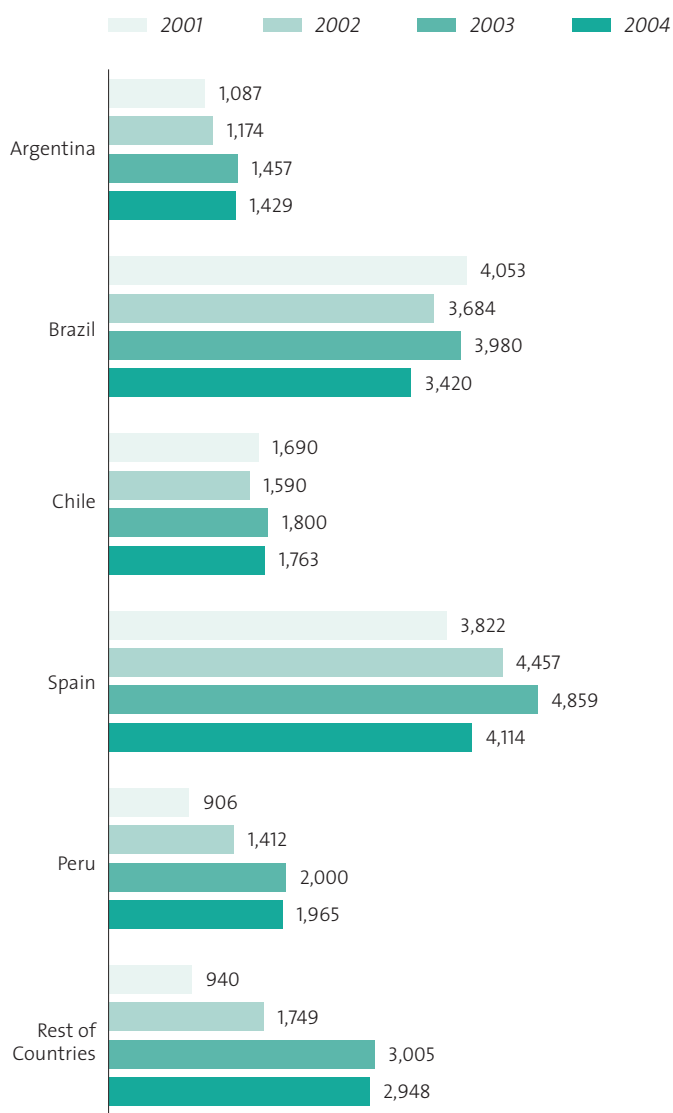
DISTRIBUTION OF PURCHASING VOLUME BY COUNTRIES (09-1)

(Data in percentage)



NUMBER OF AWARDED SUPPLIERS (09-2)

(Data in units)



DISTRIBUTION OF PURCHASING VOLUME BY PRODUCT LINES (09-3)*(Data in percent)*

Product lines	Description	2003	2004
Network infrastructure	Switching, transmission, data and energy systems	18	21
Services and Works	Maintenance and extension of the external plant, general renovations and services	32	30
Market Products	Material, terminal equipment, instruments and tools	30	30
Information Systems	Hardware, software, development and maintenance of information systems	14	13
Publicity and Marketing	Publicity and marketing activities	6	6

01 LARGE NUMBER OF SUPPLIERS

During the 2004 year, the Telefónica Group's purchasing volume amounted to over twelve billion euros, which was distributed amongst 15,500 suppliers.

The ten main suppliers by amount of purchases were the following (in alphabetical order): Alcatel, Brightstar, Ericsson, IBM, LG, Lucent, Motorola, Nokia, Siemens, Vitelcom.

02 PRINCIPLES OF OBJECTIVITY, TRANSPARENCY AND EQUAL OPPORTUNITY

Conscious of the importance of purchasing and relations with suppliers in business results, Telefónica handles purchasing in all its companies through a common management model: the Advanced Purchasing System. The goal of this model is to optimise purchases in its triple dimension of: price, quality and service, endeavouring to reduce costs, improve competitiveness and create value.

In December 2004, the purchases of 118 Group companies, distributed throughout the 19 main countries where Telefónica is present, were all managed through this model.

The purchase process, according to the model, centres on Purchasing Boards, forums where the various areas involved analyse the purchase, establish their target prices for the same and finally decide unanimously on the award. There are currently 7 Purchasing Boards in operation, located in Madrid, Sao Paulo, Rio de Janeiro, Lima, Buenos Aires, Santiago de Chile and Mexico D.F., thereby enabling either worldwide or local purchasing, as deemed most suitable in each case. Two new Purchasing Boards are scheduled to begin operations in 2005: one in Venezuela and the other in Colombia.

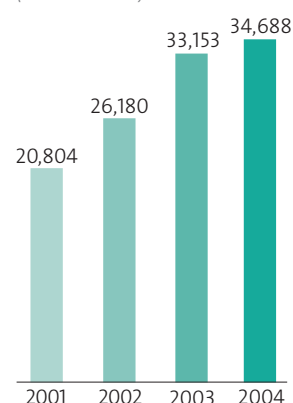
The Telefónica Purchasing Model has a series of features that facilitate objectivity and transparency:

- The opportunity for global registration (for the entire Telefónica Group) in the Telefónica Catalogue of Suppliers is open to all those firms interested in working with Telefónica. This catalogue is valid for all the Group companies and registration is done through the Supplier website. At the end of 2004, there were 34,688 suppliers registered as possible bidders in the Telefónica Catalogue of Suppliers.
- All the areas affected by the purchase participate in the Purchasing Boards, and decisions are made unanimously, thus ensuring the objectivity and transparency of both the analysis and the decision-making.
- Telefónica has a Style Manual that describes the general principles and rules of conduct to be fulfilled by all those who participate in the purchase process. Among such principles, the most noteworthy is the equal opportunity afforded to all bidding suppliers.
- Furthermore, the e-business applications used and developed by the Telefónica Group also allow the automation and optimisation of the processes, as well as greater transparency in the management of suppliers' bids.

In Brazil, in compliance with resolution 155 of ANATEL, TeleSP is required to publicly advertise all its purchase processes for communication services and the acquisition of equipment valued over 1 million *reales*. For this reason, all public tenders are posted on the website to guarantee and encourage equal opportunity.

03 MUTUAL BENEFIT

Telefónica has developed a series of tools to implement improvements throughout its entire supply chain and collaborate with its suppliers.

SUPPLIERS REGISTERED IN THE CATALOGUE OF SUPPLIERS (09-4)*(Data in units)*

SUPPLIERS INCORPORATED IN ELECTRONIC MARKETPLACE (09-5)

Purchasing volume (mill €)			Nº of processes negotiated		
Country	2002	2003	2004	Country	2004
Argentina		33.89	343.73	Argentina	1,583
Brazil		78.27	405.94	Brazil	1,623
Chile		7.72	186.01	Chile	647
Spain	256	740.33	2,516.15	Spain	6,992
Mexico			264.05	Mexico	371
Peru		6.13	274.20	Peru	1,459
Total	256	866.34	3,990.10	Total	12,675

a) Electronic commerce

Telefónica uses the latest cutting-edge technology in its relationships with its suppliers to automate and optimise the entire purchase process and to establish new and better lines of communication with its suppliers.

To that end, through Adquira España, Telefónica is implementing and developing a global e-business platform for the management of the purchase and supply process. Adquira España is a leading company in negotiation and supply of solutions and services, in which four large Spanish corporations hold stakes: BBVA, Iberia, Repsol-YPF and Telefónica (through Telefónica de España and TPI). This e-business platform enables automation in:

- The management of bids and negotiation of the same, as well as auctions (*e-sourcing*).
- The preparation, approval and digital signature of commitments (contracts and award letters).
- The management of goods and services orders by the relevant areas through catalogues previously negotiated by Purchasing Departments (*e-procurement*), dispatch of delivery notes by the supplier and acceptance of the goods or services at their destination.
- The supplier invoicing process from the orders placed and accepted electronically.
- Supplier evaluation: quality, fulfilment of commitments, delivery dates, services rendered etc.

These e-business initiatives afford a number of advantages for suppliers, particularly:

- Reduction of the costs associated to the process as a result of its automation.

- Greater agility in the exchange of information.
- The possibility of integrating the platform into their own computer systems.
- Greater transparency in negotiations and, in general, the entire purchase process, as well as equal opportunity for all suppliers by ensuring that the same information necessary for preparation of the bids is made available to all suppliers at the same time.
- Increased likelihood of supplier sales through access to a virtual marketplace that, in addition to Telefónica, serves other companies, such as BBVA, Iberia and Repsol-YPF, as well as other Adquira client companies.

Electronic management of bids for certain products and services is currently a reality in Spain, Brazil, Argentina, Peru, Chile and Mexico. The purchasing volume negotiated in 2004 through the electronic market amounted to 3.99 billion euros, in 12,675 purchase processes. At the end of the year, a total of 5,260 suppliers were incorporated into the system.

In 2004, Telefónica implemented a new purchase negotiation format through electronic auctions, which offers greater transparency and objectivity in the purchase process and full equal opportunity to all bidding suppliers, as well as making the process more agile and simplifying purchase management.

With respect to other e-business initiatives in 2004, the Spanish companies in the Telefónica Group continued to implement *e-procurement* (a corporate electronic supply model), which also began operating in the Group companies in Brazil and Peru. Moreover, electronic invoicing was also initiated and is now operational in Telefónica S.A. Finally, work was

SUPPLIERS INCLUDED IN TELEFONICA MARKETPLACE (09-6)

(Data in units)

Country	2002	2003	2004
Argentina	79	906	1,262
Brazil	225	888	1,333
Chile		200	459
Spain	797	1,247	1,497
Peru	44	161	315
Mexico		30	394
Total	1,145	3,432	5,260



done during the year on a corporate project for electronic contracting.

b) Supplier Website

The Supplier Website, accessed at: www.telefonica.es/proveedores, is the main channel of information between Telefónica and its suppliers. It furnishes potential suppliers access to general information on how to become a Telefónica Group supplier, on Telefónica's purchase process and the main projects Telefónica is undertaking in relation to e-business.

Furthermore, registration in the Catalogue of Suppliers may also be handled through the Supplier Website, which also provides access to the Adquira e-business platform (primary operational channel for relations with suppliers). The website also includes access to other, specific websites for the Telefónica Group companies, such as e-Agora, from Telefónica de España.

04 SUSTAINABLE DEVELOPMENT OF SOCIETY

a) Encouraging ethical standards in the supply chain

Telefónica requires compliance with current legislation on issues such as working conditions, health and safety in the workplace and environmental impact, as set out in the "General Conditions for the Supply of Goods to Telefónica S.A."

These criteria are applied to all alike, although the regulations in effect in certain countries may envisage other, additional aspects more directly related to the product or service to be purchased. Likewise, in the case of certain products and services, purchase contracts envisage other aspects more directly related to the service or product in question.

Moreover, the Telefónica Group endeavours to contribute to the encouragement of responsible business practises throughout its entire supply chain by its collaboration with other companies and in initiatives that go far beyond the legal requirements.

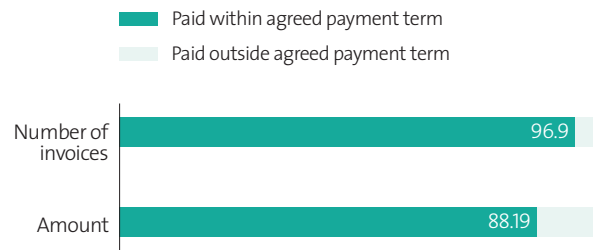
Collaboration with other companies

This commitment was made public through Telefónica's adhesion to the *UN Global Compact* and other programmes developed by ETNO (*European Telecommunication Network Operators*) and GeSI (*Global e-Sustainability Initiative*). In this respect, Telefónica participated in the European Conference on Telecommunications and Sustainability organised by ETNO where, together with another 17 European companies, it signed the *Sustainability Charter*, a document that sets out the application of sustainability criteria to the entire supply chain as one of its guiding principles.

Likewise, Telefónica is active in the *GeSI Supply Chain Working Group*, the aim of which is to transmit practises that drive sustainability throughout the entire supply chain in the participating companies. In 2005, the first step will be an analysis of the interest and degree of supplier acceptance of sustainability criteria in commercial relations.

Initiatives that surpass legal requirements

Telefónica has been actively involved in developing numerous schemes to encourage responsible practises in its supply chain. With regards to the environment, certain of these, described in chapter 08 of the present report, encompass training activities for the employees of collaborating companies, the importance of environmental management certifications in the contract award phase, and activities focused on control and evaluation of suppliers with environmental impact (such as those done by Telefónica Móviles España and TPI)

**FULFILMENT OF SCHEDULED
PAYMENT CONDITIONS TO SUPPLIERS (04-07)***(Data in percentage)**(Data referring to the 783,655 invoices paid by Telefónica de España and Telefónica Móviles de España)***CASE STUDY****COMPRE TRABAJO ARGENTINO (BUY ARGENTINIAN WORK) (09-8)**

On 28/11/01, the Government of Argentina approved Act 25.551, which establishes the Purchase Regime for the State and Public Service Concessionaires and Licensees, entitled *Compre Trabajo Argentino (Buy Argentinian Work)*. This scheme gives preference to national companies and products over foreign products.

Telefónica de Argentina S.A., as a public service licensee, was obliged to undertake a series of changes in its processes to comply with the Buy Argentinean Work scheme:

- Adaptation of its contracts to the regulations set out in the Act and regulatory decree.
- Preference to national bids for goods, work and services, within the framework established by the Act.
- Compliance with the regime of public announcement of its purchases and other rules contained in the legislation.
- Compliance with the relevant procedures regarding reporting to the authorities on its observance of the Act in the purchases made.

TRAINING OF SME SUPPLIERS IN ARGENTINA (09-9)

In 2004, Telefónica de Argentina provided training at the Universidad Católica Argentina to 12 SME suppliers who deal with various companies in the Group.

The dynamics of this training consisted of identifying key factors and control variables in the growth of their companies and learning new aspects of business administration to incorporate the tools necessary for their survival and growth. Furthermore, each company underwent a strategic diagnosis and a plan was drawn up to face the challenges of competition and to develop new business at the medium and long-term.

The training included a *coaching* session on the preparation of business plans targeted at growth of the SMEs, thus enabling Telefónica to work with suppliers who are more qualified from an academic viewpoint. Given the success of the programme, plans include continuing with this model in 2005, as well as extending its benefits to a larger number of suppliers.

TELEFÓNICA DRIVE FOR LOCAL SUPPLIERS (09-10)

% Local purchasing volume			% Local awardee suppliers		
Country	2003	2004	Country	2003	2004
Argentina	89	79	Argentina	96	95
Brazil	96	98	Brazil	99	99
Chile	79	76	Chile	98	96
Spain	85	93	Spain	84	91
Mexico		94	Mexico		90
Peru	85	86	Peru	94	90
Rest of Countries	92	68	Rest of Countries	65	85
Total	88	92	Total	90	92

In Brazil, Telefónica Group purchases are subject to the approval of the Company legal and labour relations departments prior to their approval by the Purchasing Board. Representatives of these areas visit the proposed supplier to ensure that the company complies with all legal regulations in effect, and repeats the visits after award to verify its fulfilment of health and safety conditions in the workplace.

In Spain, Telefónica Móviles España has established the goal of ensuring that all its sub-contractors have obligatory training in this issue. For this purpose, the Company has prepared a *Contract Coordination Module for Prevention of Occupational Risks* with the collaboration of the *Intercenter Health and Safety Committee*, that sets out a system of accreditation and control for the employees in such companies and their compliance with certain minimum standards of occupational risk prevention. Moreover, the module includes generic information related to the risks the sub-contractor company may encounter at the Telefónica Móviles España facilities.

Again in 2004, Telefónica de España held its annual meeting with companies that collaborate in operations, representing the work of over 30,000 employees. The meeting stressed the importance of improved compliance with the *Occupational Risks Act* and the significant role of Training, to which over 60,000 hours were devoted in 2004.

As a particularly outstanding initiative in the area of integration, Telefónica plans to require fulfilment of the *Disabled Persons Integration Act* from all the suppliers who intervene in the "Distrito C" project. Those firms that do not fulfil this requirement within their own companies will be offered the Integration Services provided by ATAM, the *Association of Telefónica for the assistance of the disabled*.

b) Boosting local suppliers

Telefónica is firmly committed to economic and social progress in the countries in which it is present. This commitment is embodied in the high percentage of awards to suppliers located in the country itself, an average of 92% in 2004.

TELEFÓNICA DRIVE FOR LOCAL SUPPLIERS (09-11)

