

Committed to you

CORPORATE RESPONSIBILITY ANNUAL REPORT 2003

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Letter from the Chairman

Dear Friend,

This is the second consecutive year Telefónica has presented its Corporate Responsibility Annual Report. All the information provided in it is in keeping with our vision: we wish to be your *trusted operator*; and we know the only way to deserve that confidence is, on the one hand, to fulfil the commitments acquired day by day, and on the other, to maintain an attitude of proximity and nearness based on an understanding of your needs, expectations and legitimate interests. Whether you are a customer, shareholder, employee, supplier, or simply a citizen in any of the countries we operate in, Telefónica has a commitment to you.

The report you now have in your hands stems from a basic premise: *the foremost and major responsibility for any company is to do well what it endeavours to do, that which arises from its core business activity*. Therefore, this Report provides information on processes, management systems, and performance indicators... in the day to day business we share with each of our stakeholders. From this extensive, comprehensive document, I would like to highlight some key ideas.

First of all, the sum and consolidation of most of the data in the Report makes us aware of a reality of which we feel legitimately proud: *Telefonica is a powerful driving force of social, economic and technological development in the countries where it operates*. A company the size of the Telefónica Group has an unquestionable ability to contribute to the development of the societies in which it is present: creating employment, driving the economy, offering innovative products and quality available to all; and taking technology to all walks of life so as to reduce the social and digital divide and provide access for citizens to that future represented by the information society. Only by contributing in a responsible manner to a sustainable development of society will Corporate activities also be sustainable in the medium and long term.

Secondly, the Corporate Responsibility Report shows the enormous *ability of Telefónica* to create value beyond its financial assets. Good corporate governance, brand awareness, investment in research and development, commitment to social responsibility or institutional presence, are assets of great value to a company in particular and to its area of operation in

general. Telefónica gives evidence of its commitment to transparency by gathering, quantifying and communicating the value that exists beyond its financial assets. However, we are sure that all the information we now provide is but the beginning of what is yet for us to discover day by day.

Thirdly, linked to the above, there is the importance for a company to maintain *relations based on the confidence of all those* who approach it, be they employees, customers, shareholders, suppliers or citizens at large. Right from the first edition of this Report, our objective has been to record through facts, data, graphs and figures how the values and commitments of the Telefónica Group are implemented. However, we think we could go further, that there is still a lot more hidden value to be found in our daily commitments undertaken with each one of our one hundred million customers, one million six hundred thousand shareholders, one hundred and fifty thousand employees, seventeen thousand suppliers and more than five hundred million citizens of the countries where we work. To maintain the confidence of all these groups is undoubtedly one of our main challenges and one of our most valuable assets.

Lastly, a technical conclusion: this Report has been prepared following the 2002 Global Reporting Initiative Guidelines, resulting in a balanced and reasonable presentation of the economic, environmental and social performance of our organisation. The Corporate Responsibility Report of Telefónica has also become an internal engine to extend best practices within the Group. On the one hand, the information published in it is helping us improve our specific policies for management of our intangible assets, and fulfil our commitments to every one of our stakeholders. To do so, we are using key indicators to know where and how to improve our performance through the design and implementation of specific policies adapted to each country where we operate. On the other hand, several subsidiaries (Telefónica Móviles, TPI...) have already prepared their own 2003 Responsibility Report on these same bases and schemes. Moreover, this same reporting and working methodology has been extended to our companies in countries such as Brazil and Peru during 2004, which will allow us to determine the local contribution made by the Telefónica Group.



The aim of this report is thus to reassess and renew our commitments. Essentially, they are the same as one year ago, as they are based on our values but, certainly, they are all reinforced and extended by another year of work and shared culture. Additionally, they encourage us to undertake the coming year with optimism.

Precisely as it is a core element of the culture we share, we cannot forget that Corporate Responsibility is being built by everyone working at the Telefónica Group. Only if each one of us internally takes on this commitment, whether our individual contribution be small or great, and only by assuming our responsibility in each process, in each gesture and in each decision we take as employees of this company, will we make it a responsible institution.

Finally, I would like to convey my gratitude, to all those who continue to trust in the Telefónica Group; to everyone who has taken an interest in our activity; and, most especially, to all those who directly or indirectly have helped us improve our Corporate Responsibility performance through dialogue and constructive criticism.

Sincerely,

A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke at the end.

César Alierta
Chief Executive Officer of Telefónica, S.A.

The Telefónica Group in 2003

A LEADER ON THE SPANISH AND PORTUGUESE-SPEAKING MARKETS, INTEGRATING GLOBAL COMMUNICATION SOLUTIONS, FOCUSING ON THE CUSTOMER AS THE CENTRE OF ITS ACTIVITY AND COMMITTED TO THE SOCIETY IN WHICH IT OPERATES

A GROUP LEADER ON THE SPANISH AND PORTUGUESE-SPEAKING MARKETS

Telefónica is a world leader in the telecommunications sector and the reference operator in the Spanish and Portuguese-speaking markets. Its customer base now numbers close to 100 million customers, out of a potential market of 500 million people.

Telefónica is a leader in terms of the size of its activity. The Group is present on three continents, performing significant operations in 15 countries, and it has activity of some kind in another 40 countries. Through this presence, Telefónica has over 43 million fixed lines and 55 million mobile telephone lines. Over 148,000 professionals work in the Group to carry out this activity.

Telefónica is also the leader on the financial markets. In February 2004 Telefónica was the sixth operator in the world in terms of stock exchange capitalisation and ranked fifth on the EuroStoxx50. Over 1.6 million shareholders trust the management and profitability of the Company, backing this leadership.

Telefónica is an operator committed to Latin America. The Group has had a stable presence in the region over the last 14 years, having invested nearly 65,000 million dollars in infrastructure and acquisitions. In 2003, Telefónica is the reference operator in Brazil, Argentina, Chile and Peru, and is already developing significant operations in Puerto Rico, Colombia, Mexico and Venezuela, among other countries in the region. Spanish-speaking markets account for 62% of the Group's customers, while 36% are in Portuguese-speaking markets. The Telefónica Group has attained the highest market share in the region, reaching 25 million fixed lines, and 35 million mobile customers; furthermore, it offers integrated communication solutions for businesses.

Telefónica is a multidomestic operator for different reasons. First, because its offerings in each country consider the singularities of the

market, adapting itself to the needs of each local society. Secondly, because it is the only operator that is incumbent in all the countries relevant to its business. And thirdly, because the contribution to the gross operating margin from markets different from its country of origin is the greatest among the major telecommunications companies in the world.

A GLOBAL AND INTEGRATED TELECOMMUNICATION SOLUTIONS OPERATOR

Over the last few years, the Telefónica Group has concentrated on telecommunications, its core business, reinforcing its presence in fixed and mobile telephony. This is the reason why it has divested some non-strategic assets in 2003.

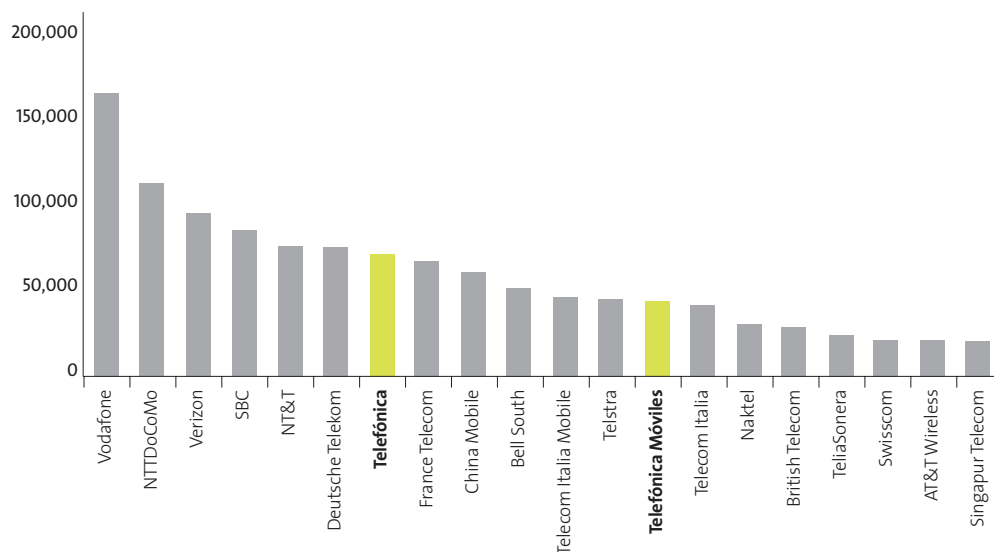
As a result, the new business model is geared to satisfying the communication needs of all its customers, from the clear vocation of service that has always characterised the group.

The businesses of the Telefónica Group are organised around the following lines of activity and subsidiaries:

- **Fixed line telephony and corporate services**, in Spain and Latin America, where these activities are performed, respectively, by *Telefónica de España* and *Telefónica Latinoamérica*.
- **Mobile telephony**, in Spain, Latin America and the Mediterranean Basin; this business line is managed by *Telefónica Móviles*.
- **Internet**, in Spain and Latin America, *Terra Lycos* centres its activity on providing Internet access services, and content: websites, online advertising, etc.
- **Other telecommunication businesses**, including *Telefónica Contenidos*, grouping the production and content diffusion businesses in Spain, Latin America, the United States, and part of Europe; TPI (*Telefónica Publicidad e*

**RANKING BY STOCK EXCHANGE CAPITALISATION
OF TELECOMMUNICATIONS COMPANIES (FIXED, MOBILE AND DATA)**

(Data at the close of period 2003)



Información), the guides and directories publishing businesses in Spain and Latin America; and Atento, which manages contact center services through multi-channel platforms, in Spain, Latin America and Morocco.

Together with these lines of activity, the Group has a series of subsidiaries and institutions that support core business activities. These include: Telefónica I+D, the subsidiary that channels the innovation of new products, services and applications; Fundación Telefónica, responsible for driving the social and cultural action of the Group to benefit underprivileged sectors in the countries where it operates; Fonditel and Antares, financial institutions of insurance, investment and pension funds.

Furthermore, there is a Corporate Centre, responsible for defining global strategy and corporate policies, management of common activities, and generation of support policies. This integrated corporate structure aims for

common construction and reciprocal synergies among the business lines.

**A GROUP THAT PLACES ITS CUSTOMERS
AT THE CENTRE OF ITS ACTIVITY**

In 2003, Telefónica modified its operating structure in order to place customers at the centre of its activity. The objective was to transform the Group into a more commercial organisation; from product oriented companies to an integrated Group that satisfies its customers' global communication needs.

To that end, Telefónica has identified four major commercial segments to organise and reinforce its commercial activity: Individuals, Households, SMEs and Corporations and Administrations. With this segmentation, Telefónica aims to satisfy the needs of the customers in a personalised manner, to meet their expectations.

This is a twofold model based on two main drivers: growth in the main businesses such as broadband and mobiles; and development in fixed telephony in Latin America.

The challenge facing Telefónica, through the commercial offer of the companies forming the Group, is to transform technology into accessible solutions and services that provide customers with clear and relevant benefits. It is therefore essential to have detailed knowledge of the customers' real needs, to keep ahead with innovative solutions adapted to their expectations, and to fulfil the commitments acquired to build a relation based on confidence.

BROADBAND AND MOBILITY: THE FUTURE

During 2003, the Group has advanced in the two main areas that shape the new generation of products for the coming years. First broadband (ADSL) both in the home and in companies, opens up new possibilities of growth in making solutions, content and applications. Secondly, the mobile third generation (UMTS) that creates new possibilities of mobile data services.

Broadband is one of the main driving forces of growth of the Company. In 2003, the Group had 2.7 million ADSL customers. Telefónica is betting on broadband, setting the benchmark in Europe, with 1.6 million connections in Spain, 266,526 in Germany and 769,680 in Latin America.

The importance of ADSL to the Group lies in its capacity to create new services and applications for the customers.

On the one hand, Imagenio allows value-added content and services to enter homes, through television based on ADSL technology. Likewise, Wi-Fi technology, provides wireless high speed Internet access, allowing customers flexible, mobile connection.

A GROUP WITH A VISION IN MOVEMENT

Telefónica has a specific vision: it wishes to become *"the operator trusted by all those who approach it: customers, employees, shareholders and society at large"*. Such confidence comes from honouring the commitments acquired, and doing so in proximity and nearness.

Confidence is shown in specific commitments. First, the group has acquired a *commitment to corporate governance and transparency*. In this sense, the Group has published in 2003 its second Corporate Governance Report. In compliance with the Spanish law, Telefónica has extended this report to all its listed subsidiaries, emphasising the operating procedures of the governing bodies and management of the Group.

Secondly, the Group also has a commitment to *corporate responsibility*. In 2003, the Group published its second annual report, a report that has also been published by its listed companies. This commitment, in addition to covering effective management of the business, involves a commitment to the workplace, respect for the environment, greater social integration and cohesion, and opportunities for its suppliers, partners, etc. In the longer term, a commitment to create wealth and development in the societies where Telefónica operates.

Thirdly, the Group has the *commitment to corporate solidarity*. In this sense, Telefónica strongly backs the underprivileged sectors of society.

Fundación Telefónica is responsible for channelling social and cultural action in Spain, Brazil, Argentina, Chile, Peru and Morocco. In 2003, more than 14 million people benefited directly from the social and cultural programmes organised by the Company. One of the key points of Fundación Telefónica is to ease access to education in the different societies where it works. Fundación Telefónica, the company itself, and the solidarity of its

employees, have enabled such significant actions as the “Corporate Volunteer Programme” or the “Asociación Telefónica de Asistencia a Minusválidos”, ATAM, a major reference in the disability sector.

Fourthly, *Telefónica has the commitment to be an innovative company.* In 2003, the Group invested 1,902 million euros in R&D&i. Convinced that technological advances help society to progress; Telefónica seeks new solutions that improve quality and place it in the avant garde of new technologies and the information society. Reduction of the digital divide is a commitment the Telefónica Group assumes as the principal axis of its corporate strategy.

The Group thus, founds its leadership on corporate values that define its personality and show its aspirations. Thus, proximity and commitment define the identity of the organisation and associate it with key reference values in relations with the main stakeholders; returns and transparency for the shareholders; quality and compliance for the customers; clarity in relations and professional development for employees; and lastly, contribution and proximity for society. The sum of these values results in establishment of a bond of confidence. A confidence that is undoubtedly earned day by day, acquiring specific commitments and fulfilling them. All of this goes to show that Telefónica can deliver what it promises.





MARKET SIZE

Customers by line of activity

(Data in thousands)

	Lines in Service	Cell phone customers	Pay TV Customers	ADSL lines
Europe				
Spain	T. de España 17,424	T. Móviles España 19,661		T. de España 1,660
Germany / United Kingdom				TData Deutschland 227
Latin America				
Argentina	T. Argentina 4,169	TCP Argentina 1,824		T. Argentina 69
Brazil	Telesp 12,297	CRT Celular 2,523		Telesp 484
		TeleSudeste Celular 3,709		
		TeleLeste Celular 1,126		
		Global Telecom 1,691		
		Global Telesp Celular 7,495		
		TeleCentro Oeste 4,113		
Chile	T. CTC Chile	CTC. Móvil 2,270		T. CTC Chile
El Salvador	T. El Salvador 30	T. El Salvador 248		
Guatemala	T. Guatemala 28	T. Guatemala 157		
Peru	T. del Perú	TEM Perú 1,507	Cable Mágico 363	T. del Perú 91
Puerto Rico		New Com Wireless 175		
Venezuela	CANTV 2,734	CANTV 2,681		
Africa				
Morocco		Medi Telecom 2,060		

DISTRIBUTION OF REVENUE

Revenue by countries

Countries-contribution (% revenue per operations/ total)

	dec 01	dec 02	dec 03	Dif. 03/02	Dif. 02/01
Spain	51	59	62	3 p.p.	8 p.p.
Brazil	19	18	17	-1 p.p.	-1 p.p.
Argentina	13	4	4	0 p.p.	-9 p.p.
Peru	5	5	4	-1 p.p.	0 p.p.
Chile	5	5	5	0 p.p.	0 p.p.
Mexico	1	2	2	0 p.p.	1 p.p.
Europe	4	4	4	0 p.p.	0 p.p.
Rest and eliminations	2	3	2	-1 p.p.	1 p.p.

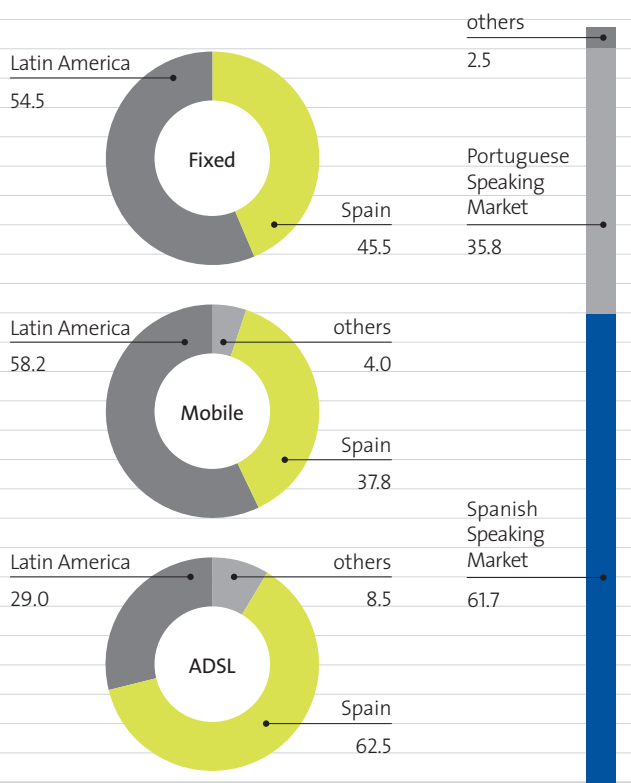
CUSTOMER DISTRIBUTION 2003

Managed by LINES

(Data in %)

By reference language

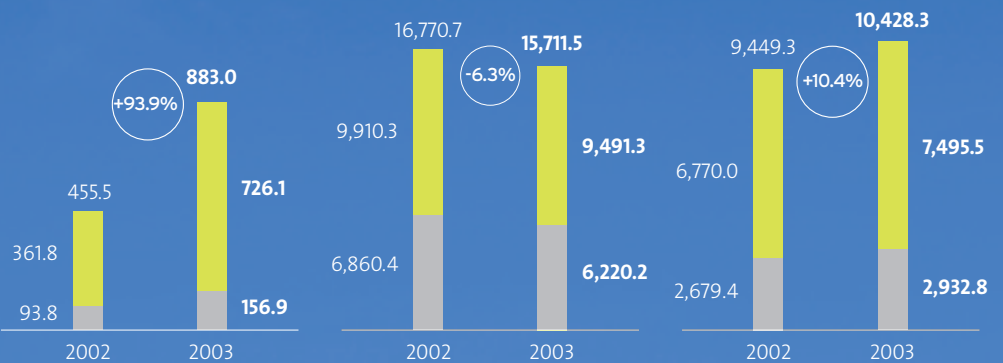
(Data in %)



Growth

Business Growth (revenue in current euros)

Spain Latin America and others



Telefónica is committed to distributing an annual minimum dividend of 0.4 euros per share over the period 2004-2006

Profitability for shareholders of Telefónica in 2003 for all items is 46% (dividend, bonus share issues, extraordinary distributions and share price increase)

Telefónica is the 5th telecommunications company in the world, in terms of stock market capitalisation (10th March, 2004)

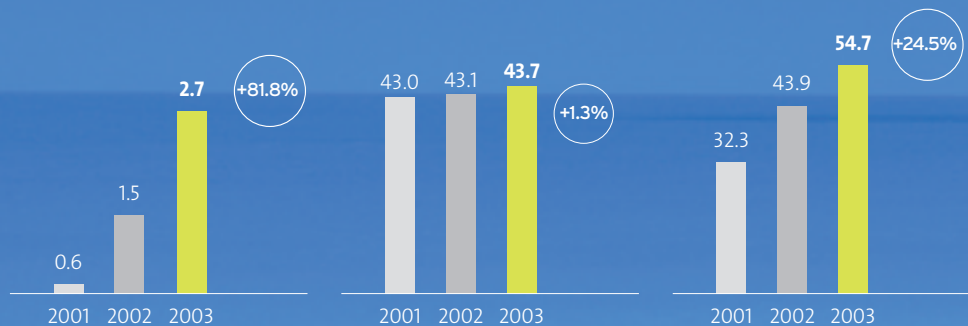
Telefónica generated in 2003 cash flow* for 8,875 million euros.

Commercial transformation (in millions of total customers)

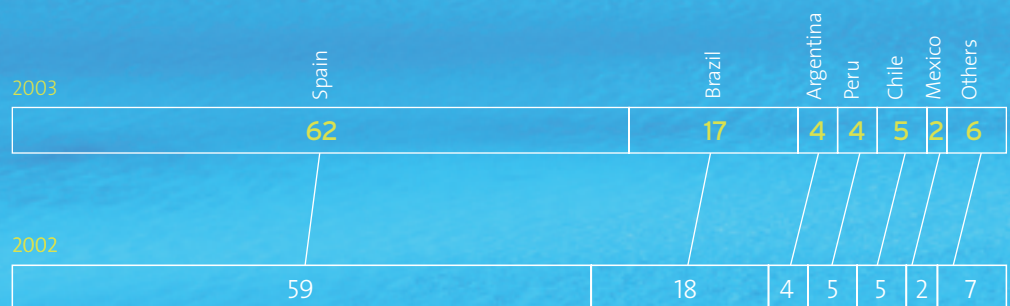
BROADBAND

FIXED LINES

MÓVILES



Revenues by countries (in percentages)

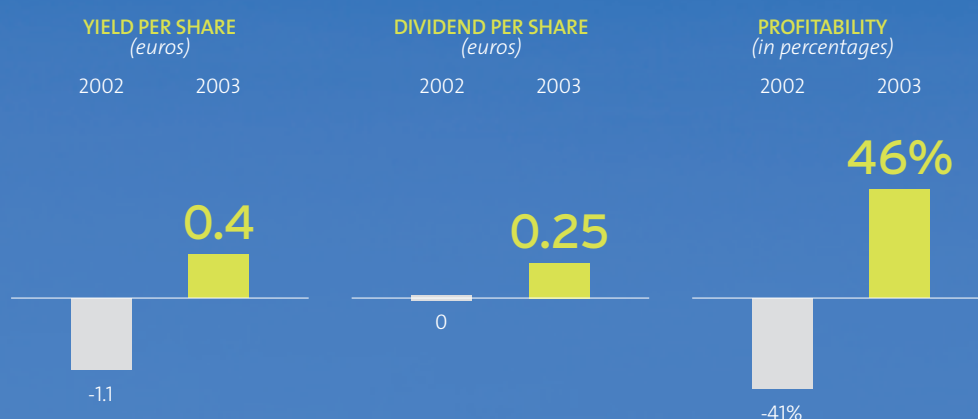


(*) Cash flow: EBITDA-CAPEX

Profitability

Highlights 2003

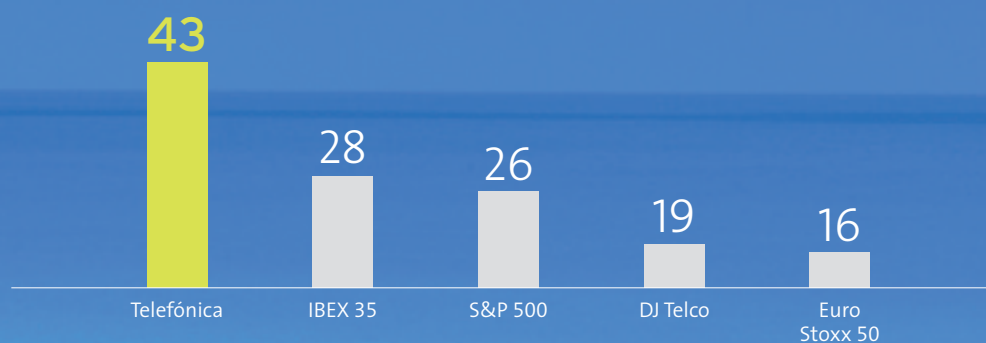
Shareholder Remuneration



Telefónica hit the 100 millionth customer mark in 2003

In 2003, more than 11 million new customers signed up with the company.

Stock market performance (revaluation in 2003)



ADSL connections grew to 2.7 million in 2003, 82% more than in 2002.

Brazil is the second country in terms of revenue for Telefónica.

Financial data

JANUARY – DECEMBER

	2003	2002	Var. %
Income by operations	28,399.8	28,411.3	(0.0)
EBITDA	12,602.1	11,724.2	7.5
Operating result	6,327.9	5,031.8	25.8
Result before taxes	3,362.5	(14,601.1)	—
Net income	2,203.6	(5,576.8)	—
Net income per share	0.44	(1.10)	—
Average n° of shares, millions (1)	4,984.6	5,057.0	(1.4)

(1) Weighted average of number of shares for the period adjusted for free capital increases drawn on reserves during the period that imply a change in the number of shares without a correlative change in Assets, as if they had taken place at the beginning of the first declared period. There were two free rights issues drawn on reserves involved, which were registered at the Business Register on the 18th February 2003 and 24th April 2003, respectively. Likewise, the figure for 2003 is affected by the reduction of capital through cancellation of its own shares as from 11th April 2003, the date of its approval by the AGM, which was registered at the Business Register on 10th June 2003. Thus, the average number of shares at the end of the period is 4,984,615,303 shares.

01

A commitment to Corporate Governance



01	Ownership: Maximisation of value	<ul style="list-style-type: none">· Structure of ownership· Regulations of General Shareholders Meeting	NUMBER OF SHAREHOLDERS 1,693,049 <i>Information obtained from IBERclear. 01/04/03</i>
02	Board of Directors: Essential role	<ul style="list-style-type: none">· Composition and activity of the Board of Directors· Board Committees	BOARD OF DIRECTORS number of executives 5 executive 6 proprietary 8 independent
03	Management: Loyalty and active participation	<ul style="list-style-type: none">· High participation in the Board Commissions· Extension of obligations under Internal Rules of Conduct to management· External auditor	INTERNAL RULES OF CONDUCT
04	Information transparency	<ul style="list-style-type: none">· Shareholders information service· Investor Relations Department· Regulation on the release of information to the markets· Annual Corporate Governance report	VISITORS TO THE SHAREHOLDERS AND INVESTORS WEBSITE 680,000

STOCK EXCHANGES WHERE TELEFÓNICA, S.A. SHARES ARE LISTED

- 4 Spanish Stock Exchanges (Madrid, Barcelona, Bilbao and Valencia)
- London Stock Exchange
- Paris Stock Exchange
- Frankfurt Stock Exchange
- Tokyo Stock Exchange
- New York Stock Exchange
- Buenos Aires Stock Exchange
- Lima Stock Exchange
- Sao Paulo Stock Exchange
- Included in the Stock Exchange Automated Quotation System (SEAO International)

01. Ownership

The share capital of Telefónica, subscribed and fully paid up, is comprised of 4,955,891,361 shares, each with a face value of €1,00, and of a single class and series, represented through account entries.

1,693,049 shareholders¹

(1) information obtained from Iberclear on 1st April 2003

According to the existing information on the company, there are no individuals or corporations that exercise, or may exercise control over Telefónica, directly or indirectly. There are, however, certain shareholders who own significant stakes:

	Percentage	Shares
BBVA*	6.09	301,813,784
La Caixa**	3.50	173,456,198

(* According to the information provided by Banco Bilbao Vizcaya Argentaria, S.A. in its annual accounts at 31st December 2003. As the bank itself indicates in this document, the stake held with the criteria of long term holding of capital in Telefónica is 5.17%.

(**) According to the data provided by Caja de Ahorros y Pensiones de Barcelona, La Caixa on its web page, with information updated on 31st December 2003.

The General Shareholders' Meeting is the supreme body of deliberation and decision, through which the corporate will is expressed and the shareholders decide by majority on the matters that are the competence of the Meeting.

Telefónica intends to put forward for consideration and approval by the Ordinary General Shareholders' Meeting, to be held on 30th April 2004, the principles of this meeting organisation and operation, thus fulfilling the terms set forth in Act 26/2003, of 17th July.

Loyalty, fulfilment and

04. transparency

Shareholder's Office: provides all the relevant corporate information for shareholders and resolves any doubts they may have.

Investor Relations Department: designs and executes the Telefónica communication programme for the national and international financial markets. The 26th March 2003 meeting of the **Board of Directors** of the Company approved internal rules on disclosure to the markets, that regulate the basic principles of operation of the processes and control system for disclosing information.

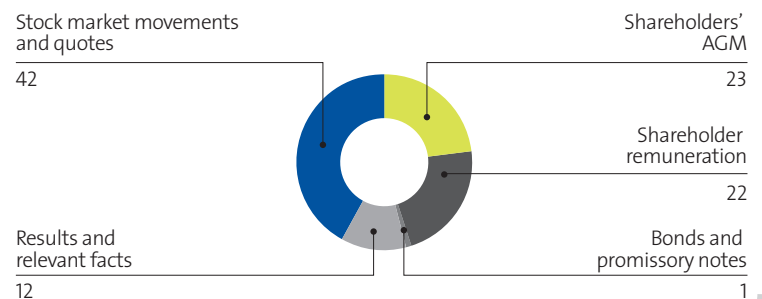
The Annual Report on Corporate Governance provides individual detail based on functions, of the remunerations and benefits received by directors of Telefónica during financial year 2003.

Major web improvements with regard to **content, relevant to shareholders and investors**, restructuring the existing information, providing new content and creating a new section specifically dedicated to matters of Corporate Governance. These sections had 680,000 visits during 2003.

- www.telefonica.com/ir
- [www.telefonica.com/accionista \(/shareholder\)](http://www.telefonica.com/accionista (/shareholder))
- www.telefonica.com/gov
- [www.telefonica.es/hechosrelevantes \(/relevantfacts\)](http://www.telefonica.es/hechosrelevantes (/relevantfacts))

DISTRIBUTION OF SHAREHOLDER TELEPHONE ENQUIRIES

(data in percentages)



8 (42%)
independent
directors

6 (32%)
proprietary
directors

5 (26%)
executive
directors

02. Board of Directors

The Board of Directors is the body that supervises and controls the Company's activity and exercises specific responsibilities in relation to strategy and management of the business and co-ordination of its group of companies.

19 directors

see table 2

03. Management

The Board of Directors entrusts ordinary management of the Company business to the executive bodies and the management team.

The main executives of the Group have attended practically all the **meetings of the Board** held in 2003 to give presentations on matters within their remit.

Moreover, through the different committees of the Board of Directors, specialised analysis has been performed of the matters inherent to its competence. These committees provide a common channel between the management of the Company and the Board.

The Company has extended the obligations arising from the duty of loyalty of the top executives, through the terms provided in its **Internal Rules of Conduct** in matters of conflicts of interest.

Telefónica has established the procedures for contracting the **external auditor** to the Group to provide any kind of service, in accordance with the requisites of the Sarbanes-Oxley Act. During financial year 2003, remuneration of the different companies in the worldwide organisation Deloitte Touche Tohmatsu; to which Deloitte&Touche España, S.L., the firm of auditors to the Telefónica Group belongs; provided services other than auditing services amounting to 30% of the total fees paid, 8% less than in 2002.

During 2003, the Board of Directors of Telefónica held 13 meetings (11 ordinary and 2 extraordinary) lasting approximately four hours each.

The **Chairman of the Board of Directors** is the chief executive of the Company although, according to the terms set forth in the Regulations of the Board of Directors, his actions must comply at all times with the criteria and directives set by the General Shareholders' Meeting, by the Board of Directors and by the committees reporting to it.

The resolutions shall be passed by a majority of the directors attending, present or represented at the meeting.

Committees of the Board of Directors of Telefónica, S.A. Existence of a Delegate Committee, whose operation is described in the Regulations of the Board. It allows greater operativity and effectiveness to the Board of Directors. It is now formed by eight directors. In 2003, the Delegate Committee held 19 meetings with an average duration of more than 3 hours.

OTHER COMMITTEES OF THE BOARD OF DIRECTORS

Committee	COMPOSITION (directors)		No. of meetings (2003)
	Non executive	Executive	
Audit and Control	4	—	13
Nominating, Compensation and Good Governance	4	—	10
Human Resources and Corporate Reputation	4	—	4
Regulation	2	1	8
Service Quality and Customer Service	3	—	6
International Affairs*	4	1	2*

(*) Since May 2003

The fundamental principles of Corporate Governance of Telefónica, S.A. are set forth in its Corporate Bylaws and the Regulations of its Board of Directors. Both documents are available to the shareholders and investors at the company registered office and on its web page.

The Annual Report on Corporate Governance of Telefónica for financial year 2003 provides all the information on the Corporate Governance structures of Telefónica and its operation, for its shareholders and investors.

The guiding principles of Corporate Governance of Telefónica are:

- 1. Maximising the value of the Company in the interest of the shareholders.**
- 2. The essential role of the Board of Directors in the direction and administration of the company.**

3. Organisational flexibility.

4. Informative transparency in relations with employees, shareholders, investors and customers.

In the previous pages, there is a scheme providing a summary of the most relevant information included in the mentioned Report on Corporate Governance.

To conclude this scheme of Telefónica's Corporate Governance Report, it is important to emphasise the firm intention of the Company to encourage the adoption of best Corporate Governance practices within the Group, regardless of the specific requisites on each market. At present, all the listed companies of the Telefónica Group have fulfilled common minimum standards of Corporate Governance, as detailed in the following table:

TABLE 1. COMMON MINIMUM STANDARDS OF CORPORATE GOVERNANCE

Composition of the Board of Directors

- Majority of non executive directors, in relation to the executive directors.
- Appointment to the Board of a reasonable number of independent directors.

Operation of the Board of Directors

- Existence of rules of operation of the Board (Reglamento del Consejo)
- Adherence to minimum number of scheduled meetings.

Regulation of the rights and obligations of the directors¹

Consulting committees of the Board of Directors

- Existence of the Auditing and Control Committee.
- Nominating, Compensation and Good Governance Committee²
- Comprised exclusively of non-executive directors.

Transparency

- Shareholder information service.
- Investor relations department
- Information on Corporate Governance published annually in the Annual Report or specific report.
- Web page on Corporate Governance (including Relevant Facts)³

Others

- Control systems on the financial, accounting information.
 - Internal Rules of Conduct in matters related to the stock markets.
-

(1) Regulations set forth either in internal rules, or in the local by-laws.

(2) All the Spanish listed companies in the Group have this Committee. This practice will be extended to other companies in the Group, according to the specific characteristics of each one of them.

(3) In the case of Spanish listed companies in the Group, the content in matters of Corporate Governance on these pages is adapted to the requirements of Ministerial Order 3722/2003, of 26th December, on the annual report on Corporate Governance and other instruments of information on the listed stock companies and other entities.

TABLE 2

Governing Bodies

BOARD OF DIRECTORS	Delegate commission	Audit and Control	Nominating, Compensation and Corporate Governance	H.R. and Corporate Reputation	Regulation	Quality of Service and Customer Service	International Affairs	Executive	Proprietary	Independent
<i>Directors</i>										
Mr. César Alierta Izuel	■							■		
Mr. Isidro Fainé Casas	■								■	
Mr. José Antonio Fernández Rivero		■			■				■	
Mr. Fernando de Almansa Moreno-Barreda							■			■
Mr. Jesús María Cadenato Matía	■								■	
Mr. Maximino Carpio García	■	■	■							■
Mr. Carlos Colomer Casellas	■					■				■
Mr. Alfonso Ferrari Herrero			■	■			■			■
Mr. José Fonollosa García									■	
Mr. Gonzalo Hinojosa Fernández de Angulo		■				■				■
Mr. Miguel Horta e Costa										■
Mr. Pablo Isla Álvarez de Tejera			■	■						■
Mr. Luis Lada Díaz							■	■		
Mr. Antonio Massanell Lavilla		■		■		■			■	
Mr. Enrique Used Aznar				■	■		■			■
Mr. Mario E. Vázquez								■		
Mr. Antonio Viana-Baptista	■							■		
Mr. Gregorio Villalabeitia Galarraga	■		■				■		■	
<i>Director-Secretary to the Board</i>										
Mr. Antonio Alonso Ureba	■				■			■		
<i>Vice Secretary to the Board</i>										
Mr. Ramiro Sánchez de Lerín García-Ovies		■			■					

■ Chairman of the Commission ■ Member of Commission ■ Director

• **Audit and Control Committee**

Supporting the Board in its monitoring, and in particular supervising the drawing up of financial information, relations, the work of the external auditor and the internal control systems of the Company.

• **Nominating, Compensation and Good Governance Committee**

Ensuring the integrity of the selection processes of Directors and high-ranking officers, advising the Board to determine and supervise of remuneration of directors and high-ranking officers. Likewise it performs duties in the sphere of corporate governance.

• **Human Resources and Corporate Reputation Committee**

Analysing, informing and proposing the adoption of appropriate resolutions and encouraging development of the Corporate Reputation Project, and implementation of the central values pertinent to this sphere.

• **Regulatory Committee**

Analysing the main regulatory issues order that affect the Group from time to time and acting as a channel of communication and information between the management team and the Board of Directors in matters of regulation.

• **Quality of Service and Customer Service Committee**

The study and follow-up of standards in the quality of the main services rendered by the Companies of the Group, as well as standards in commercial attention given to their customers.

• **International Affairs Committee**

Analysing the international affairs pertinent to the Group, giving special attention to institutional relations in the countries where the companies of the Group operate, the competitive positioning of the Company, the issues relative to corporate strategy and image, as well as action plans of the different Foundations of the Company in all these countries.

02

Intangible assets



01

The brand as a bond with the customers

- Brand strategy and architecture
- Portfolio of Trademarks and Domains
- Brand recognition
- Contribution to revenues

CONTRIBUTION OF THE BRAND TO REVENUE GENERATION
[11-28%]

02

Research, development and innovation

- Investment in R&D&I
- Launching new services
- Telefónica I+D
- Patents and intellectual property registers

MILLION EUROS IN R+D
440

03

Values: Confidence in fulfilment of commitments

- Values of the Telefónica Group
- Recognition of commitments fulfilled

CONFIDENCE
▶ CUSTOMERS
▶ SHAREHOLDERS
▶ EMPLOYEES
▶ SOCIETY

04

Social responsibility

- Proactive risk management
- Flexibility and adaptability
- Relations with stakeholders
- Information transparency

ACTIVE PRESENCE IN INITIATIVES
11

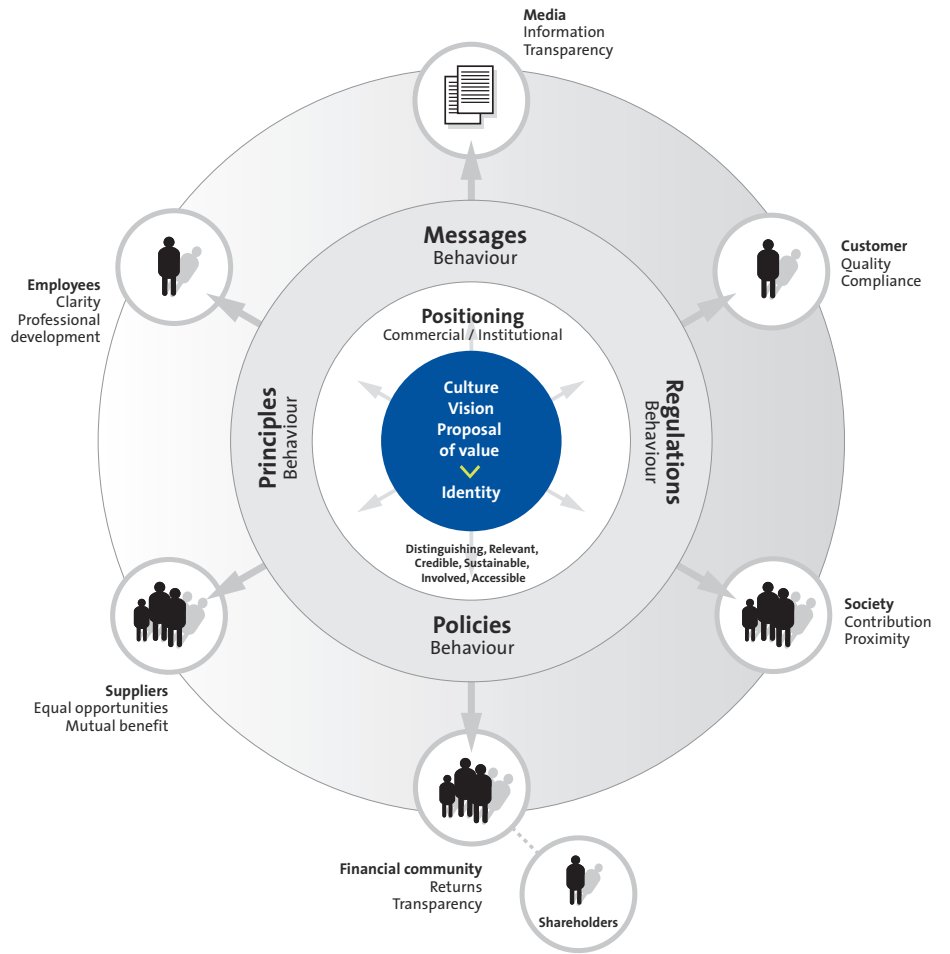
05

Institutional presence

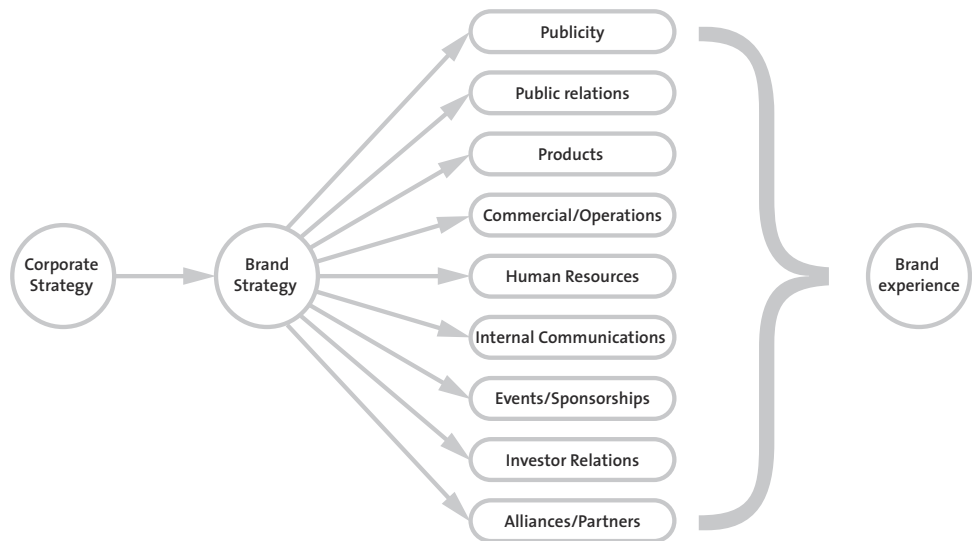
- Sponsorships
- Forums and conferences
- International organisations

SPONSORSHIPS
454

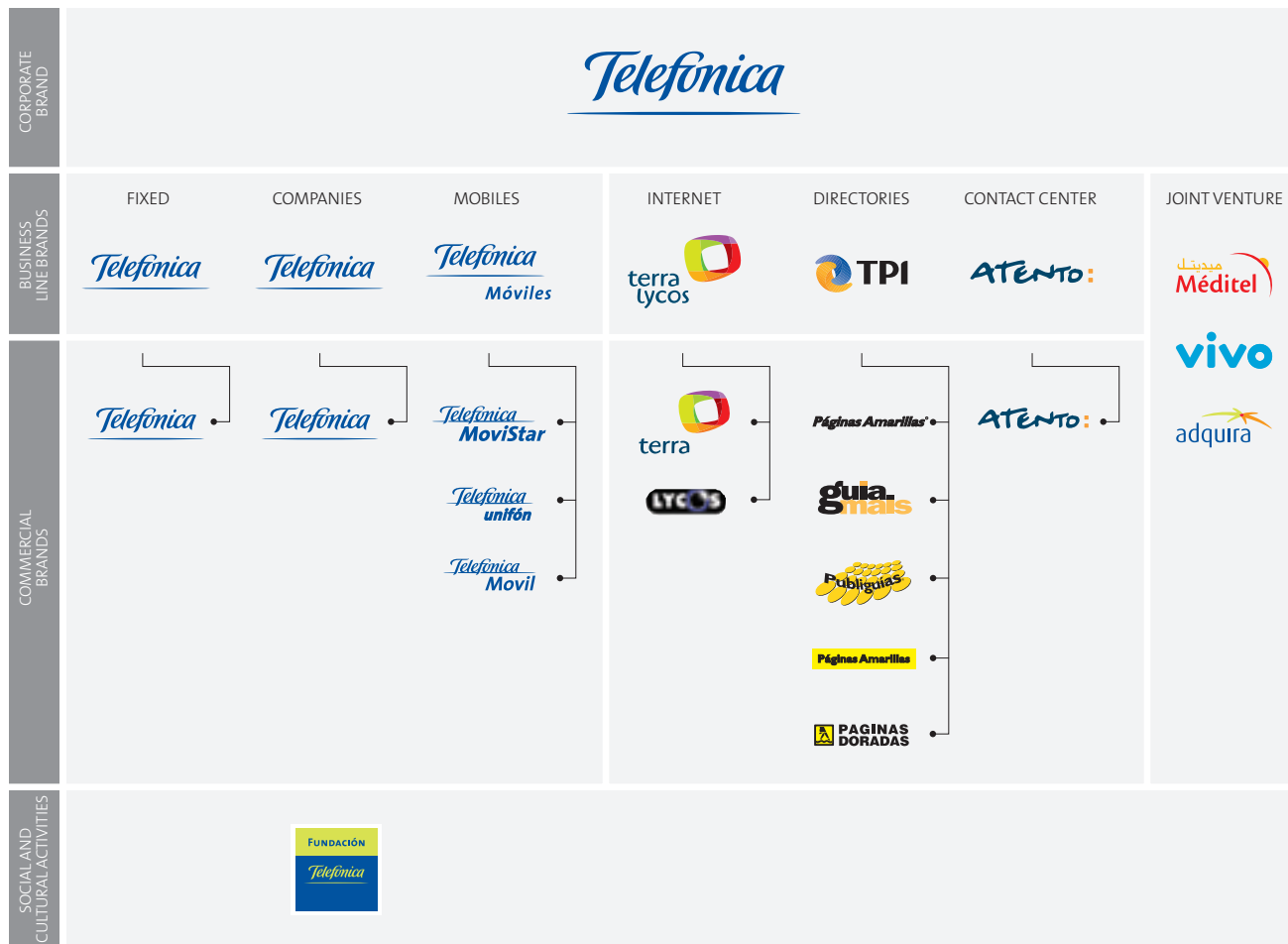
THE BRAND AS A BOND WITH STAKEHOLDERS



CORPORATE STRATEGY AND BRAND STRATEGY



TELEFÓNICA BRAND ARCHITECTURE



The Telefónica brand is the central axis to communicate the value proposal of the company to its different stakeholders:

- Dedicating all its resources and experience to satisfying its customers' needs.
- Turning technological advances into accessible communication solutions that improve people's lives, their homes and companies.
- Achieving the confidence of its customers, employees, shareholders, suppliers, media and the societies Telefónica works with, by fulfilling its commitments.
- Contributing to sustainable development of the societies in which it works.
- Maintaining an important institutional presence in keeping with its corporate dimension.

This proposal of values of Telefónica is embodied in important intangible assets, such as brand management, research and development investments, development of values, commitment to corporate social responsibility or institutional presence.

01 THE TELEFÓNICA BRAND AS A STRATEGIC BOND WITH CUSTOMERS

The strength and solid position of its brand on the market allows Telefónica to build long term relations with its audiences and to transmit its vision, position and distinguishing values in a clear and simple manner.

Telefónica is undertaking a profound transformation of its management model; from a product oriented company, towards a Group that is profoundly customer oriented. The customer is the centre of its activity, the key point of its strategy, the driving force of its organisation and the main source of revenue for the business.

The Telefónica brand becomes a guarantee for customers, generating greater willingness to buy and use its products and services, encouraging preference and loyalty towards the Company.

a) Brand strategy and architecture

The brand has a global impact on all the corporate activities, from the services provided, to all the institutional activities, as well as in the points of contact with its stakeholders. Due to this, the brand strategy is designed to serve the interests of the overall business strategy,

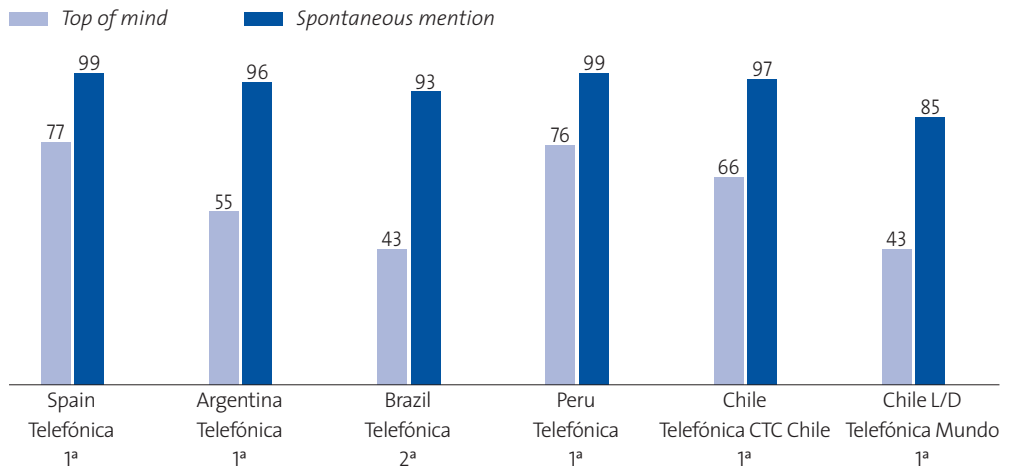
EVOLUTION OF TELEFÓNICA TRADEMARK AND DOMAIN PORTFOLIO

(Data in units)

		1999	2000	2001	2002	2003
Telefónica, S.A.	Trademarks	6,630	8,070	7,496	7,706	7,104
	Domains	340	865	2,210	2,182	1,885
Telefónica Móviles	Trademarks		1,106	2,822	4,041	4,556
	Domains					795
Terra	Trademarks	2,317	3,041	3,152	3,067	3,078
	Domains	430	1,221	1,343	844	680
TPI	Trademarks	560	594	619	700	861
	Domains	101	664	1,011	1,242	1,392
Total	Trademarks	9,507	12,811	14,089	15,514	15,599
	Domains	871	2,750	4,564	4,268	4,752

BRAND AWARENESS FIXED TELEPHONY *

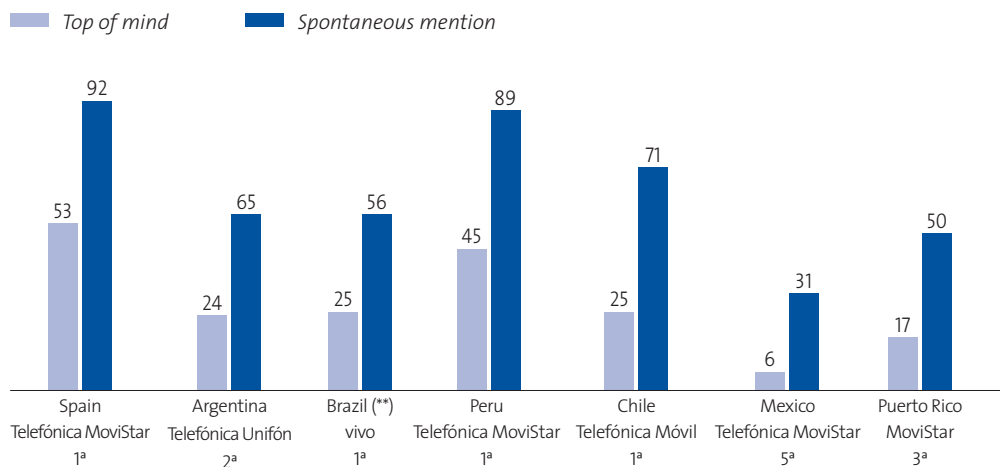
(Data in percentages)



(*) Source: Advertising Tracking and Brand Health 2002-2003. Millward Brown.

BRAND AWARENESS MOBILE TELEPHONY *

(Data in percentages)

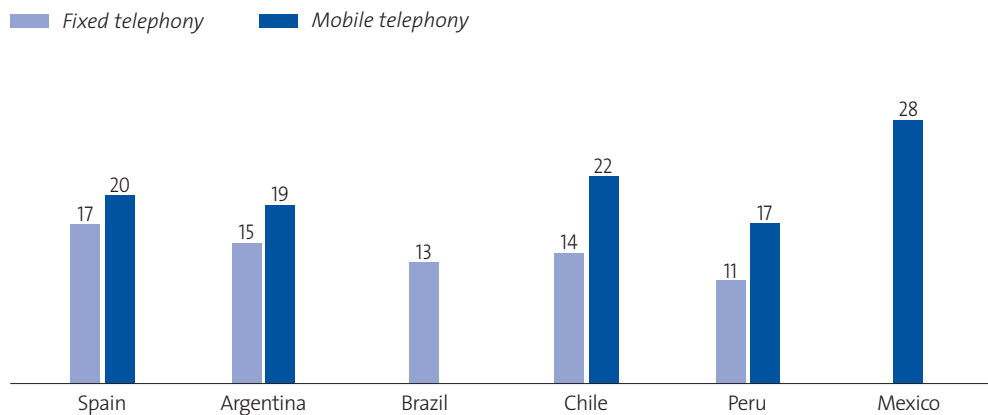


(*) Source: Tracking de Publicidad y Salud de Marca, 2003. Millward Brown.

(**) Source: IBESP. Vivo is the JV of Telefónica Móviles and Portugal Telecom, commercially launched in 2003.

ESTIMATION OF THE CONTRIBUTION OF THE TELEFÓNICA BRAND TO REVENUE GENERATION

(Data in percentages)



and is developed by means of its architecture, management and measuring systems.

The fundamental part of this strategy lies in listening to the customers, in order to understand their concerns, needs and aims, and correctly adapt them to each one of the market segments and countries where the firm operates. Building up a coherent, homogeneous discourse provides sense and cohesion to the multiple contacts that take place between the Telefónica brand and its customers. This is to ensure that the experience of the Telefónica brand fulfils its expectations and generates long term emotional bonds.

The objective of brand architecture is to provide clarity and coherence for the identification and communication of the commercial offerings of the group among its customers, both at global and local scale. With that aim, the corporate brand is boosted and commercial brands are built up in a strong, competitive, and leading market-specific way.

Within that architecture, the Telefónica brand is positioned in corporate terms within the organisation and establishes hierarchies between the different commercial brands, sub-brands and names of products and services. Hierarchic organisation and linking of the commercial brands to the Telefónica corporate image is based on the degree of association with the traditional business, or on the degree of linking that, for strategic, corporate or regulatory reasons, are established with a firm in the Group.

b) Customer oriented brand management

Brand management aims to increase the value the brand has, as one of the most strategic assets within the company; and assure its consistency and coherence at each one of the points of contact with its stakeholders. This requires a brand portfolio management system, directives and standards generation, and use of

tools to measure brand strength and validate the effectiveness of the messages.

On 31st December 2003, the worldwide portfolio of Telefónica Group trademarks and domains exceeded 15,000 trademark registrations and 4,700 domain names, managed in co-ordination among the four listed companies of the Group.

Telefónica has developed a set of tools to manage and analyse the common information between lines of business and countries. The objective is to perform permanent and systematic monitoring and control of brand awareness, image, and affinity with its different audiences. These tools also provide a consistent global vision of the situation of the brands on all the markets in which it operates.

In the category of fixed telephony, the Telefónica brand is the leader by awareness in all the countries except Brazil, where it comes in second place. In the category of mobile telephony, its leadership in the majority of the countries where it is present is broadly recognised.

In Mexico, the brand awareness achieved by the Telefónica Movistar brand just a few months after its nationwide launch is outstanding. Another noteworthy case is that of Vivo, the joint venture in Brazil with Portugal Telecom, which became the leader by awareness in its segment only three months after its commercial launch.

A strong brand combined with a solid position on the market allows new customer attraction and maintenance of existing ones to be performed at lower cost, lower distribution margins and extension of the product lines under the same brand with lower investment. According to estimates by Telefónica in 2003, its commercial brands contribute between 11% and 28% to revenue generation.

In 1999 the “Foro de Marcas Renombradas Españolas” (FMRE) was founded. This is an initiative by leading companies in different sectors to work on development, defence and promotion of Spanish recognised brands. Telefónica has been a representative member of the forum since it was founded. Its main activities include: promotion of the brand as a basic asset in the competitiveness of companies and encouragement of legal protection of industrial property rights and recognised, reputed brands.

Most of the R&D activity is performed at Telefónica Investigación y Desarrollo, 100% owned by Telefónica. It mainly works for business lines of Telefónica and participates in other research projects, in the national and international field.

Telefónica I+D now has three centres in Spain (Madrid, Valladolid and Barcelona), has commenced operations at the Technological Park of Walqa (Huesca) and has incorporated a subsidiary in Brazil (Telefonica Pesquisa e Desenvolvimento) in order to boost R&D in Latin America. It has also developed an active technical presence, with 238 contributions or impacts on the research community.

During 2003, Telefónica I+D worked on more than 1,800 projects, 35 of them belonging to the IST European Programme, participates or collaborates in 25 associations, forums or technological standardisation groups, gave direct employment to 1,225 people and indirectly to 1,258, involving 32 companies in the TIC sector and 14 Universities in its activity.

Telefónica I+D has been awarded numerous prizes and recognition for its work during 2003:

02 RESEARCH, DEVELOPMENT AND INNOVATION

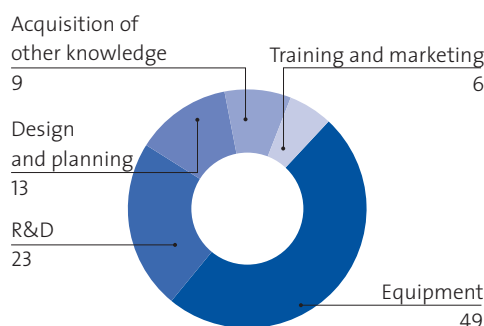
(1) Technological Innovation according to the definition by the Instituto Nacional de Estadística (Spain) and the OECD.

The Telefónica Group invested 1,303 million euros in technological innovation¹ in Spain in 2003. The investment by Telefónica in research and development amounted to 440 million euros, 304 of which were in Spain and the rest in other countries.

This activity has enabled it to launch more than 215 new products and services on the Spanish market, aimed at satisfying the demands of our customers, covering the fields of Internet and Broadband, Voice Market and Mobile Services.

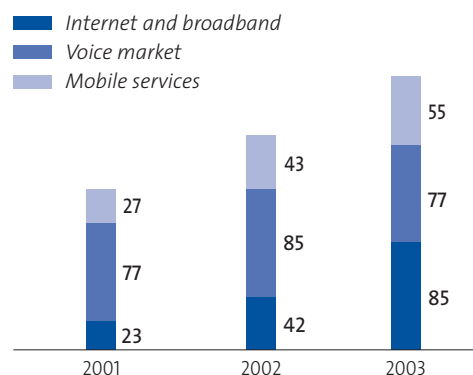
DISTRIBUTION OF TECHNOLOGICAL INNOVATION IN SPAIN

(Data in percentages)



NEW PRODUCTS BY TELEFÓNICA DE ESPAÑA AND TELEFÓNICA MÓVILES ESPAÑA

(Data in number of products)



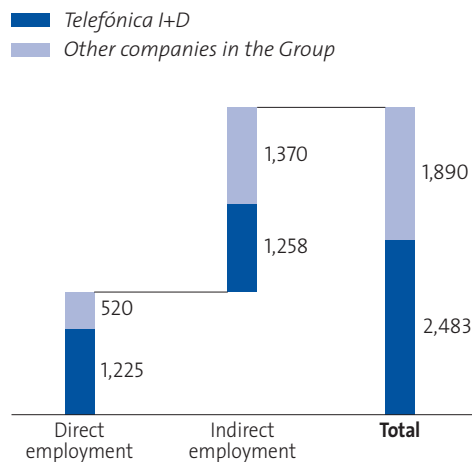
**TECHNICAL PRESENCE
EXTERNAL TELEFÓNICA I+D**

(Data in number of contributions)

Articles published	65
Speeches at conferences	53
Conferences	26
Courses	9
Participation at fairs and exhibitions	15
Presence in the media	49
Books	5
Organisation of congresses / debates	10
Total	238

**TELEFÓNICA JOB CREATION
DUE TO R&D ACTIVITY IN SPAIN**

(Data in units)



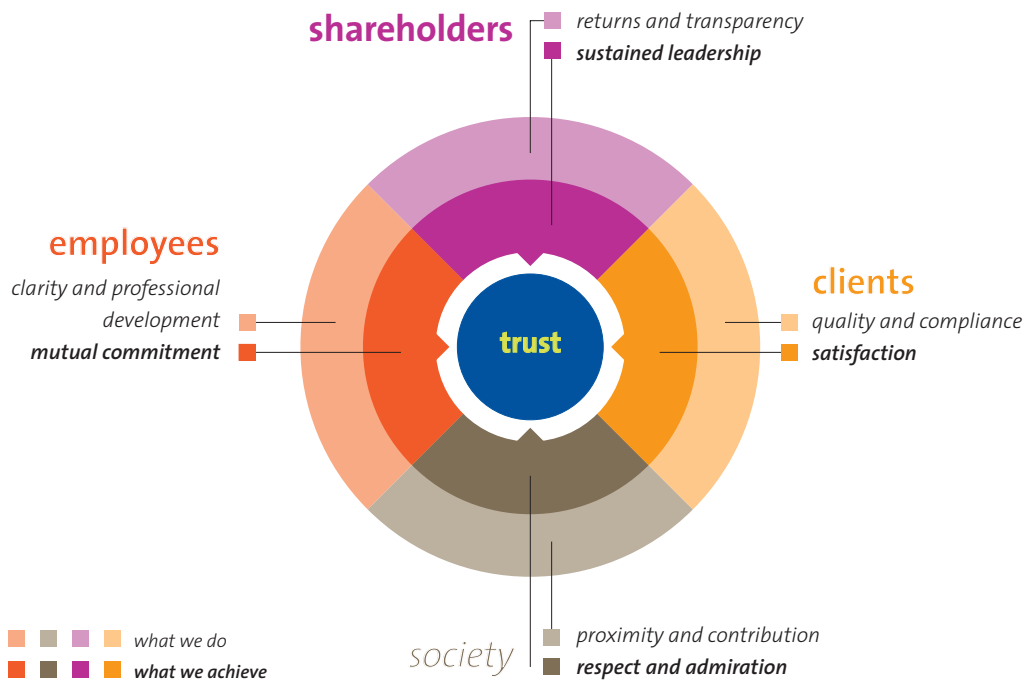
- First prize of the Object Management Group (OMG) for its product "InstantForce" June 2003.
- Runner up in the 20th edition of the Technological Innovation Prizes of the Regional Government of Catalonia, June 2003.
- Runner up in the Prizes of The European Information Society Technologies Prize (IST) with the project AGORA. June 2003.
- AUTELSI Prize for Development of the Information Society, in its mode of diffusion, for preparing reports on the Information Society for more than three years. October 2003.
- First and third Prize Telecom I+D 2003 at the Telefónica I+D forums: Radio interface for ultra-wide-band (UWB); Development of a

transmitter and dynamic routing strategies to postpone congestion of the network. November 2003.

- Second Prize for New Internet Applications, by the Telefónica professorship of the UPN for the e-Appraisal System. December 2003.
- Madrid Excelente: recognition of the excellence of the best companies from Madrid, considering these to be those that strive for constant innovation and improvement, satisfaction of persons and active contribution to economic and social development in Madrid. December 2002. Delivered in 2003.

Due to all this innovation activity, the Telefónica Group held 1,541 patents and models and 1,058 intellectual property registrations at the end of 2003.

THE VALUES OF THE TELEFÓNICA GROUP BY INTEREST GROUPS



With our shareholders and investors

- **Transparency:** striving to ensure that the shareholders, investors and the rest of the interest groups as well as have all the information they require.
- **Returns:** a solid business model with future.

With our customers

- **Quality:** ensuring that our offer of products and services, and our customer care, are always the most appropriate for their needs.
- **Compliance:** committing ourselves to do what we say.

With our employees

- **Clarity:** so the employees in the Group have complete, quality information at all times.
- **Professional development:** ensuring that Telefónica employees have the best opportunities in their professional career.

With society

- **Contribution:** to achieve a relation of confidence with society through our contribution to all social levels, with specific policies of solidarity, environmental attention and integration.
- **Proximity:** being a global, multi-domestic company, presenting a global offer, while attending to the needs and singularities of society, wherever we operate.

03 VALUES: CONFIDENCE IN FULFILLING COMMITMENTS

a) The values of the Telefónica Group

The aim Telefónica has is that its customers, employees, shareholders and companies in the countries where it operates trust in it due to its capacity to fulfil the commitments acquired.

The values of Telefónica are the keystone to relations with its interest groups. Thus, the Company seeks profitability and transparency in relation to its shareholders; quality and compliance in relation to its customers; clarity and professional development in employee relations; and contribution and proximity to society. The sum of these values is what establishes a bond of confidence.

Telefónica knows that the aim is not to speak of confidence, but to earn it, day by day, acquiring specific commitments and honouring them, proving, definitively, that it is able to do what it says it will.

Telefónica wishes to build up its vision of leadership based on that confidence: to be among the top telecommunications operators worldwide in the coming years, and to be recognised as a multi-domestic group, a leader and near player, able to be global and local, large and small at the same time. These values define the attributes of its personality: nearness and commitment.

b) Recognition of commitments fulfilled

During 2003, different companies in the Telefónica Group have received recognition for fulfilling their commitments. These are clear signs of confidence in Telefónica's activity.

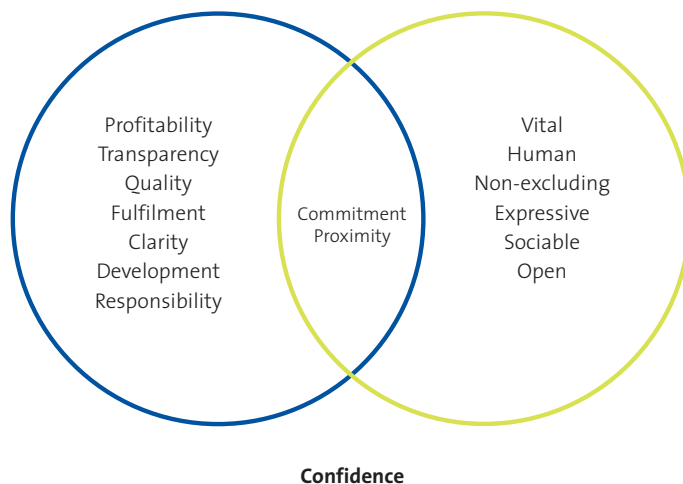
Recognition of corporate excellence:

- Telefónica is the most admired Spanish company, according to the survey performed in 2003 by Pricewaterhouse Coopers and The Financial Times.

- According to the Spanish Corporate Reputation Monitor (Merco), in 2003 Telefónica was among the three best reputed companies in Spain.
- In 2003, as in previous years, Telefónica was among the 10 most admired companies in Chile, according to the data gathered in the annual survey by Adimark, commissioned by the newspaper La Segunda.
- For the second consecutive year, Telefónica Sao Paulo (TeleSP) was recorded as the most admired company in the telephone operator sector among executives in Brazil, according to the annual ranking prepared by the magazine Carta Capital in collaboration with InterScience. Telefónica Móviles and Terra also received major recognition in their sectors.

VALUES AND ATTRIBUTES OF THE BRAND

- *Transversal values by audiences*
- *Attributes that express the brand personality*



- TeleSP and Telefónica Empresas (Brazil) received the prize for Corporate Excellence for their customer attention, awarded by the most important publication in the sector in Brazil, the magazine Consumidor Moderno.

Recognition of the commitment to local society:

- For the second time, Telefónica has received the distinction of “Company that Helps Sao Paulo,” which recognises the contribution by the Company to development of the city.
- Telefónica S.A. was awarded the AUTELSI Prize for Development of the Information Society for the work the Company has carried out over the last three years, preparing reports on the information society.
- In Brazil, four companies of the Telefónica Group obtained certification as “Child Friendly Companies,” a programme that deals with the challenge of developing policies to protect childhood in social and labour terms. These companies are TeleSP, Telefónica Data, Assist and t-gestiona.
- Telefónica de Argentina, through its External Communications Management, was awarded the Eikon 2003 Prize in the category of “Communication in Crisis Situation,” for the work carried out in management of communication during the problems caused by theft of the company’s cables during 2002.
- The Brazilian Government has praised the collaboration by Telefónica in the “Hunger Zero programme,” through which it is collaborating in reduction of hunger in the most deprived areas of the country.
- Telefónica de España was awarded the prize for the company with the best technological contribution to the Region of Murcia 2003.

04 EXERCISING SOCIAL RESPONSIBILITY

Telefónica understands Corporate Social Responsibility (CSR) to be a commitment to all its interest groups, based on the following principles:

- Proactive risks management (precautionary principle)
- Flexibility and adaptability to all the countries we operate in
- Relations with the interest groups
- Creation of sustained value for all the interest groups
- Informative transparency

These principles are implemented through different lines of work and are integrated in a whole, shaping the Corporate Social Responsibility Plan of the Telefónica Group.

a) Proactive risks management

The Corporate Reputation Project, that began in December 2001, concluded its first phase with identification of 750 risks to reputation, 150 of them considered critical. All the areas of corporate management participated in this identification process, classifying the risks in six categories: product, management, technology, society, communication and regulation risks.

The second phase of the Corporate Reputation Project, which is still ongoing, aims to generate homogenous policies to manage those risks, to minimise their impact and avoid them reappearing.

b) Flexibility and adaptability

In recent years, the Group is making significant progress toward greater cohesion and a stronger internal culture. However, respect for



www.telefonica.es/responsabilidadcorporativa

the social, political and economic surroundings are required, as well as adaptation to the characteristics of each business unit. Social responsibility policies constitute an important generator of Group spirit, so from its initial phase, these are conceived as flexible, adaptable policies, that are applicable to the whole scope of operation of the Telefónica Group.

c) Relations with the stakeholders

Telefónica works with a multistakeholder approach and understands social responsibility management as the result of combining economic growth with satisfying the expectations of all its stakeholders. To understand the interests and concerns of these, Telefónica has an ongoing feedback policy through different bodies and associations.

Institutional presence, through active participation in public and private initiatives in which corporate responsibility and reputation are debated, are one of the main channels of dialogue and information gathering. The Telefónica Group is present in several groups that have the participation of very diverse agents: academic, third sector, Trade Unions, civil society, etc. Meeting points, in general, between companies and the main representatives of stakeholders.

The following description covers the most significant social responsibility and reputation initiatives Telefónica participated in during 2003:

International initiatives

- **United Nations Global Compact.** Telefónica is a signatory company of the Global Compact since March 2002 and a member of the co-ordination body in Spain, known as the Globalthe Global Compact Square Table. Telefónica also participated in III Learning Forum of the Global Compact, held in December at Belo Horizonte (Brazil), where it presented two case studies.

- **European Union.** Telefónica made two presentations in Brussels during 2003, where it explained its model of Reputation and Social Responsibility Management to the European Multistakeholders Forum and before a group of experts in measuring intangible assets.
- **Global Reporting Initiative (GRI).** The GRI Guidelines constitute an internationally recognised framework for measurement and communication of corporate activities. The Head of the Corporate Reputation and Social Responsibility Department at Telefónica is a member of the Stakeholders´ Council of the GRI since March 2003.
- **International Chamber of Commerce (ICC).** Telefónica participates in working groups on Social Responsibility and Anticorruption. During 2003, these groups have progressed in matters of collaboration and monitoring the activities of other initiatives, such as the United Nations Anticorruption Convention, or presence on the Advisory Group on Corporate Social Responsibility of ISO (International Organization for Standardization).
- **Global e-Sustainability Initiative (GeSI).** In 2002, Telefónica joined this initiative, promoted by the UNEP (United Nations Environmental Programme) and the ITU (International Telecommunication Union), grouping manufacturers and operators of the information technologies sector in order to promote sustainable development. A notable event in 2003 was the preparation of a telecommunication sector supplement to the GRI recommendations, and the constitution of a working group to study supply chains or participation in the World Summit on the Information Society.
- **European Telecommunication Network Operators (ETNO).** Telefónica is present in the Working Group on Sustainability, which extended its Environmental Charter in 2003 to a Sustainability Charter. Telefónica hosted the

last meeting of the Working Group in Madrid, in which representatives of 14 European operators participated.

- **Asociación Hispanoamericana de Centros de Investigación y Empresas de Telecomunicación (AHCJET).** Telefónica has been collaborating with AHCJET in promotion of good practices in terms of corporate responsibility in the Latin American telecommunications sector.
- **Reputation Institute:** Telefónica has been a member of the Reputation Institute since 2002. This is an American institution that has pioneered the study of corporate trends in communication, ethics, reputation, responsibility, identity and corporate governance.

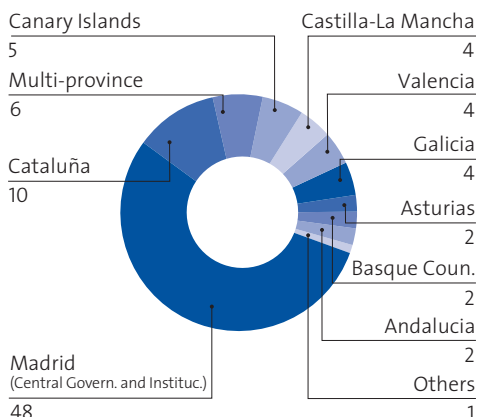
Spanish initiatives

- **Confederación Española de Organizaciones Empresariales (CEOE).** Telefónica is a member of the Social Responsibility Commission of the CEOE (Spanish Employers' Organisation), that has the aim of analysing trends and progress in responsible practice among Spanish companies.

- **Asociación Española de Contabilidad y Administración de Empresas (AECA).** This association has a Corporate Social Responsibility Study Committee. In December 2003, AECA (Spanish Accounting and Company Administration Association) published the Conceptual Framework on Social Responsibility. Telefónica was present on the drafting committee.
- **Foro de Reputación Corporativa (FRC).** Founded in September 2002 by Aguas de Barcelona, BBVA, Repsol-YPF and Telefónica, the FRC (Corporate Reputation Forum) is an initiative through which companies share management knowledge and experience in corporate reputation matters. In October 2003, the FRC was joined by Abertis, Ferrovial, Gas Natural, Iberdrola, Iberia, Inditex and Renfe. With them, the FRC has come to gather around 50% of the IBEX 35. Above all, the FRC aims to become a meeting place to analyse and divulge trends, tools and models of corporate reputation in management, for which it will seek the advice of experts from the academic and practitioners worlds. Its main objective is to increase the value of the member companies, based on the intangible assets as value generators.

DISTRIBUTION OF INSTITUTIONAL SPONSORSHIPS IN SPAIN

(Data in units)



Along with this institutional dialogue with the different parties interested in social responsibility and corporate reputation, the companies forming the Telefónica Group compile the opinions and expectations of their stakeholders through customer oriented surveys, employees, society at large, shareholders ... just as detailed in its specific chapters.

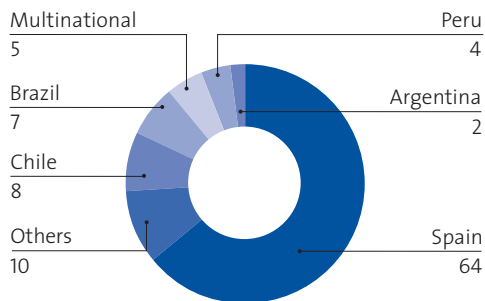
d) Creation of sustained value for all the stakeholders

During 2003, the company set up more than 30 projects, divided into management areas, with the aim of endowing corporate responsibility with a transversal nature, and ensuring permeable management at all corporate levels.

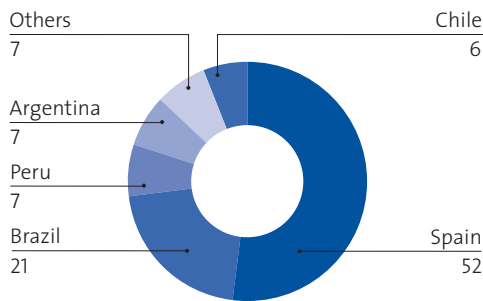
DISTRIBUTION OF SPONSORSHIP BY COUNTRIES

(Data in units)

Commercial sponsorship



Institutional sponsorship



Thus, it seeks to maintain balanced relations with all stakeholders.

In line with the above, and to guarantee that all the policies fall within the search for that balance, the Telefónica Group has set up a Corporate Social Responsibility Committee, in which all the areas involved in management of relations between the different stakeholders are involved, as well as the main business lines. The main objective of this Committee is to streamline initiatives and synergies and raise the contribution of social value to the Group. Thus, all the corporate responsibility policies that directly affect the core business and develop the company are kept within a single working framework.

The initiative has been promoted by the three corporate areas most directly involved in management of projects with social impact: Human Resources, Fundación Telefónica and Corporate Reputation and Social Responsibility. Representatives from the different corporate management areas also participate (Purchasing, Institutional Relations, Investor Relations ...) as do the business lines of the Group (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica, Terra, Atento, Telefónica I+D...)

e) Information transparency

The Corporate Responsibility Report, the first edition of which was published in April 2003, covering all the information on social responsibility activity related to all the stakeholders, is the embodiment of the commitment to information transparency.

To prepare this Corporate Responsibility Annual Report, Telefónica performed prior analysis aimed at identifying the indicators demanded by the main stakeholders. Once the first edition was published, several meetings were held to exchange impressions on its content and to gather suggestions, most of which were taken into account to prepare this edition. During

financial year 2003, an Integrated Corporate Responsibility information System was set up, including in the financial information processes of the Telefónica Group, data and indicators on corporate responsibility.

Since December 2002, Telefónica has had a section on its web page on corporate responsibility, that has the same informative structure as the annual report. During 2003, that page was visited more than 60,000 times.

05 INSTITUTIONAL PRESENCE

As one of the leading companies in each one of the countries where it operates, Telefónica has a major institutional presence in all the fields where it is present. The following section summarises its involvement in sponsorships, conferences or collaboration with international bodies.

a) Sponsorship

Telefónica has an institutional presence in numerous society activities by sponsoring sporting, cultural, social and other kinds of activities. During 2003, it sponsored a total of 454 initiatives.

Commercial sponsorship is aimed at supporting events and activities that, due to their major relevance among the population, may help the companies to promote their products and services. For that reason, the key role of these sponsorships usually concentrates more on the companies in the Group.

Because of its high impact on society, sport is assigned most of the commercial sponsorship of the Telefónica Group (112 commercial sponsorships in 2003), especially in the fields of motor racing, tennis and golf. A sponsorship of special interest to Telefónica is the team of young motorcycling talent, that has supported such world champions as Dani Pedrosa (2003).

SPORT COMMERCIAL SPONSORSHIP BY THE TELEFÓNICA GROUP

MOTOR RACING

- Motorcycling: Telefónica MoviStar team in the 125 cc, 250 cc and MotoGP categories. The riders sponsored include Dani Pedrosa (World Champion in 2003), Sete Gibernau, Toni Elías and the team managers Ángel Nieto and Alberto Puig.
- Rallies: sponsorship of the Telefónica Dakar Rally and Movistar Cataluña –Costa Brava Rally; along with support for the Team Telefónica Movistar Citroën and Carlos Sáinz.
- Formula 1: in 2004, Telefónica returned to Formula 1, sponsoring Fernando Alonso and the Renault team.

TENNIS

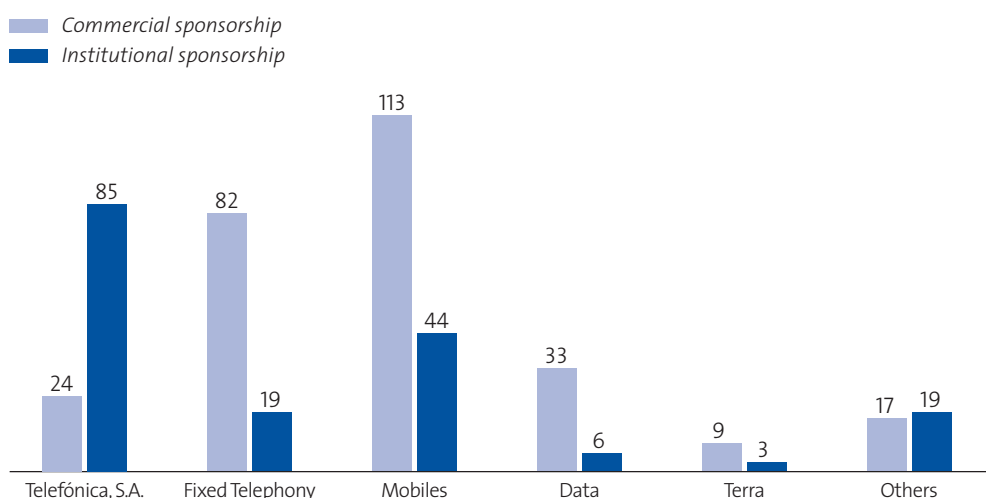
- Sponsorship of the Tennis Masters Madrid 2003 and Trofeo Conde de Godó,
- Sponsorship of the tennis players Juan Carlos Ferrero, (Spain), Fernando González and Nicolás Massú (Chile).

GOLF

- Sponsorship of the III Madrid Golf Open.

DISTRIBUTION OF SPONSORSHIP BY BUSINESS LINES

(Data in units)



Music is another field to which Telefónica associates its image by sponsoring activities: such as the Telefónica MoviStar concerts, fifteen editions of which have been held.

Institutional sponsorship is more related to events and activities in which Telefónica must be present as an institution. Thus, its role in such sponsorship is more that of the corporations (Telefónica, SA as well as Telefónica Móviles and the Country Corporate Centres), with a major presence in cultural sponsorship (92 sponsorships in 2003) over sporting ones (18) and others (66). A sign of the institutional nature of these may be seen in the distribution of the sponsorships in Spain by different autonomous communities.

b) Forums and conferences

Presence at international forums and conferences, especially if related to development of the telecommunications sector, economic development and the information society, is another area of institutional protagonism by the Telefónica Group.

During financial year 2003, Telefónica sponsored a total of 28 forums and conferences, to which one must add another 99 participations (23 more than in 2002). Sponsorship of forums has been aimed, mainly at non-profit organisations and, fundamentally, institutions, public bodies, Universities and Business Schools.

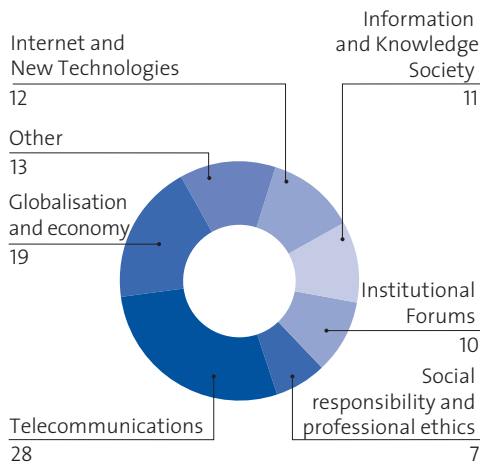
During 2003, 172 speakers from the Telefónica Group have participated in Forums and Conferences. These events have mainly taken place in Spain (75%), Europe (13%) and Latin America (12%). Attendance at these forums came to 90% of the forecasts, with a group of more than 8,600 people.

c) Collaboration with international organisations

Telefónica collaborates with prestigious, representative organisations worldwide, to which it assigns an annual budget of 1.45 million euros. The main associations and forums in which Telefónica is present are those related to telecommunications, mainly in the area of influence of the Company (Spain, Europe and Latin America).

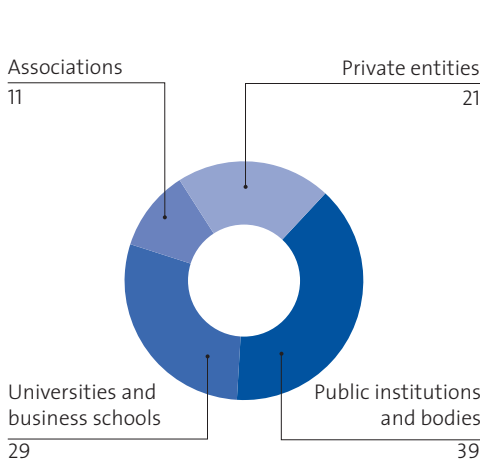
MOST RELEVANT THEMES OF THE FORUMS SPONSORED AND PARTICIPATED IN DURING 2003

(Data in percentages)



DISTRIBUTION OF FORUM SPONSORSHIP BY ORGANISATION

(Data in percentages)



International associations and organisations in the sector, or with influence over it, in which Telefónica is present:

- AHCIET (Asociación Hispanoamericana de Centros de Investigación y Empresas de Telecomunicación)
- ASETA (Asociación de Empresas de Telecomunicaciones de la Comunidad Andina)
- BRT (Brussels Round Table)
- CITEL (Comisión Interamericana de Telecomunicaciones)
- DSL Forum
- EIF (European Investment Foundation)
- ERT (European Round Table of Industrialists)
- ESF (European Services Forum)
- ETP (European Telecommunications Platform)
- ETNO (European Telecommunications Network Operators)
- ETSI (European Telecommunications Standards Institute)
- EURESCOM (European Institute for Research and Strategic Studies in Telecommunications)
- 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
- MEBF (Mercosur European Union Business Forum)
- TABD (TransAtlantic Business Dialogue)
- UIT (Unión Internacional de Telecomunicaciones)
- 3GPP (3rd Generation Partnership Project)

Spanish national associations in the sector or that influence it, in which Telefónica is present:

- AECE (Asociación Española de Comercio Electrónico)
- ANIEL (Asociación Nacional de Industrias Electrónicas y de Telecomunicaciones)
- AUTELSI (Asociación Española de Usuarios de Telecomunicaciones y de la Sociedad de la Información)
- CEOE (Confederación Española de Organizaciones Empresariales)
- CIECAT (Círculo Español para la Calidad en Telecomunicación)
- Círculo de Empresarios
- COTEC
- N-ECONOMÍA
- SEDISI (Asociación Española de Empresas de Tecnologías de la Información)

03

Customers: quality and compliance



01 Excellence of service

- Quality certificates
- Service Parameters
- Improvement initiatives
- Customer rights guarantee

TELEFÓNICA DE ESPAÑA

99,35 % of the installation commitments fulfilled.

02 Communication with customers

- Customer care line
- Web page and Online channels
- Advertising
- Paper and electronic billing

CUSTOMER CARE CENTRES

712 million calls attended

03 Loyalty plans

- Telefónica de España
- Telefónica Móviles España
- Latin America

TELEFÓNICA MÓVILES ESPAÑA

15,35 million customers signed on to loyalty plans

04 Customer satisfaction

- Customer surveys
- Customer satisfaction
- Customer recommendation

AVERAGE SATISFACTION AMONG FIXED TELEPHONY CUSTOMERS

Spain + Latin America **78.5** %

The challenge Telefónica faces is to turn its technology into accessible solutions and services, that provide clear, relevant benefits to the customer. It is essential to obtain detailed knowledge of the real needs of the customers and to fulfil the commitments acquired to build up a relation based on confidence.

In 2003, Telefónica modified its operating structure to place the customer at the focal point of its activity. The objective is to transform the Group into a more commercial organisation and go from a company model based on the product, to an integrated Group, identifying four major segments around which the commercial activity is organised: individuals, households, *SMEs*, and major corporations / administrations.

01 TELEFÓNICA SEEKS EXCELLENCE IN THE SERVICE

a) Quality certificates

The effort the Telefónica Group makes to achieve excellence in each one of the services it offers its customers is evidenced by the large number of its processes that have received quality certification. In Spain, Telefónica de España and Telefónica Móviles España have all their processes certified under the standard ISO 9001/2000, which means successfully having passed the audits performed by AENOR.

This progress is being extended to several subsidiaries of the Group in other countries. Examples of this are the certificates obtained by several mobile operators, or the certification processes begun by other operators in Telefónica Latinoamericana, that were concluded during 2004. Notably, customer orientation is always present in the selection of those processes, located primarily in the area of direct contact with the customers (Atento).

b) Service parameters

Each one of the companies comprising the Telefónica Group performs systemic control of the internal service parameters (installation time, number of failures, average solution time, availability of the service), that allow the quality of the service provided to be known at any given moment.

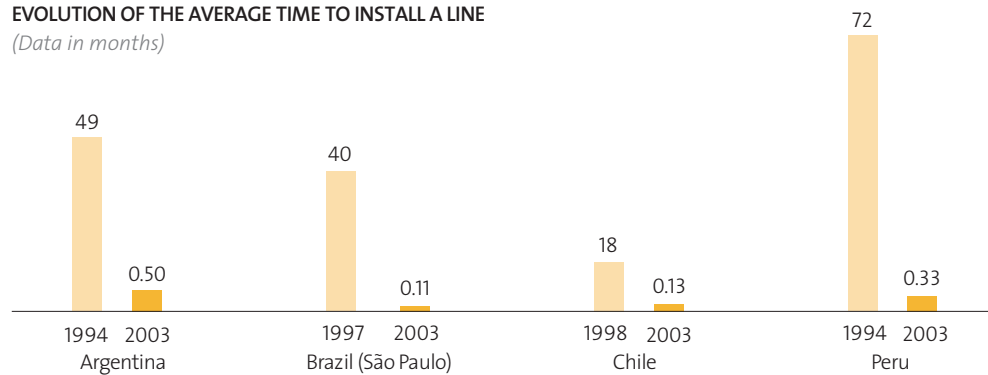
This effort for continual improvement has been shown spectacularly in the average time taken to install a line in Argentina, Brazil, Chile and Peru, since Telefónica began operations.

During 2003, the Secretary of State for Telecommunications and for the Information Society, of the Ministry of Science and Technology of the Spanish Government published the General report on the quality of service related to provision of the *fixed telephony service in Spain*, for the third and fourth quarter of 2002. The results of this showed the leadership of Telefónica in service quality, compared with the average level achieved by the six alternative operators covered by the study. Among the parameters in which Telefónica de España exceeds the quality of those operators the following may be highlighted: the performance of the telephone network (percentage of failed calls to national and international destinations and fixed to mobile) and Provision of Service (initial connection delivery time and the extent of fulfilment of the supply date agreements).

Telefónica Latinoamérica began to design and deploy its Regional Quality Plan in 2003. This initiative led to definition of the Strategic Quality Indicators, a set of common, uniform parameters that allow monitoring of the target quality (operating parameters) and are directly related to the quality perceived (satisfaction surveys and complaints). This regional effort, which at first applied only to Fixed Telephony operators, was extended during 2004 to the operators of Telefónica Empresas.

EVOLUTION OF THE AVERAGE TIME TO INSTALL A LINE

(Data in months)



Telefónica Móviles España has improved its service parameters, year after year, to the point of being able to have a line operating within two minutes of the request for its activation. The availability of the mobile networks in Spain reached levels of 99.52% in the annual average for financial year 2003, amounting to 17 incidents accumulated in 2003 per 100 base stations comprising the network.

c) Improvement initiatives

Six Sigma Projects

The Six Sigma methodology, based on improvement of processes and personnel training, aims to satisfy the customer and fulfil objectives. It is the reference methodology of the Telefónica Group to optimise processes, as declared by the Chairman of the Group: *“Six Sigma is essential in order to adapt ourselves to our customers’ needs”*.

Telefónica de España was the first major company in Spain to implement that methodology at the end of 2000. Since then, and up to 2003, 178 projects have been initiated, 75 of which have already been completed. More than one thousand employees have participated directly in the projects, and more than 800 have received direct Six Sigma training.

Telefónica Latinoamérica has created a Regional Committee of Experts in Six Sigma within its Regional Quality Plan, in order to guarantee alignment and identification of synergies in its implementation. Other examples of companies in the Group with ongoing projects in 2003 are: Terra, which completed 19 projects and TeleSP, where 11 projects were identified in a first phase.

The reach of the methodology in the Group was amply reflected in the Second Six Sigma Conferences held by Telefónica de España and attended by other companies in the Group that

are implementing that methodology, such as Terra, TPTI, Atento, Telefónica Móviles, Telefónica I+D, Telefónica Argentina, TeleSP and Telefónica del Perú. The Six Sigma community on the Internet was presented at the event, which strengthened the commitment to make all the experience of Telefónica de España in this methodology available to other companies in the Group.

«Lider.es» (Telefónica de España)

Telefónica de España continued its transformation in 2003 thanks to the programme Lider.es, that set the strategic priorities for greater growth and competitiveness. The effort at transformation is ongoing in 2004, with a new stage called Goal: the customer consisting of four strategic programmes: the thrust of commercial leadership, continual progress in improving efficiency, increased customer *confidence* in company reliability, as well as growing involvement by the employees in the transformation process.

- A notable initiative is the “Precision Project” by Telefónica de España, that works on three basic areas in relation to the customers: precise commitment, precise relations and precision in quality assurance. As a significant figure, 98.71% of the installations of the basic telephone service had an installation date commitment that was fulfilled in 99.35% of occasions.
- Telefónica de España set up the “Mirror Project,” to notify end customers of the completion of the provision and maintenance process, requesting their approval of the work performed.
- The “Step Project” is an initiative to improve customer care, by including improvements in the provision and maintenance activities, such as, correct accreditation and presentation of Telefónica de España personnel at the customer’s home.

QUALITY CERTIFICATES: TELEFÓNICA GROUP

Company	Certificate	In certification process
Telefónica de España Telefónica de Argentina	— All the processes	— Attention to commercial offices assigned to residential. — Commercial customer care centre for companies.
TeleSP Telefónica del Perú	— Billing process — Residential Complaint Management Process	— Ombudsman process. — Collection process. — Customer care process. — Campaign management and advertising process. — Sales process. — Access Network Operation and Customers Process (GORAC) — Networks and Services Maintenance Operation (OMRS)
Telefónica Empresas Chile Telefónica Empresas Perú	— Marketing and business development — Complaint management	
Telefónica Móviles España Meditel (Marruecos) Telefónica Móviles El Salvador Telefónica Móviles Guatemala Vivo (Brasil)	— All the processes — All the processes — All the processes — All the processes	— All the processes
Telefónica Móvil (Chile) Telefónica Unifón (Argentina) Telefónica Móviles (Perú) Telefónica Móviles México	— All the processes — Customer management — Claims, appeals and complaints	— All the processes
Telefónica I+D TPI España TPI Perú	— All the processes — All the processes — All the processes	
Atento España Atento Argentina Atento Brasil Atento Centroamérica Atento Chile Atento Colombia Atento Marruecos Atento Perú Atento Puerto Rico	— All the processes — All the processes — All the processes — All the processes — All the processes — All the processes — All the processes — All the processes — All the processes	
Zeleris España t-gestiona Chile	— Logistic processes — Logistic processes	

SERVICE PARAMETERS: FIXED TELEPHONY

Basic Telephony Service	Spain	Argentina	Brazil	Chile	Peru
Average time to install a basic line (days).	4.15	15.73 ¹	3.49	3.9	10.1
Failures per 100 access lines (residential).	2.17	4.91	3.78	3.17	3.23
Average no. of hours to solve failures.	15.98	63.84	12.3	21.9	6.5
Availability of the basic telephone service.	99.8%	99.92%	99.7%	99.64%	99.9%

ADSL	Spain	Argentina	Brazil	Chile	Peru
Average time to install an ADSL ² line.	10.59	17.13	15.08	3.6	2.68
Failures per 100 lines.	1.20	4.48	7.73	6.34	6.67
Average no. of hours to solve failures.	6.67	54.74	24.53	21.7	12
Network with coverage of the ADSL service	93%	82%	86.68%	85%	85.45%

Company Circuits	Spain ³	Argentina	Brazil	Chile	Peru	Colombia	Mexico
Average installation time (days).	20.07	21	31.96	45	15	52	41
Breakdown calls/ 100 circuits.	4.03	34	7.8	5.8	36	16.6	35
Average repair time (hours).	3	5.67	3.06	3.25	3.1	2.17	3.5
Availability of service.	99.98%	99.93%	99.04%	99.95%	99.98%	99.71%	99.94%

Mobile Telephony	% calls interrupted
Company	
Telefónica Móviles España	1.20
Telefónica Móvil Chile (GSM)	1.57
Telefónica Móvil Chile (TDMA)	1.27
Unifón Argentina	2.39
Telefónica Móviles Perú	0.80
Telefónica Móviles México (GSM)	1.50
Meditel (Morocco)	1.66
Telefónica Móviles El Salvador (rural)	2.09
Telefónica Centroamérica Guatemala (rural)	2.74

(1) Average annual data in Argentina. The installation time of a line in Argentina includes the average period of payment in advance, as it is the commercial policy that the customer must pay in advance to hire the service.

(2) Chile and Peru measure this data differently to other countries, as they do not include the time from when the customer requests installation until the order is placed in the system.

(3) Considering the average of the Frame Relay, Interlan and Megavía ADSL services.

EVOLUTION OF COMPLAINT INDICATORS AND VARIATION ASSOCIATED WITH CUSTOMER SATISFACTION AT TELEFÓNICA CTC CHILE

(Data in percentages)

	Dec. 02	Dec. 03	Target
Commercial complaints (thousands)	101	68	70
Billing complaints (thousands)	92	56	63
Satisfaction with billing process:			
Excellence	36	70	45
Unsatisfied	-8	-5	-10

«Comex» (Telefónica Latinoamérica)

Telefónica Latinoamérica began to implement the “Comex Project” (commercial excellence), with identification of the best commercial practices by the four operators. As a result, an implementation plan was articulated with 10 initiatives formed by more than 20 projects. The main areas of action of the project concentrate on increased knowledge of the customer’s expectations and correct management of the capacity that allows development of commercial excellence.

- At Telefónica de Argentina, there was the noteworthy “Hermes Project,” based on a complete diagnosis of the quality perceived by customers, that identified 45 opportunities for improvement on which the plan of action for 2004 could be built upon.
- The “Bridge Project” at Telefónica CTC de Chile analyses how the customer sees the operator, in order to identify the main areas that require attention.. Thus, during 2003, the actions have basically addressed such issues as improving the average time of provision, the number of complaints and increasing satisfaction with the attention provided.
- TeleSP, in collaboration with Atento, set up the “Access Network Examination Service,” that allows the state of the customer’s network to be checked at the moment of contact with the company. This makes it possible immediately to detect the problem and suggest a solution, sometimes avoiding the delay of a technical visit.

Other initiatives

- Telefónica Empresas received the “Service Provider Core Infrastructure Certification,” granted by Trusecure (a world leader in security), thus becoming the first Latin American telecommunications company to receive those certificates.

- TPI has begun to implement the CRM (Customer Relationship Management) project in all the departments of the company in Spain, in order to provide a total vision of the customer, taking its needs and demands into account.

d) Guaranteeing the customers’ rights

Customer’s ombudsman

- Telesp included the customer’s voice in the usual processes of the operator, to which end it established the figure of the *Ombudsman* whose mission is to ensure that Telefónica correctly understands the needs and expectations of the customers, in order to protect them. This figure backs the customer vis-à-vis other internal bodies of the Company, following up the customer’s request until a solution is found. At the same time, the request is considered as an opportunity for improvement. Customer satisfaction with this process, in November 2003, was 88%.

Defence of competition

- As regards anti-monopoly regulations, no court action was taken against Telefónica¹ in Spain during 2003. Moreover, in order to ensure compliance with those regulations, the challenge of validating the characteristics of new products and services in the process of development and launch, is foreseen.
- Concerning judicial resolutions in review of earlier decisions by the Competition Court (TDC), the following were issued:
 - National Court decision on the “clear plans” in which the finding of Telefónica in breach of Article 6 of the Law on Defense of Competition (LDC) is upheld, but the fine is reduced from 8,414,169 euros to 901,000 euros (TDC Resolution of 8th March 2000).

(1) This indicator refers to court action granting final status to administrative resolutions or prior judgements. In matters of competition regulations, within the Spanish order, at judicial level there is only resolution of appeals presented in the National Court against administrative resolutions by the Tribunal for Defence of Competition.

- Supreme Court decision on the case of “3C communications,” upholding the National Court decision which in turn upheld the 1995 resolution of the TDC in which Telefónica was found in breach of Article 6 of the LDC. The fine amounts to 124 million pesetas (TDC Resolution of 1st February 1995).
- National Court decision on the “Airtel case,” upholding the TDC Resolution against Telefónica Móviles España and Telefónica de España, for breach of Article 6 of the LDC, with a total fine of 760 million pesetas (TDC Resolution of 26th February 1999).
- Terra prepared a full report in 2003 to accredit the present situation as to the level of fulfilment of the legal, technical and internal control aspects. As conclusions to this, new data files were added to the 16 existing ones, an audit was planned for the year 2004 and potential risks and deficiencies were detected and corrected with measures that have already been implemented.
- The companies TPI and Atento are developing compliance policies and mechanisms concerning customer privacy, including the recommendations of the Laws on Protection of Personal Data and the data protection audits and review of the services customers are provided.

Data protection

- Telefónica de España has been one of the first companies in Spain to undertake a commitment to data protection and security, by guaranteeing non-violation of personal data. In July 1994 it prepared the first deontological code registered at the Spanish Data Protection Agency, by which Telefónica de España guarantees adoption and fulfilment of the security measures for automated files, in processing centres, premises, equipment, systems, programmes and by all persons involved in the treatment of data who must be aware of all the duties established in the Regulations on Security Measures and other internal rules established for these purposes.
- In order to maintain data privacy, respecting the privacy of mobile telephony users, Telefónica Móviles España has prepared procedures and implemented technical and organisational security measures in computer systems and on the network. Other noteworthy measures in this area are periodic performance of external legal audits and implementation of automatic access that provides customers control over their personal data.

During financial year 2003, the Spanish Data Protection Agency withdrew all the penalisation proceedings brought against Telefónica de España, Terra España and TPI. Telefónica Móviles España was not subject to any claim before the courts on this matter.

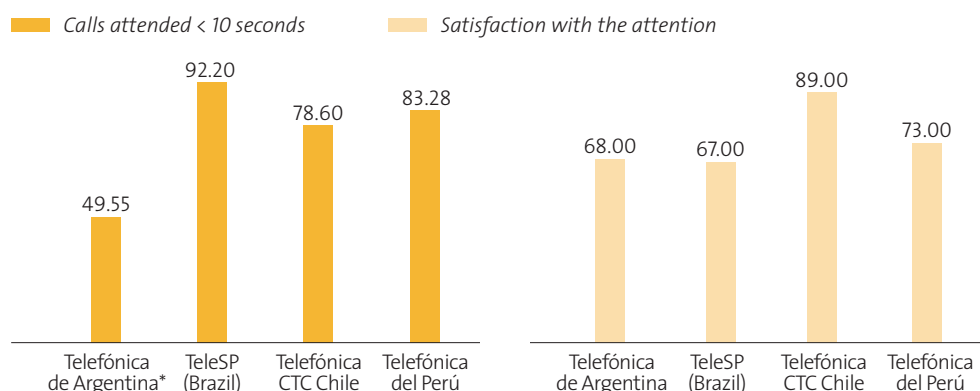
Telecommunication confidentiality

The jurisdictional bodies of the State, as well as the Public Treasury and other bodies of the different Public Administrations regularly request information or actions involving our Company in their respective scopes of competence, in which Telefónica is obliged to comply with the instructions issued by them, or to provide the information required.

Legitimate action by such public bodies in the performance of their duties sometimes conflicts with equally legitimate personal rights. Due to this, the requisites set are fulfilled strictly in relation to legal disclosure of the confidentiality of telecommunications, in the Spanish Constitution as well as the Civil Procedural Act, in intervention and observation of communications, or recording of nuisance calls.

RESIDENTIAL CUSTOMER CARE CENTRE: TELEFÓNICA LATINOAMÉRICA

(Data in percentages)



(* In Argentina, the objective is to attend calls in less than 20 seconds.

02 COMMUNICATION WITH CUSTOMERS

Telefónica gathers customer feedback through diverse channels, as any spontaneous contact, such as to request a new service, to extend the features of the services the customer already has, to request maintenance, or for queries or complaints, allow the evolution of their needs to be identified.

a) Communication by telephone

The telephone is the means most used by Telefónica customers to communicate with the Company and for queries, requests and complaints.

- Telefónica de España customers used the customer care line (1004) more than 65 million times, calls being considered the first line of attention. According to the answers given by Telefónica customers, 82.9% of the calls were attended satisfactorily.
- Telefónica Latinoamérica customers also use the telephone as the most popular way to contact the company, proving the quality of attention provided by the Telefónica companies through this channel.
- Telefónica Móviles España received more than 72 million calls from its customers in 2003, 80.54% of which were attended to the satisfaction of its customers. Most of the calls were requests for information (74%) and requests for service (23%).
- In Morocco, Méditel has implemented a solution that identifies the customer and his profile as the call takes place, which allows personal treatment and 95% of the complaints being solved on the first call, at first level of attention.
- Corporate customers of Telefónica Empresas in Spain contacted the company 520,704 times, most of which were related to

incidents in the service (59%) and requests for information (37%).

- TPI Páginas Amarillas customers made a total 143,519 requests for information, the attention level being 93.5% of the total calls received.

b) Communication by Internet

Telefónica presents its range of services in an integrated, co-ordinated way through local portals in each one of the countries in which it operates, with emphasis on unification of the styles and structures in 2003. Through all the portals (Spain, Argentina, Brazil, Chile, Colombia, El Salvador, United States, Guatemala, Mexico, Peru, Puerto Rico and, since 2003, Germany and the United Kingdom) more than 55 million contacts were made in the year 2003.

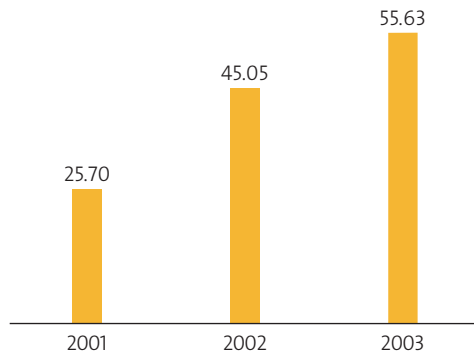
Specifically, the Spanish portal www.telefonica.es was chosen by the magazine Dinero as the best web page among companies listed on the Ibex 35 of the Spanish Stock Exchange; with outstanding accessibility and speed, quality information and high degree of updating.

The companies in the Telefónica Group are developing specific channels through which the customers may configure their services, see their bill and manage their profile.

- The Telefónica de España online channel (www.telefonicaonline.com) had 1,750,851 registered users in December 2003, who made 4,370,283 hits that year.
- At the end of 2003, 1,143 corporate customers of the Telefónica Group in Spain were users of the SGE (Company Management System), through which they can manage their profile. A further 500 corporate customers are registered on eAtención.
- The new eBA web combines the Telefónica e-business and broadband solutions for large companies. Telefónica de España has inaugurated

CONTACTS THROUGH THE COUNTRY WEBSITES

(Data in millions of sessions)



its first digital magazine aimed at the same target group, corporate customers, evolving the traditional publication Soluciones Empresas.

- The “Operator Management system” (SGO), promoted by the Directorate General of National Operators and Regulation, has consolidated a ‘one-stop counter’ for Telefónica de España with the different national operators, to manage the regulated and non regulated services. All these changes have led SGO to be used by 54 national operators through their web accesses, in fact centralising and unifying relations between Telefónica de España and that segment of customers.

c) Advertising

In order to publicise the advantages of the services and products it offers its customers, Telefónica performs an important advertising task in all the countries in which it operates, although Spain is still where it invests most.

By lines of business, mobile telephony is the most active in the field of advertising, followed by fixed telephony and long distance business. As to the media used as the support for these investments, there are television, the newspapers, radio and outdoor advertising, that concentrate 91% of the advertising investment.

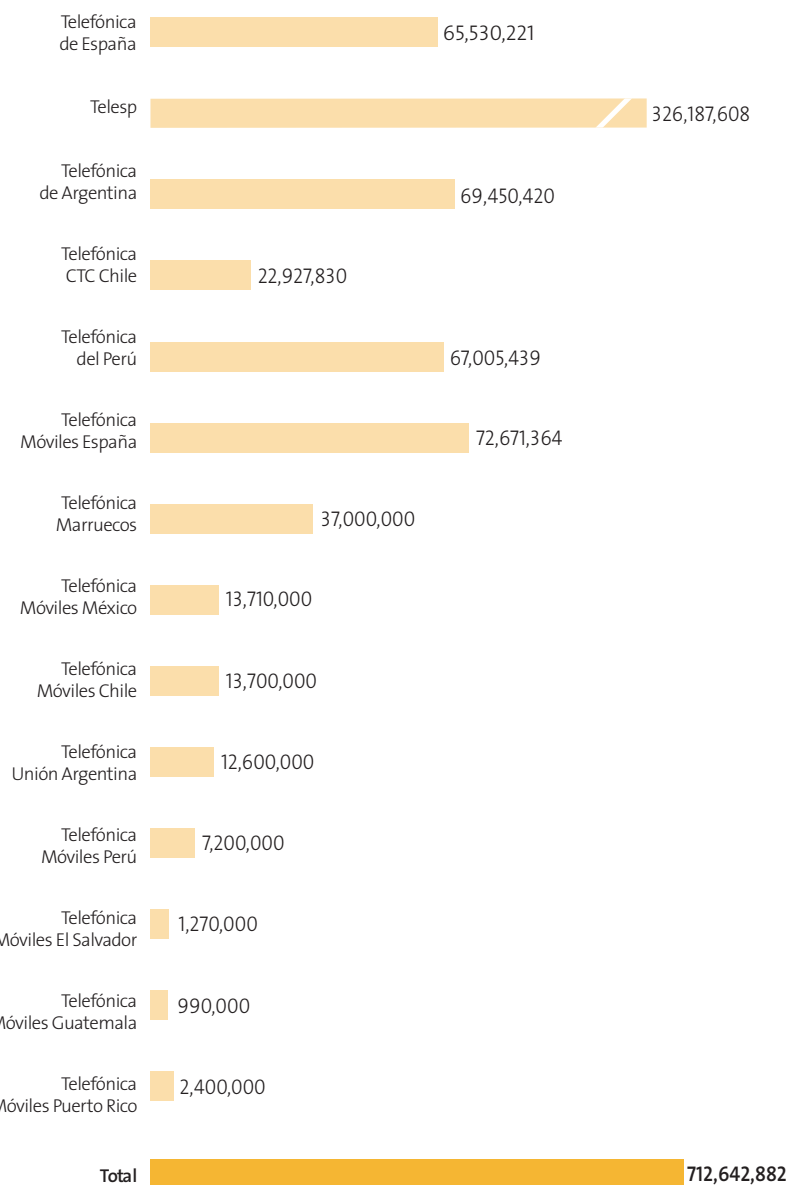
ONLINE CHANNELS

REGISTERED USERS

Company	No. of registered users
Telefónica Móviles España	3,681,306
Telefónica de España	1,750,851
TeleSP	366,850
Telefónica Unifón Argentina	122,465
Telefónica CTC Chile	85,000
Total	6,006,472

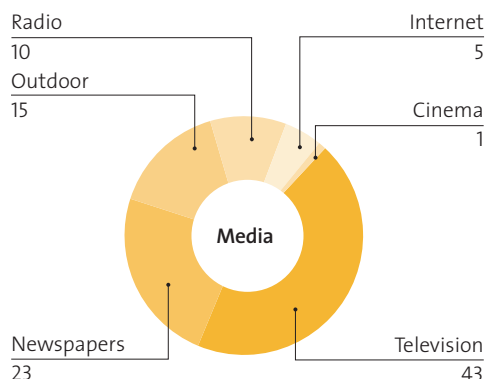
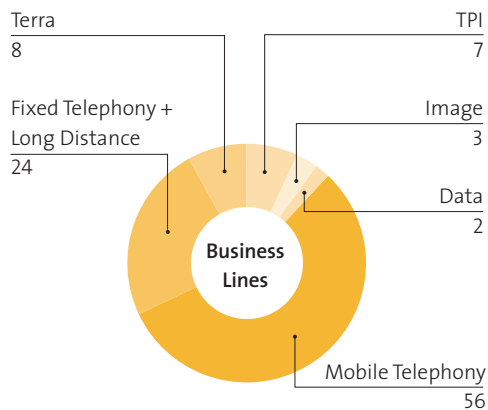
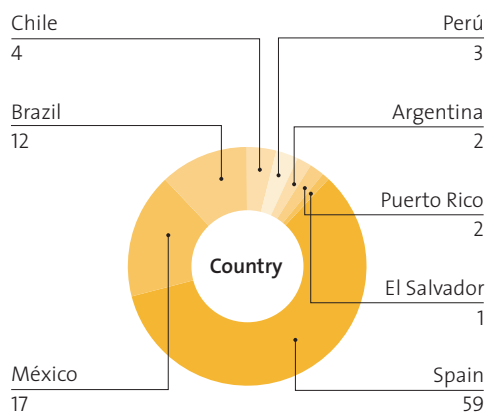
NUMBER OF CALLS TO CUSTOMER CARE CENTRES BY FIXED AND MOBILE CUSTOMERS

(Data in calls)



ADVERTISING INVESTMENT*

(Data in percentages)



(* Does not include advertising by Vivo.)

The Federation of Electronic Commerce and Direct Marketing (FECEDM) awarded Telefónica de España the Magnet Prize 2003, in the category of Advertiser of the Year, recognising the work carried out during recent years on integrated direct marketing techniques.

The Telefónica Group is a member of Autocontrol (Association for Self-Regulation of Commercial Communication), formed by advertisers, agencies, the media and other commercial communication service companies, that overall represent more than 80% of the Spanish advertising investment. Autocontrol, in turn, is a member of EJNetwork and the European Advertising Standards Alliance (EASA). Its objective is to prevent and solve eventual advertising controversies, establishing an ethical framework for responsible, truthful commercial communication. Thus, Telefónica complies with and undertakes the commitment of responsible commercial communication, within the ethical framework established for truthful, committed communication.

d) Billing process

Telefónica considers the bill to be yet another opportunity to communicate with customers. Due to this, the companies in the Group work to provide clarity and precision in communications of this type for customers and provide complementary information that may be of interest to them.

Paper bill

- Telefónica de España has renewed the different billing processes, from recording call traffic, to final calculation and composition of the bill. This new system will allow customers to receive bills that are not only more precise and clear, but also to fit their needs, being able to choose whether the distribution of charges, for different services and lines, must be included in a single bill, or on the contrary, in several. One may also choose what

LOYALTY PLANS FOR TELEFÓNICA MÓVILES ESPAÑA CUSTOMERS*(Data in customers registered)*

Scheme	Registered users	Users who benefit	Registered online
Points Programme	4,317,689	2,365,081	3,130,899
'Estrena Activa' Programme	8,517,000	1,280,403	
Compensation Programme	2,521,129	715,238	

language the bills are to be received in, and even the dates of receipt.

- Telefónica Latinoamérica continues to progress in the effort it has undertaken in the last year to achieve a single billing system in the four countries where it provides fixed telephony services.
- The information contained in the Telefónica Móviles España bill includes the customer particulars, direct debit details, the amount consumed, taxes, detail of calls (duration, destination, number called and amount), as well as a graph with monthly evolution of the calls placed and received.
- In 2003, Telefónica Móviles changed its bill models in Argentina, Mexico and Peru, in order to facilitate their handling and comprehension. Moreover, in Argentina, it activated direct debit banking as a new means of payment.

Electronic bill

- The Telefónica de España electronic bill service, "Fórmula e-factura," used by 65,000 customer to date, has obtained a digital certificate (issued by the Spanish Royal Mint (Fábrica Nacional de Moneda y Timbre) that makes it fully valid for tax purposes, being recognised by the Tax Authorities. Telefónica de España became the first company to obtain a digital certificate from the FNMT held by a corporation for purposes other than presentation of tax return, that being the electronic bill. Fórmula e-factura allows all customers, especially companies and professionals, management, control and storage of their telephone bills, and also provides them a wide range of online services, such as personalising the call information and obtaining up-to-date consumption data.
- In Latin America, Telefónica de Argentina and Telefónica del Perú have set up a new service to allow the customer to verify telephone

communication consumption on their web pages. This service provides the customers a telephone control tool, with the possibility of analysing communications during a specific billing period.

- Telefónica Móvil Chile has developed an electronic billing project, called Boleta Electrónica, that provides customers the possibility of online queries and detail of their billing.
- In Argentina, Unifón has provided the possibility of printing the bills from the web. That same service is offered by Telefónica Móviles España, which has more than 151,850 users of the service.

03 LOYALTY PLANS

Telefónica de España has developed various initiatives aimed at promoting customer loyalty through discount schemes or points programmes.

- At the end of 2003, 7,711,450 company customers were recorded on these schemes, 6,566,475 of whom benefited from one of the programmes.
- Telefónica de España held two rounds of the competition Factura Cero ADSL, with a prize draw for five winners of the monthly ADSL line fees free of charge for live, and a further two hundred additional prizes for one year.
- Telefónica de España chose Valencia as the venue for its 3rd Encounter with Major Customers, 48 hours with Telefónica, attended by more than 400 corporations and major companies, in order to reinforce relations with Telefónica as its customers' technological partner.

The success of the loyalty and price policies that Telefónica Móviles España has developed in

2003, is shown in one of the highest loyalty rates in the European environment.

- “Points programme”: to facilitate customer access to a new terminal, by assigning billing linked points.
- “New Terminal Plan” by Movistar Activa: a programme to provide access to a new terminal on advantageous terms for those who have been customers for more than one year.
- “Repurchase Programme”: indirect recharge promotion in which points assigned may be exchanged for prizes.

Telefónica Móviles España also provides, through the Multi-Management service, the necessary resources for customers to be able to plan and control their line consumption in a convenient, simple manner, in order to reduce telephone costs. This service, aimed at all companies that have one or several contract lines, has more than 7,300 corporate customers and manages more than 120,000 lines.

Several customer loyalty schemes have also been implemented in Latin America:

- In Brazil, Vivo launched “Vivo Vantagens,” a service that consists of an advantage club with a customised card, that provides discounts and advantages at associated establishments. The loyalty programmes were based on offering discounts to buy terminals and in extending the promotions to customers who wish to exchange their appliances.
- In Mexico, through the programme offered to customers for the exchange of terminals, during 2003, 30,000 exchanges were made.
- In Argentina, Unifón launched the “Saving Points Scheme,” enabling exchange for

credits to talk and prize draws of terminals. A total of 4,247 exchanges were performed, an increase of more than 62%.

- 322,000 customers of Telefónica de Argentina took monthly advantage of their loyalty programmes (Teleplus).
- For the second consecutive year, Telefónica Móviles Perú was awarded the EFFIE Gold Prize in the category of Promotions for the advertising campaign Semana MoviStar, aimed at promoting loyalty among its prepaid customers.

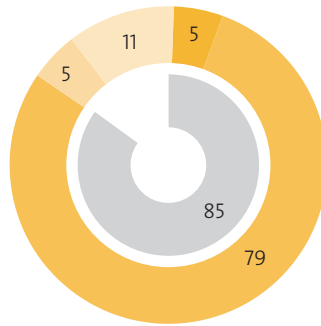
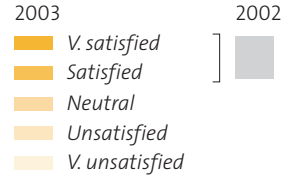
04 CUSTOMER SATISFACTION

The priority objective of the Telefónica Group is to satisfy its 100 million customers. In order to monitor evolution of that satisfaction and to check the effects of the different measures adopted by Telefónica, companies in the Group perform periodic monitoring of the satisfaction levels through surveys.

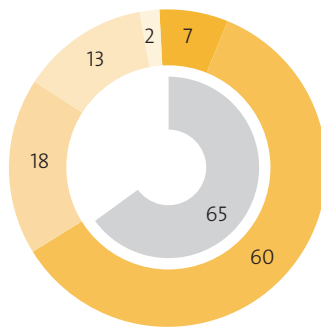
To ensure the reliability of the customer satisfaction studies, they all contain a Quality Clause, that covers the following sections: identification of the study, definition of the data collation method, date of the field work, quality of the questionnaire, quality of the sample design, quality of the surveying team, quality of the results and approval of the final revision by the person in charge of the survey.

Customer satisfaction is a variable that is analysed periodically by Telefónica de España, according to the different products and services marketed by the company. It annually determines the indicators to be evaluated and the studies to be performed, that allow evaluation of the evolution of customer satisfaction through the opinion polls performed throughout the year. In December 2003, there was an average satisfaction level of 84%.

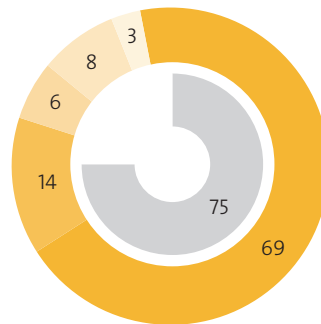
RESULT OF SATISFACTION SURVEYS. FIXED TELEPHONY
(Data in percentages)



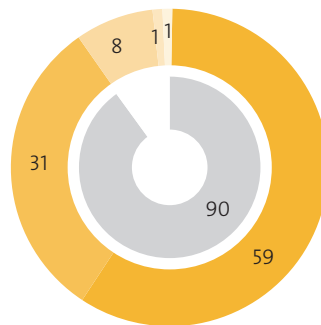
Telefónica de España



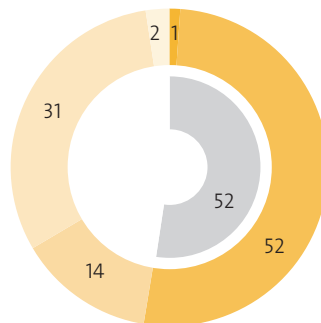
TeleSP (Brazil)



Telefónica de Argentina



Telefónica CTC Chile



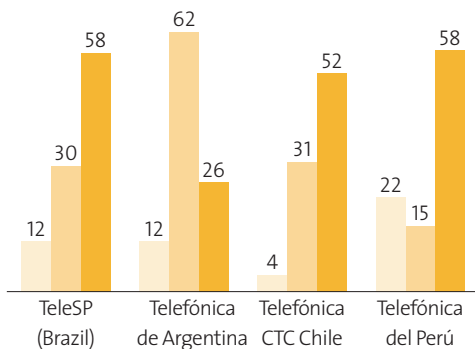
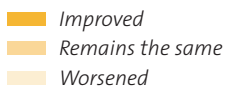
Telefónica del Perú

As part of the Regional Quality Plan, Telefónica Latinoamérica commenced homogenisation of the satisfaction surveys performed in the region, for residential as well as corporate fixed telephony. That allows comparison of satisfaction in 10 countries, in general terms as well as at process level. It has also managed to establish convergence between the performance of the target quality indicators (internal operational indicators) and customer perception, which allows identification of the processes and sub-processes the customers consider need improvement.

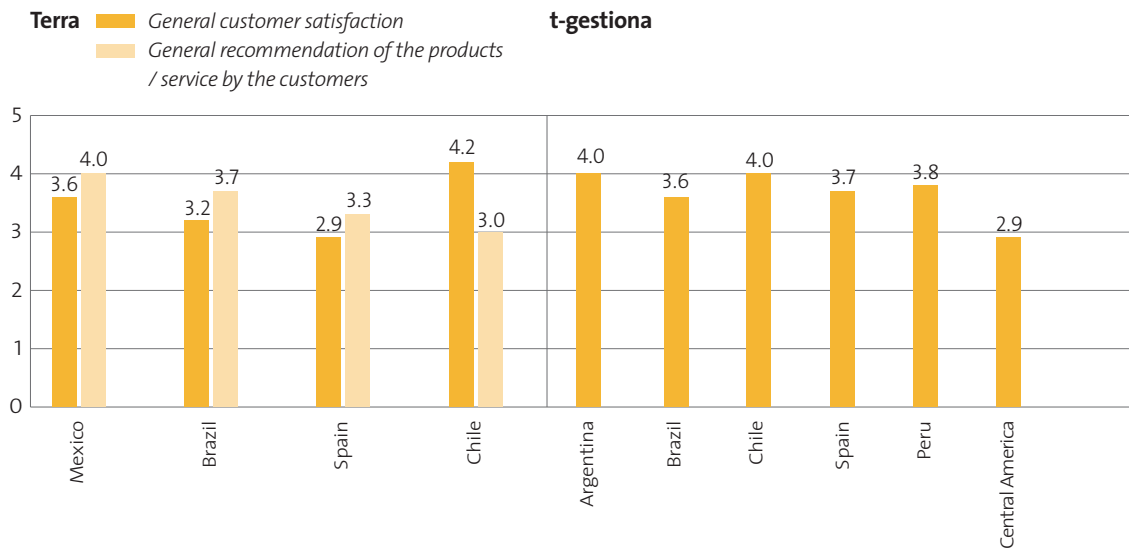
These indicators cover several matters related to satisfaction, such as perception of evolution in the quality of the service or the degree of recommendation of the service by the customers.

A notable initiative in this area is the survey on electronic satisfaction for customers of TeleSP after telephone attention, that allows immediate detection of satisfaction or dissatisfaction with this service.

PERCEPTION OF THE EVOLUTION OF THE SERVICE QUALITY. FIXED TELEPHONY
(Data in percentages)



RESULTS OF THE SATISFACTION SURVEYS. TERRA, T-GESTIONA AND ATENTO
(Data on a scale of 1 to 5)



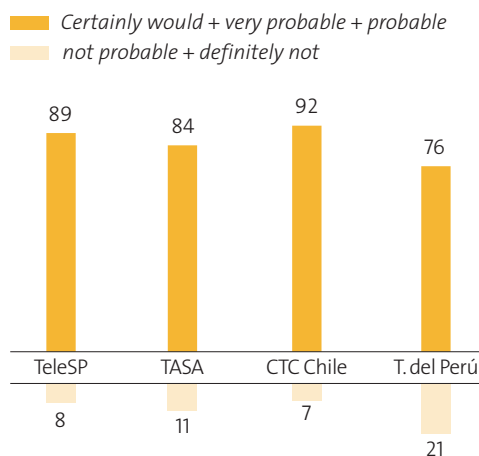
Telefónica Móviles España has been preparing customer satisfaction studies since 1995, that have been consolidated as a tool to obtain first hand information, not only of customer satisfaction with the service, but also of their expectations and future needs. In the studies performed throughout 2003, 23,600 customers were interviewed.

Telefónica Móviles España also inaugurated a new questionnaire space for all browsers visiting the web to give their opinion on matters related to mobile telephony. Every three weeks, a different question is asked to ascertain the users' preferences and trends.

Telefónica Empresas España obtained 82.81% customer satisfaction in the 2003 survey, which was responded to by 494 corporate customers and large companies. The significant figures are 92.63% satisfaction with the service provided and intention to repeat purchase by 79.82% of the customers.

WOULD YOU RECOMMEND THE SERVICE? TELEFÓNICA LATINOAMÉRICA

(Data in percentages)



NUMBER OF PERSONS INTERVIEWED IN THE DIFFERENT SATISFACTION SURVEYS AMONG MOBILE TELEPHONY CUSTOMERS

(Data in units)

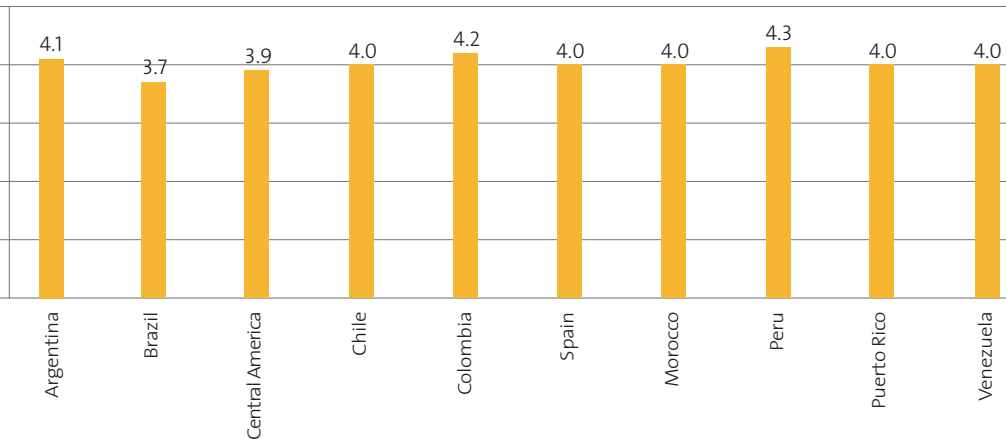
Compañía	No. persons interviewed
Telefónica Móviles España	23,600
Telefónica Unifón Argentina	2,069
Telefónica Móvil Chile	16,076
Telefónica Móviles Perú	30,420
Telefónica Móviles México	2,946
Telefónica Móviles El Salvador	10,870
Telefónica Móviles Guatemala	11,070
Movistar Puerto Rico	10,400
Meditel (Morocco)	1,700

Terra analysed its user satisfaction in Brazil, Chile, Spain and Mexico, including broadband and narrow band users (except in Mexico, where only broadband data was collated).

TPI uses the TRI*M index, that allows it to quantify the degree of customer satisfaction with products and services, as well as their level of retention and satisfaction. Among the company's key customers, this index reached a grading of 47 out of 50, improving one point on the measurement in 2002. On the other hand, one must mention the evaluation received by the Customer Care Service, that has improved by 9 per cent, to 89% in 2003.

Atento, a company specialised in management of customer contracts, has been commissioned by many companies in the Telefónica Group and other companies to manage their customer relations. Atento establishes mechanisms to measure and monitor the satisfaction of its own customers in relation to the service provided.

Atento



Thus, during 2003, it has surveyed the satisfaction levels for its services in all the countries where it is present, reaching values between 3.7 and 4.29 out of a maximum grading of 5.

t-gestiona, a company dedicated to support and administration processes for the Telefónica Group, also performs a periodic evaluation of its customer satisfaction in Argentina, Brazil, Chile, Spain and Peru.

RECOGNITION FOR TELEFÓNICA FOR ITS QUALITY AND CUSTOMER ORIENTATION

Name of the Prize / Award	Results
II Golden Computer Prize (magazine Computer Hoy).	Telefónica de España was awarded by the readers of the magazine in the category of best broadband Internet access and best Internet services provider
Schroders Financial Journalism Prize	Invertia, financial portal of Terra Lycos, has been awarded for the work on the effects of wars on the Stock Exchange
Internet Users' Association.	The Internet Users' Association emphasised the security products by Telefónica de España, Antivirus, Anti-intruder and Canguro Net (content filtering), during the 5th Net Security Campaign.
Modern Consumer Excellence in Customer Services (Brazil).	Telefónica was an awardee in the category of Fixed Telephony, B2B services, 0800 service, Internet access. Terra was runner up Internet provider.
INFO 2003 (Brazil).	Terra was awarded in the category Site of the Year. DataCenter of Telefónica Empresas was an awardee for second year running.
Ibest 2003 Prize (Brazil).	Vivo received a prize as best mobile telephony operator. Rumbo (Terra) received an award in the category of tourism. Vivo (Rio Grande do Sul) in cell telephony.
Top Quality 2003 (Instituto de Estudos e Pesquisa da Qualidade de Brasil).	Atento was chosen as the Best Company in the Country, in its category, for the third consecutive year.
Amauta (direct and interactive marketing prize of Latin America).	Atento Brasil won a prize with Terra e-commerce, an innovative programme to overcome consumer resistance.
Brazilian Telemarketing Association	TeleSP won Gold in the category of Best Internet System, Silver in Best Own Telemarketing and Bronze in the categories of Best Telemarketing Diffusion and Receptive Telemarketing. Atento was awarded in the categories of Best Telemarketing Operation and Best System with Internet.
Red and White Tape 2003, prize granted by Peruana de Opinión Pública.	TUMSAC (Transporte Urgente de Mensajería SAC), a subsidiary of the Telefónica Group was recognised as the best in the Courier Services category.
Telecommunications Company of the Year (Corporate Summit in Puerto Rico and America).	Telefónica Larga Distancia de Puerto Rico was awarded the title of Telecommunications Company of the Year for second time.
National Quality Prize (Ministry of Commerce and Industry of Morocco).	Meditel (Mobile telephony in Morocco) obtained the 2003 National Quality Prize in the category of Major Service Bodies, granted by the Ministry of Commerce and Industry of the Moroccan Quality Union.

04

Shareholders and investors: Returns and transparency



01

Communication channels

- Shareholder Information Service
- Investor Relations Department
- www.telefonica.com/ir
- www.telefonica.es/accionista

SESSIONS ON THE WEB

680,000

02

Complete, transparent information

- Annual Report
- Quarterly publication of results
- III Investor Conference
- Online publication files

ONLINE DOWNLOADED FILES

964,302

03

Investment with responsible criteria

- Relation with analysts and SRI
- Responsible Investment of the Telefónica Employee Fund

ASSETS OF THE EMPLOYEE FUND INVESTED

sustainable criteria **1%**

01 COMMUNICATION CHANNELS WITH SHAREHOLDERS AND INVESTORS

The Regulations of the Board of Directors of Telefónica have several articles on regulation of the channels through which relations will be established between the Company and its shareholders, whether these are individual shareholders or institutional investors, ensuring the greatest transparency and equal treatment in those relations.

a) Areas responsible for communication with shareholders and investors

In 1997, Telefónica created the Shareholder Information Service in order to establish transparent, free-flowing communication with the more than one million six hundred thousand individual shareholders¹. The Shareholder Information Service now has nearly 200,000 shareholders registered, who have all the information on the Telefónica Group available, of results, as well as any corporate event that may be relevant to their investment. The physical media used is the quarterly shareholder magazine of Telefónica, called *Acción Telefónica*, 600,000 copies of which were distributed in 2003.

In order to provide institutional investors personalised information, Telefónica has an Investor Relations Department, through which it maintains fluent communication with the national and international financial markets. Its main purpose is to explain the main strategic, organisational, operative and business actions of the Company, providing training on expectations as to future performance, thus contributing to adequate price making for the securities issued by the Company.

b) Channels of communication with shareholders and investors

During 2003, major review work was carried out on the Telefónica web page as to communication

of relevant information for shareholders and investors. In order to reinforce the existing channels of online attention for institutional shareholders and investors, and to fulfil the requisites of the Transparency Act, a new section has been created, dedicated specifically to matters of Corporate Governance, including new content and restructuring the existing information to date. Overall, these pages (www.telefonica.com/ir and www.telefonica.es/accionista) were visited a total 680,000 times (counted as sessions) over 2003.

Telefónica has a Toll Free Shareholder Line that answered 105,936 queries in 2002. Telefónica Móviles, Terra and TPI also offer their shareholders the same service. Along with the toll free telephone lines, 4,953 queries received by e-mail and/or post were dealt with, in addition to 650 from Telefónica Móviles and 25 from Terra.

A high level of activity was kept up in 2003 with institutional investors and financial analysts, through presentations at forums, meetings and audio conferences, organisation of road shows in the main financial cities and holding the Third Annual Investor Conference.

- Meetings were held with nearly 350 investment institutions, with emphasis on eight road shows in Europe, the United States and Brazil, where meetings were held with nearly 200 investors.
- 283 investors and analysts participated in the III Investor Conference, held in Madrid in October 2003.
- Quarterly audio conferences to present results, with an annual audience of 563 investors by telephone and 567 by Internet.
- Information dispatched to pre-registered analysts and investors. Specifically, during 2003, 231 releases were sent. Telefónica Móviles dispatched 88 and Terra, 30.

(1) According to the information obtained on 3rd March 2004, from Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear), the number of shareholders of Telefónica S.A., according to individual records, in favour of individuals as well as corporations, came to 1,663,780 shareholders.

900 111 004

Toll free number for Telefónica, S.A. shareholders

- Participation in the main fixed and variable yield conferences in the sector organised by financial institutions in the main European and American financial cities.
- Presentation of the Company to the minority shareholders of the BOLSALIA forums held in Madrid, Barcelona and Valencia during 2003.

The shareholders have the support of the Shareholders' Office in all matters related to the General Meeting of Shareholders. At that of Telefónica S.A., held in 2003, 69,467 vote delegations for representation were managed.

The General Annual Meeting provides shareholders who so wish an opportunity to put their questions to the company directors, as confirmed by the 15 interventions by shareholders at the General Meeting of Shareholders held in 2003. To complement this, Telefónica makes all its communication channels available to the shareholders so they may pose queries concerning the Meeting (23% through the Shareholder Information Line).

The queries made by individual shareholders as well as the opinions of analysts and institutional investors are analysed in qualitative and quantitative terms in order to keep the Company management informed of the concerns and opinions of its investors.

The transparency and information policy of the Telefónica Group toward its shareholders and

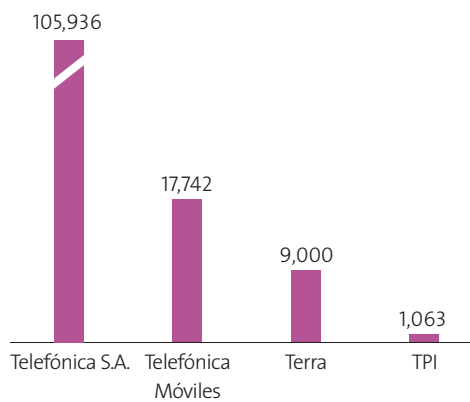
REGISTERED MINORITY SHAREHOLDERS

(Data in units)

Company	No. of registered minority shareholders
Telefónica, S.A.	194,139
Telefónica Móviles	8,030
Terra	108

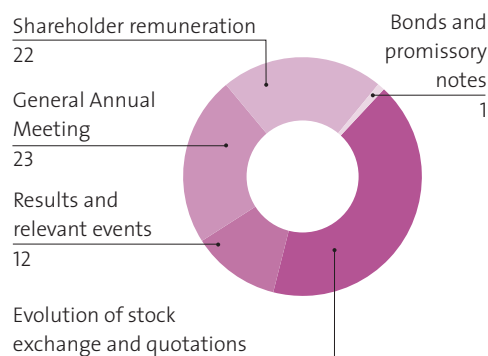
NUMBER OF CALLS TO SHAREHOLDER INFORMATION LINE

(Data in units)



DISTRIBUTION OF TELEPHONE QUERIES TO THE SHAREHOLDER INFORMATION LINE AT TELEFÓNICA SA.

(Data en percentages)



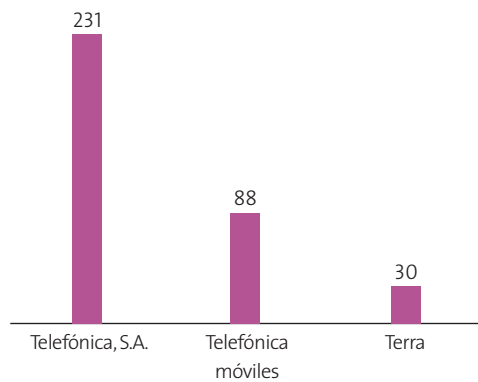
No. OF VOTING DELEGATIONS MANAGED FOR THE GENERAL ANNUAL MEETING

(Data in units)

Company	No. who delegated vote at the General Meeting of Shareholders
Telefónica, S.A.	69,467
Telefónica Móviles	444
Terra	13,682

PIECES OF INFORMATION RELEASED TO THE FINANCIAL COMMUNITY

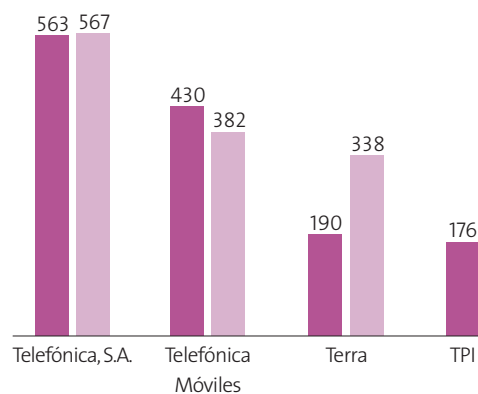
(Data in units)



ATTENDEES TO QUARTERLY RESULTS CONFERENCE CALLS

(Annual data in units)

■ No. attendees per conference call
 ■ No. attendees per webcast



investors has been backed by international recognition:

- Best performance in Investor Relations in telecommunications in Europe (2003, Thomson Extel Survey)

- Special mention for Best Financial Media Relations, awarded by the IR Magazine Eurozone Awards 2003, as one of the companies that has best relations with the financial media.
- Mention in Financial Information in the Value Reporting Review by PwC.
- Prize for the best web of the Ibex 35, awarded by the magazine Dinero, on 5th February 2003.
- The prizes TOP 5 and POP+ in the competition AMERI-MZ Consult 2003 were awarded for the web site Relación con Inversionistas (RI) of Telefónica CTC Chile.
- For second consecutive year, the Investor Relations Department at Telefónica CTC Chile obtained the "IR Magazine Awards" prize.

02 COMPLETE, TRANSPARENT INFORMATION

The main means of communication with shareholders and investors is the Annual Report, the 2002 edition of which (published in 2003) was consulted 150,000 times on the Telefónica web page with 270,000 electronic file transfers, in addition to a print run of 31,500 copies (25,000 in Spanish and 6,500 in English). In 2003, the Telefónica web included an online version of all the annual reports published by Telefónica since it was founded in 1924.

The role of the Investor Relations Department is to design and execute the communication strategy vis-a-vis the national and international financial markets. A key element is the quarterly publication of the financial statements of Telefónica which, fulfilling the requisites of transparency and equity, are distributed over diverse distribution channels: web page, registration at the CNMV, publication of the magazine Acción and audio conferences. A figure that shows the interest in such

information is that downloads from the web page number more than 240,366.

Telefónica convened the Third Investor Conference in October 2003, in order to present the management teams of the different lines of business to the financial community. The presentations were published on the web page, from which a total 92,349 downloads were made.

In compliance with legal provisions, Telefónica sends, to each and every one of the regulatory bodies on the markets on which its securities are traded, timely information on any significant event related to its business. During financial year 2003, it issued a total of 66 releases.

The Company has provided information through different informative prospectuses. Some of these are annual publications providing complete, in-depth information on the Company, while other shorter ones have been registered before the stock market regulatory bodies on the occasion of specific operations.

The companies in the Telefónica Group published nearly 400 files for shareholders over the year 2003. The volume of information

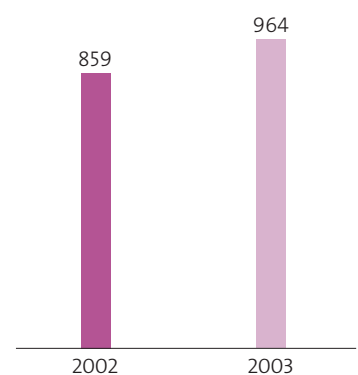
downloaded by shareholders and investors who accessed the web during 2003, amounted to 964,302 files.

Telefónica renewed the Shareholders' Portal in 2003, offering individual investors and shareholders economic – financial information on the Telefónica Group and several sections of interest, including:

- The Stock Exchange Today, with the listing of the Group companies, the possibly of generating comparative graphs, analysis, etc.
- The Shareholders' Agenda, containing information on convocations, presentations and important events.
- Latest News, containing high-interest information (results, tariffs, products, etc.).
- A ticker with quotations almost in real time, with the possibly of personalising it to include specific companies and market indexes of interest.
- Information on relevant facts and other disclosures to the Spanish National Securities Exchange Commission (CNMV) and information on Corporate Governance of Telefónica S.A.

INFORMATION DOWNLOADED BY TELEFÓNICA INVESTORS

(Data in thousands of downloads)



NOTIFICATION OF RELEVANT INFORMATION

(Data in units)

Type of information	Number
Investment and divestment operations of a strategic nature	12
Presentation of quarterly results	10
Changes in the Board of Directors and other governing bodies and relevant information on Corporate Governance	6
Presentations on the Company	9
Information on strategy, objectives and agreements of a strategic nature	8
Law suits, litigation, relevant penalisation proceedings	1
Other notification of relevant events	20
TOTAL	66

OFFICIAL REGISTERS BY TELEFÓNICA IN FINANCIAL YEAR 2003

Prospectus	Body	Date
Continued Prospectus for financial year 2002	Comisión Nacional del Mercado de Valores (Spain)	16 / September / 2003
Short Prospectus on the Public Offering to Acquire Shares made by Telefónica for all the shares of Terra Networks	Comisión Nacional del Mercado de Valores (Spain)	19 / June / 2003
Annual Prospectus in 20F format	Securities Exchange Commission (EEUU)	30 / June / 2003
Annual Prospectus IAN	Comissao de Valores Mobiliarios (Brazil)	16 / July / 2003
Annual Prospectus S.R.S	Japan Securities and Clearing Corporation Tokyo Stock Exchange	30 / June / 2003
Prospectuses on two capital increases against freely available reserves	Comisión Nacional del Mercado de Valores (Spain)	16 / January / 2003 27 / February / 2003
Short Prospectus on the Telefónica Company Promissory Note Scheme de Telefónica	Comisión Nacional del Mercado de Valores (Spain)	18 / December / 2003

03 INVESTMENT WITH RESPONSIBLE CRITERIA

During financial year 2003, Telefónica has maintained a proactive attitude to the community of analysts and investors who adhere to socially responsible investment criteria, as may be seen from the following data:

- Delivery of a presentation on the Corporate Responsibility strategy of Telefónica to attendees at the III Investors' Conference.
- Answering the more than 25 non financial information questionnaires submitted by investors and analysts, with socially responsible investment criteria.
- Participation in the initiative Carbon Disclosure Project, 2003.

- Publication of the first Corporate Responsibility Report by Telefónica, included in the Annual Report 2003.

- Ten meetings and/or audio conferences with investors and analysts with corporate responsibility criteria.

During 2003, Telefónica reaffirmed its presence on the index FTSE4Good. However, despite Telefónica's improvement in the evaluation for its inclusion on the Dow Jones Sustainability Index, Telefónica was not included in the latter's 2003 revision, due to the reduction from ten to seven of the number of telecommunications companies included in its sector index.

Additionally, the employment funds of the Telefónica Group (managed by Fonditel), with

the knowledge of their relevant Control Commissions, are aimed at making investments of an amount equivalent to 1% of their assets in what are known as ethical, sustainable or responsible funds. The total assets of Fonditel come to 3,800 million euros for employees of Telefónica de España and 120 million euros for Fonditel B, which covers the rest of the companies in the Telefónica Group whose employees have a pension fund.

At December 2003, this objective had been implemented through Funds that invest according to Social Responsibility criteria, regarding sustainability, environment and corporate good governance, for an amount equivalent to half of the commitment. The rest will be made in 2004 in two projects: one in social housing, and another relating to the environment.

Such investments are always made with the objective to obtain sufficient returns and risk control, as in any other investment. The employment plans of the Telefónica Group, managed by Fonditel Pensiones, were given an award for the best Spanish employment schemes and were one of the runners up in the best European employment plans (IPE Prizes), receiving maximum recognition for the third consecutive year. This is a milestone that confirms the excellent results in yield that Fonditel Pensiones is achieving with its management.

05

Employees: clarity and professional development



01	A large human group	<ul style="list-style-type: none"> • Characteristics of the workforce • Working conditions surveys • Internal communication channels • Good practice and recognition 	<p>WORLDWIDE WORKFORCE (CONSOLIDATED DATA)</p> <p>148,288</p>
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02	Compensation	<ul style="list-style-type: none"> • Compensation policy • Performance appraisal • Pension plans • Health plans 	<p>EMPLOYEE PERFORMANCE APPRAISALS</p> <p>110,000</p>
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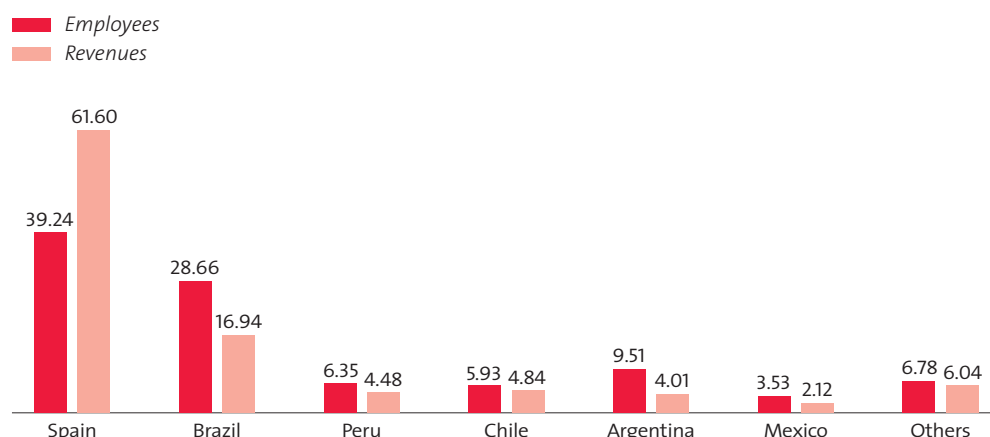
03	Professional development	<ul style="list-style-type: none"> • Training • Development skills • Talent management • International mobility 	<p>HOURS OF TRAINING</p> <p>6.3 millions</p>
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04	Human Rights	<ul style="list-style-type: none"> • Labour relations • Zero tolerance • Non discrimination • Health and Safety 	<p>EMPLOYEES COVERED BY COLLECTIVE BARGAINING AGREEMENTS</p> <p>106,593</p>
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05	Employee solidarity	<ul style="list-style-type: none"> • Corporate volunteerism • Other initiatives by employees • Telefónica Association for Aid to the disabled (ATAM) 	<p>COLLABORATING WITH ATAM</p> <p>62,854 employees</p>
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DISTRIBUTION OF REVENUE AND WORKFORCE BY COUNTRIES

(Data in percentages)



CONSOLIDATED PHYSICAL WORKFORCE BY COUNTRIES (31ST DECEMBER)

	2002	2003
Spain	64,444	58,189
Rest of Europe	3,551	3,186
Total Europe	67,995	61,375
Brazil	41,381	42,496
Argentina	13,843	14,100
Chile	8,006	8,795
Peru	8,826	9,422
Mexico	4,630	5,228
Rest of America	5,248	5,898
Total America	81,934	85,939
Rest of countries	2,916	974
Total	152,845	148,288

CONSOLIDATED PHYSICAL WORKFORCE BUSINESS LINE (31ST DECEMBER)

	2002	2003
Telefónica de España	42,162	36,577
Telefónica Latinoamérica	25,673	23,141
Telefónica Móviles	13,694	13,093
Atento	49,432	54,394
Telefónica Data	4,664	5,012
Terra	2,455	2,229
TPI	2,752	2,787
Admira / Content	5,574	4,638
Other companies	6,439	6,417
Total	152,845	148,288

01 AN IMPORTANT HUMAN GROUP

a) More than 148,000 employees

The Telefónica Group has more than 148,000 employees (consolidated figure at December 2003) distributed mainly between the Americas (57% of the workforce) and Europe (41%). By countries, Spain and Brazil are key contributors, in view of the fact that together, they account for 67% of the employees. A comparative analysis of distribution of revenues compared with distribution of the employment created by the Telefónica Group by countries shows the company's commitment to development of its activity in all the countries in which it is present.

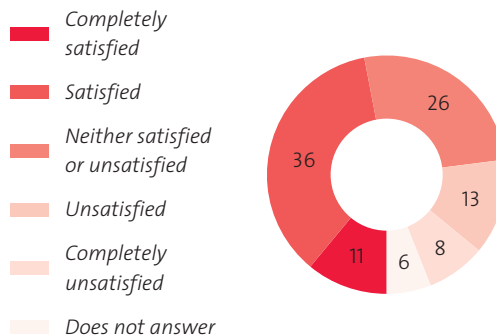
The business lines with the greatest number of employees are Atento, Telefónica de España and Telefónica Latinoamericana, the three of which account for 77% of the workforce.

In an analysis of the evolution of the workforce over time, the negotiations leading to the Redundancy Plans (ERE) of Telefónica de España during financial year 2003 are particularly significant. These plans were established as one of the necessary measures to address the company's situation, while ensuring a feasible future for all the employees, and at the same time, taking into account the competition, the company's own business transformation project, as well as the new trends developing in the telecommunications sector itself.

The principles of voluntary choice as well as universal and non-discriminatory application govern the measures articulated in the Social Plan agreed with the workers' representatives. The Redundancy Plans were approved by the Spanish Ministry of Labour and Social Affairs in the relevant administrative resolution of 29th July 2003. The ERE Social Plan was initially foreseen to affect 10,000 people up to the year 2005, although as a result of negotiation with the workers' representatives, an extension to 2007 is allowed, in which case it would affect

**ONLINE EMPLOYEE SATISFACTION SURVEY
BY TELEFÓNICA DE ESPAÑA**

(Data in percentages)



15,000 people, with a commitment to replace up to 10% of the jobs. In 2003, the number of employees who requested to take voluntary redundancy amounted to 5,384.

The upward trend of the workforce in the Americas is due to the increase in the personnel of Atento in the different countries.

The main characteristics of the workforce at the Telefónica Group worldwide are:

- 89.05% of the workforce has a permanent or indefinite contract, the remainder being distributed among employees on temporary contract (9.61%) and interns (1.34%).
- The degree of hierarchical organisation of the workforce is 4.75%, this being understood as the percentage represented by senior management and the middle management staff, out of the total workforce.
- Distribution of the Telefónica Group workforce by functions shows that 34.24% is assigned to production, 54.17% to commercial activities and 11.7% to support

duties. This calculation includes the customer care personnel under the commercial function.

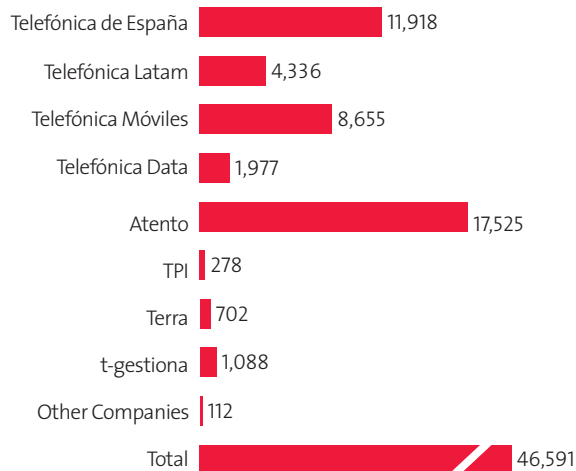
- The average seniority of the workforce ranges from 2 years at the Atento companies to 19 years at Telefónica de España or Telefónica de Argentina, the average seniority being estimated at 9.73 years. The average age of the workforce is approximately 36.

The evolution of the workforce, taking into account that this same distribution by functions is expected to prevail in the following financial year, shows a twofold, market-oriented trend: on the one hand the portion of the workforce assigned to commercial duties will increase, and on the other, the commercial culture will be strengthened among the rest of the functions.

b) Working conditions

Numerous studies are conducted within the Telefónica Group concerning working conditions, in order to encourage upward

NUMBER OF EMPLOYEES WHO PARTICIPATED IN THE SATISFACTION SURVEYS



RESULT OF THE EMPLOYEE SATISFACTION SURVEYS AT TELEFÓNICA LATINOAMÉRICA

(Data in percentages)

	Brazil	Argentina	Chile	Peru
Participation	74	81	75	92
	Brazil	Argentina	Chile	Peru
Management	66	65	68	61
Supervision	71	76	68	70
Satisfaction	66	69	62	65
Focus customer	57	61	56	51
Willingness to change	57	63	52	53
Communication	n.d.	63	74	61
Values	58	59	62	50
TOTAL	63	65	64	58

communication from the employees to the company, to detect needs and establish plans of action aimed at improving aspects that affect the employees' satisfaction at work. During 2003, more than 40,000 employees participated in these satisfaction surveys.

A first approximation to the results of the online opinion survey 2003 show that the employees of Telefónica de España have a positive vision, although with clarifications, of the situation of the company. There has been progress as to satisfaction with the job carried out, recognition and communication by the management of the strategic objectives of the company. However, the results point to a need for studying more closely such aspects as supervisor-collaborator relations, training and promotion.

The Telefónica de España transformation project (*mi.Telefonica.es*) has been implemented during 2003 with 39 new actions aimed at improving employee satisfaction, in addition to continuing development of those previously approved.

During 2003, the four operators of Telefónica Latinoamérica carried out similar surveys on working conditions, evaluating employee

opinion of such aspects as management, supervision, satisfaction, focus on the customer, willingness to change, communication, and values.

The companies in the Telefónica Móviles Group perform studies on working conditions in order to detect employee needs and thus be able to establish plans of action aimed at improving those aspects that affect labour satisfaction. Approximately 60% of the workforce participated in such surveys during 2003.

During 2003, all the companies forming t-gestiona unified their survey criteria, which resulted in administration of the same survey to all the companies. In Spain, 63% of the employees of t-gestiona participated in the working conditions survey, with a satisfaction level of 3.01 on a scale of 1 to 5 (5 being high satisfaction).

c) Internal communication

Telefónica provides different corporate communication systems for its employees, aimed at providing general information on a Group-wide scale as well as specific information compatible with the nature of each business or

RESULTS OF THE EMPLOYEE SATISFACTION SURVEYS AT TELEFÓNICA MÓVILES

(Data in percentages)

Company	% participation	% satisfaction
Telefónica Móviles España	61	55
Telefónica Unifón Argentina	70	72
Telefónica Móvil Chile	56	65
Telefónica Móviles Perú	85	63
Telefónica Móviles México	26	74
Telefónica Móviles Guatemala	76	76
Telefónica Móviles El Salvador	63	76
Meditel Morocco	88	79

country. Such systems are complemented by the work carried out at middle management level, which is considered a key factor in the communication process.

Internal communication channels

- *Televip*: since 1999 it has published a printed magazine for internal communication, with a print run of 150,000 copies per month. There are eight national editions of *Televip* (Argentina, Brazil, El Salvador, Spain, Guatemala, Mexico, Peru and Puerto Rico) with certain pages dedicated to specific groups (Telefónica de España, Móviles, Telefónica I+D, etc.)
- *InfoBuzón*: a daily electronic internal communication service of Telefónica, that published 3,763 news items in 2003. Every day, it is distributed to 70,000 employees through its different editions (*Infobuzón* in Argentina and Spain, *Diario Electrónico* in Chile or *Televip M@il* in Brazil).
- *Corporate Intranet*: accessible from the corporate network of the Telefónica Group, which was visited nearly seven million times in 2003.

Other internal communication channels

The Telefónica employee portal in Spain (eDomus) receives more than 21,000 visits daily and allows users access to management of internal processes related to the workers, reaching more than one and a half million workers in 2003. This portal is accessible to all employees of other companies in the Group.

In June 2003 the Telefónica Móviles Intranet was awarded Second Prize for Best Employee Portal in the First Employee Portal Prize organised by Instituto de Empresa, Inforpress and Capital Humano.

Another internal communication channels is the digital magazine *SOMOS Telefónica*

Móviles, which published 11 editions in 2003, in three versions: Spanish, Portuguese and French. Additionally, each one of the operators in the Telefónica Móviles group has its own internal communication mechanisms to keep its employees informed (*Encontro Vivo*, in Brasil; *Somos Gente MoviStar*, in Chile; *MundoMóvil*, in Chile or *MoviNotas*, in Puerto Rico, for example).

As an example of direct communication, there is the Annual Meeting of Telefónica Data held in Spain with all the company employees, which was classified by the employees attending and surveyed with a grade of 7.3 out of 10.

Telefónica Latinoamérica has established regular quarterly meetings throughout the whole management chain with senior management, on objectives and results of the quarter. Those results are later reported to the entire workforce.

- In Argentina a new communication channel has been created, consisting of holding periodic meetings with the top 200 executive and managers on the challenges of management and levers for action.
- In Chile, extensive reform has been undertaken throughout the entire electronic communication system, setting up a new daily bulletin that contains all the relevant news for the workforce and some distinct communication tools for groups who do not have a computer at work. That task is complemented by the "Telephone Employee Care Service" (t-gestiona), that has answered an average 4,000 queries per month.
- In Peru, the communication dialogue platform began with what is known as "*The management committee replies*". It is an electronic forum in which all the employees may pose questions to the Management Committee on matters of interest by sending personally addressed e-mails.

**2003 total wages
and benefits to
Telefónica employees**

4,641
millions of euros

- Brazil set up an initiative called “*Agenda*”. Each month, the Management Committee at Telesp chose a matter it considered of interest to the company at large and this was debated at meetings attended by members of the workforce, was reported and debated by all the employees.

An example of participation has been the involvement of more than 8,000 employees in the survey to design the “*Communications City*” for Telefónica in Madrid, according to the co-operation proposal made by the Company.

d) Prizes that certify good employee management by Telefónica

During 2003, some companies in the Telefónica Group received recognition in different areas related to personnel management:

- t-gestiona Brasil received two awards in 2003:
 - “Company of the Future 2003,” due to its human resources policies and programmes;
 - “Premio Top RH 2003,” due to its social responsibility project, linked to the Federal Government Programme, to combat hunger (mobilisation and voluntary work among our employees).
- Telefónica Empresas Perú was the finalist company in the competition “Prize for Best Practice of Human Resources,” organised by the Peruvian-British Chamber of Commerce, with support from the Embassy of the United Kingdom and the Ministry of Employment. The variables taken into account were the innovative means to motivate and develop the personnel, internal communications, working conditions and recruiting and training.
- Telefónica Empresas Brasil received the Top RH 2003 Prize for its internal communications project “*Operation Smile: customer satisfaction is your satisfaction.*” That award is

granted annually to companies with an outstanding corporate vision and improved results due to adequate implementation of a management style.

- In the case of Vivo, that task obtained external recognition, as it was awarded the Top Human Resources prize for its internal *marketing* campaign, launched in order to make the employees identify with their company.

02 COMPENSATION

a) Compensation policy

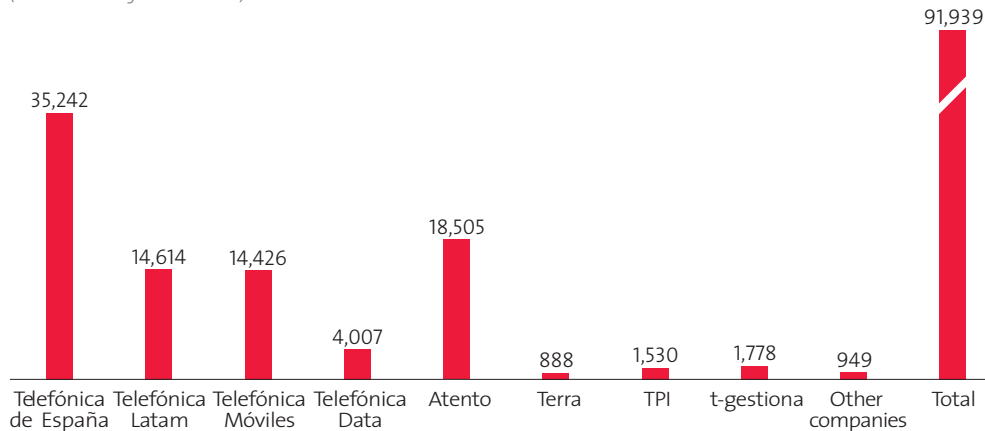
Telefónica seeks to motivate and obtain loyalty from its employees, offering them competitive, balanced compensation packages, based on consistent, simple and clear criteria. The aim of the Compensation Policy is to achieve efficient support for the organisation in order to fulfil its business objectives, reinforcing adequate conduct to guide employees toward that end.

The Telefónica Group compensation system establishes an integrated and flexible remuneration package, with the following key points:

- Management of the compensation processes: evaluation based on performance, communication.
- Adaptation to the reality of each market and each line of business.
- Consistency with the values of the Telefónica Group.
- Focus on key persons, according to their duties and contribution, fixed remuneration.
- Clear connection between results and rewards: variable remuneration combining short and long term incentives.

NUMBER OF EMPLOYEES WITH PRIVATE MEDICAL INSURANCE PROVIDED BY THE COMPANY

(Data in no. of individuals)



- Relevance of non-monetary remuneration: social benefits, benefits in kind, social provision programmes.

The personnel expenses of the Telefónica Group in 2003 came to a total of 4,641 million euros, which represented approximately 16% of Group revenues in 2003. Of those total expenses, the remuneration package (fixed remuneration + variable remuneration + profits + pension schemes + commissions) amount to 79%, with 71% in fixed and variable remuneration and 6% in profits.

b) Performance appraisal

The Telefónica Group has worked for years on design and implementation of variable compensation policies that reward effort and fulfilment of objectives by its employees. These policies seek greater commitment and involvement by the employees in the corporate objectives, and also greater equity in the remuneration systems. There are three factors that affect variable remuneration of each employee:

- Their individual performance.
- The general objectives of their company.
- The results of the Group.

109,964 employees (74% of the workforce of the Telefónica Group) were subject to performance assessment during 2003. In the case of 86,305 employees, that evaluation was linked to their variable remuneration.

c) Pension plans

The employees of the Telefónica Group in Spain and Brazil participate in pension plans organised by the Telefónica Group. In the rest of the countries, the employees participate in the different public pension systems there.

In December 2003, the Telefónica de España Pension Plan had 70,920 members, 53,294 of

whom were employees who, until December, had generated 10,421 provision orders in favour of the members and/or beneficiaries. That plan covers the contingencies of retirement, death of the member / beneficiary, incapacity in its different modes and major invalidity. The company makes a monthly contribution of 6.87% of the gross salary of the employees to the plan, and each member 2.2%, except for employees who joined after June, whose percentage is 4.51%. Moreover, for workers who decided not to adhere to the Pension Plan, it maintains a financial subsidy that is received until reaching the age of 65.

It also has a Collective Risk Insurance policy providing coverage for the contingencies of death and absolute invalidity due to illness or accident and partial invalidity due to accident for workers who have voluntarily requested to join.

The 27 employment schemes at the Telefónica Group, managed by Fonditel Pensiones, have been awarded the best Spanish employment schemes and were one of the runners up for European employment schemes (IPE prizes), receiving maximum recognition for the third consecutive year. This is a landmark that confirms the excellent results in profitability that Fonditel Pensiones is achieving with its management.

d) Health plans

More than 87,000 employees of the Telefónica Group have private health insurance.

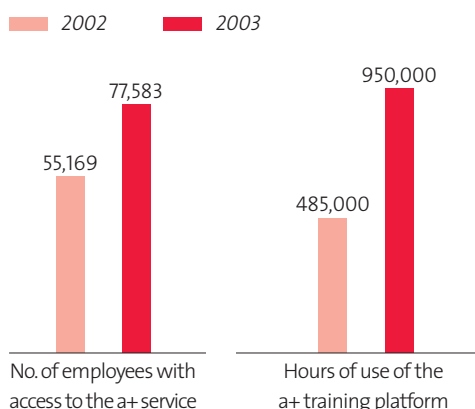
In Spain, voluntary collaboration in the health management of the Social Security General Regime provided by Telefónica de España and Telefónica S.A. through the collaborating company ceased during the first semester of 2003, by resolution issued by the Directorate General for Economic Organisation of the Social Security under the Ministry of Labour and Social Affairs. The Company Management and social partners reached a collective agreement by

109,964

employees assessed on performance in 2003

EVOLUTION OF THE a+ TRAINING SYSTEM AT TELEFÓNICA GROUP

(Data in units)



which the company undertakes to formalise a contract with the company Grupo Seguros de Vida y Pensiones Antares S.A.

Telefónica de España and Telefónica S.A. subscribe insurance policies for their employees to replace the complementary health assistance to the Public Health System, to the extent and within the limits agreed for the groups affected:

- Group of employees in active service, spouses and children (up to the age of 21 years) who are registered as Social Security beneficiaries.
- Current group of those in early retirement and redundant.
- An alternative is provided for the group of the retired and beneficiaries, who also were entitled to the services of the collaborating company, allowing them to receive similar services.

In Chile, the old insurance system based an internal institution (ISAPRE TELEFONICA) was modified and in its place a private ISAPRE has been set up that competes on the market and grants more and better health coverage. Other initiatives of this kind carried out in Chile were training on what to do in the event of labour accidents, tasks to encourage exercise at work and meetings on prevention of breast cancer.

During 2003 in Peru, the whole workforce joined the new health insurance policy subscribed by the company at the end of 2002 providing access for all the workers to a more complete coverage in the event of illness or accident, attention for their children and an old age pension scheme.

e) Share option plans

At the end of 2003, Telefónica had set up a general single system of remuneration linked to the listed value of the Company shares, aimed at all the active workforce of Telefónica and

most of its Spanish and foreign subsidiaries, called the TIES Programme.

Similarly, the subsidiaries Telefónica Móviles, S.A., Telefónica Publicidad e Información, S.A. and Terra Networks, S.A. have also established their own remuneration systems linked to their respective listings. Finally, there is a Telefónica, S.A. share option plan intended for the employees of Endemol (EN-SOP Programme).

03 TRAINING AND PROFESSIONAL DEVELOPMENT

a) Training

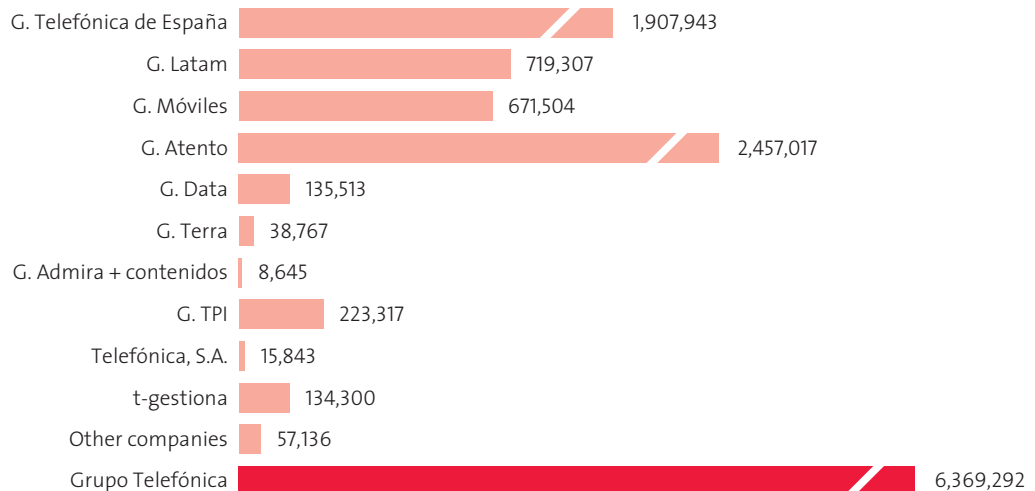
The Telefónica Group has a commitment to the professional development of its employees. For example, during 2003, numerous initiatives aimed at development of its employees were carried out at Telefónica de España:

- Creation of the Executive Training Committee and launch of the Comprehensive Training Plans, with excellent results: from 34 hours of training per employee in 2001, it went to 52 hours in 2003; from actions aimed at 70% of professionals in 2001, it went to 100% in 2003.
- 282 people have participated in different identification and talent programmes, such as the Mentor programme, 40 of whom have been promoted.
- Feedback and Coaching: 1,000 managers have received feedback from more than 5,000 collaborators.

The total number of hours of training by the Telefónica Group in 2003 exceeded six million. The Telefónica Group has maintained its commitment in recent years to tele-training as a learning methodology that, independently or combined with course attendance, has boosted the training objectives of the Group in general and of the lines in particular. The objectives of the Group in relation to e-learning are:

HOURS OF TRAINING ACCUMULATED IN 2003 AT THE TELEFÓNICA GROUP

(Data in hours)



- To unify the capabilities and skills of Telefónica employees, encouraging adequate Group culture for the strategy and business plans.
- To improve the effectiveness of Group employees through an ample training and quality offer, adding 380 content items during 2003 and including other new ones in Portuguese.
- To make access to training flexible, guaranteeing the availability of the content at any time and in any place. Availability of the service in 2003 was 99.99%.
- To act as a catalyst in the practice of sharing knowledge and making employees aware of their own development, providing them an open offer of content related to all of the different businesses.

- To increase the integrated use of the services of the Group related to new technologies, turning them into a technological reference for customers and society.

The a+ service is a management system for learning that is compatible with international tele-training standards, that allows both an open offer aimed at self-development, as well as training plans managed by the companies through guided, tutor controlled courses. In 2003, Educaterra assumed management of the online training of the Group and therefore of the a+ service. Throughout the year, more than 110,000 training actions were carried out (some of which are still in progress as they are long-term courses).

In Employee Training, in addition to the training experience acquired through e-learning, the new Collective Bargaining Agreement reached

PARTICIPATION EMPLOYEE IN "INNOVATION" INITIATIVES

(Data in units)

Subsidiaries	No. of ideas suggested	No. of ideas implemented
Telefónica de España	880	20
Telefónica Latinoamérica	227	87
Telefónica Móviles	391	28
Telefónica Data	361	146
Atento	185	125
TPI	60	3
Terra	0	0
t-gestiona	0	0
Other	23	12
TOTAL	2,127	421

with the workers' representatives for 2003-2005 has included a new knowledge model, that identifies the training profiles linked to the work posts defined. For example, more than 12,000 employees at Telefónica de España have received training in broadband, thus allowing development of their knowledge towards the new trends in the sector.

b) Skills development

All the business lines of the Telefónica Group have worked on the design of a new system of generic skills for all the employees that reinforce the values of the Group. The skills are guidelines for action that allow one to know what the company expects of each one of its employees, and are also a personalised guide to professional development for each one. To that end, all the employees participated in an assessment process that consisted of at least self-evaluation and valuation by their supervisors. The results of that evaluation allowed identification of areas of improvement for each employee and adequate actions to develop each year. More than 80,000 employees throughout the group have participated in this programme.

The programme of Youths with High Potential, reviewed in 2003, has the basic objective of identifying and developing, from the beginning of their career, the young professionals in the Telefónica Group with the greatest potential for future performance of managerial duties.

The new programme establishes a single, common methodology for all the companies in the Telefónica Group that allows us to identify, select and develop the 'YHPs' following the same guidelines worldwide. This year, 3,150 candidates from Argentina, Brazil, Chile, Colombia, El Salvador, Spain, Guatemala, Morocco, Mexico, Peru and Miami (U.S.A.), were eligible to join the programme. From these, the 947 most highly evaluated by their supervisors, on the basis of a profile adjustment of the reference skills, took an online test, after which the resulting 405 final candidates must personally attend a final

examination. That last test will lead to selection of the 200 YHPs finalists who will participate in the programme during 2004-2005.

c) Talent management

Recognition of employees' good ideas

The employees of the Telefónica Group participated in improvement initiatives with more than 2,000 ideas and initiatives, more than 400 of which were implemented (20%).

- Idealab! Is the Telefónica de España programme that encourages participation by its employees to improve in the different areas of the company, recognising the effort involved in innovating in the diverse processes. It has an Intranet channel, *Innova*, created to facilitate and encourage a permanent process of idea gathering. During 2003, 880 new ideas were proposed, 20 of which were rewarded and implemented.
- Patenta is the competition organised by Telefónica Móviles España to recognise and reward the most valuable ideas by its employees who contribute to improving quality, to increasing revenue and improving efficiency.
- In Argentina, the participation initiative called Pentathlon was implemented, through which numerous innovative ideas were received to improve operation of TASA.
- Prizes were also awarded in Brazil in the third edition of the Champions' Race, aimed at rewarding initiatives related to all the activities that contribute to improving the corporate customer orientation. Likewise, in 2003, it launched the fourth edition of the Champions' Race, this time to improve quality of life at work, in which nearly 32% of the workforce participated by proposing initiatives for integration of persons, harmony within the Group work and reduction of bureaucracy.

GLOBAL COMPACT PRINCIPLES ON HUMAN RIGHTS AND WORKING CONDITIONS

Human rights:

- 1 The companies must support and respect protection of human rights.
- 2 Ensure non complicity in breaches thereof.

Working conditions:

- 3 The companies must defend freedom of association and effective recognition of collective bargaining.
- 4 Elimination of all kinds of obligatory, forced labour.
- 5 Abolition of child labour.
- 6 Elimination of all discrimination in relation to employment.

Knowledge management systems

Sócrates and Prometeo are services that aim to facilitate, integrate and encourage the most relevant initiatives in knowledge management that exist at Telefónica Móviles España as well as in the Telefónica Group. Their objective is to encourage the practicing communities to share experience and information, so the organisation may know who does what, and to provide complementary mechanisms to the traditional learning and recognition systems.

d) International mobility

As a multi-domestic company, Telefónica has to make an effort to attract and motivate its employees to accept international assignments and, thus, contribute to achieving the global strategic objectives of the Group.

To do so, it has created the International Mobility Unit, belonging to T-gestiona España, to carry out the overall management of the personnel posted abroad, with the following main objectives:

- To conceptually and operatively establish a horizontal practice to be followed by all the companies in the Group.
- To follow a structured, transparent procedure in matters of candidate selection, talent identification, development and compensation.
- To obtain a single centralised operational procedure to attend to the needs of the expatriate.

Based on the t-gestiona companies in Argentina, Brasil, Chile, Peru, Central America and in co-ordination with Telefónica SA, this service is now provided to nearly 20 companies in the Group who have about 200 people posted at nearly forty companies located in Latin America, in Europe and Northern Africa.

04 GUARANTEED HUMAN RIGHTS

Telefónica has confirmed its commitment to the defence of Human Rights in all its activities through its adhesion to the United Nations Global Compact. Companies that adhere to the Global Compact undertake to fulfil nine principles, the first six of which refer to promotion of human rights and establishment of fair working conditions in all relations between the company and its employees.

Labour relations

The search for efficiency is the basis on which the labour strategy of Telefónica shall operate, so that social dialogue and negotiation become a key factor in our development as a Group.

Therefore, the company and the majority Trade Unions signed an agreement last 21st July 2003 in which they declare the value of social dialogue and collective negotiation as an irreplaceable instrument in management and governance of labour relations, as well as to achieve adaptability of collective negotiation to the progressive changes in companies. Various company Collective Agreements are applied to more than 100,000 employees of the Group.

In response to this mutual commitment, social dialogue has improved in all the countries and, overall, it has been a valuable contribution. Some of these achievements deserve special mention:

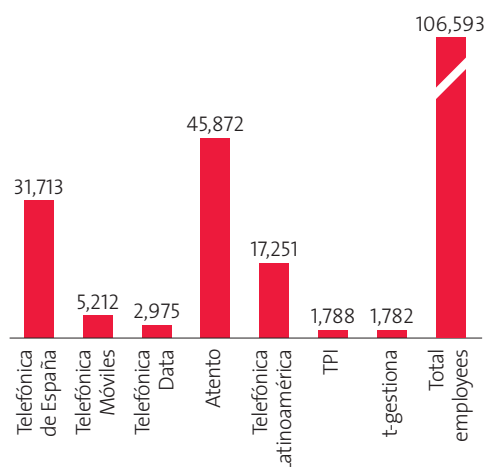
- Agreement on the Social Plan of the Redundancy Plans at Telefónica de España (E.R.E.) for the period 2003-2007, affecting a maximum of 15,000 workers and a commitment to replace up to 10% of the posts.
- In Argentina a salary recomposition has been negotiated with all the professions, representing 8% of the combined salary in 2004.

- An Agreement for 2004 was signed in Brazil in November for Telesp, Assist and T. Empresas with Sintetel, involving 7,700 employees represented.
- In Chile, 10 Collective Agreements were also signed at CTC Chile, T. Empresas, T. Equipos and T-Gestiona with 4 Trade Unions, involving about 2,000 people. T. Móviles already has its Trade Union agreement for 97% of its workforce.
- In order to show the reality of the country and the needs of the company, Peru has agreed to undergo a training and workshop process, in which the representatives of the Company and Trade Union leaders who will negotiate the next Agreement have participated jointly.

In relation to social dialogue in the international field, Telefónica and UNI (Union Network International) have undertaken to meet once a year in order for the management of Telefónica to inform the Trade Unions in general terms concerning the key

EMPLOYEES SUBJECT TO THE COMPANY COLLECTIVE BARGAINING AGREEMENTS

(Data in number of employees)



factors of the Group that affect its running, its position on the market, its future and priorities.

The relevant meeting in 2003 was held in Rio de Janeiro in November. Among the matters discussed, there was a presentation on the Telefónica Group, its position in Latin America, the dynamics of the telecommunications sector, the strategy for future development of the Company and labour relations at Telefónica. After the Company's presentation, an enlightening exchange of points of view between the parties took place.

Freedom of association is a right of Telefónica employees, as shown by the fact that more than 42,000 employees are members of a trade union. By companies: Telefónica de España with 18,016, Telefónica Latinoamérica 13,068 and Atento 11,326 employees, are those with the largest numbers of trade union members. Participation by employees of the Telefónica Group in the trade union elections amounted to more than 77,000 employees. The 2,584 trade union representatives chosen in these used more than 850,000 trade union hours during 2003.

The number of hours of labour conflict amounted to 79,000 in financial year 2003, Telefónica de España leading with 54,553 hours, the companies in the Atento Group with 9,720 and Telefónica de Argentina 5,000.

Elimination of overtime abuse

The Collective Bargaining Policy of the Telefónica Group in 2003 expressly includes limitation of overtime. Specifically in Peru, an awareness campaign has been carried out among all the managers in order to comply with the limits to the ordinary working day established in the collective agreements, gradually phasing out the incidence of abusive overtime.

NUMBER OF DISABLED EMPLOYEES

Company	No. of disabled employees
Telefónica de España	366
Telefónica Móviles España	28
Telefónica Data España	3
TPI España	6
Terra España	2
Telefónica, S.A.	1
Total	406

Child labour

Telefónica has consistently maintained a policy of zero tolerance with child labour in all the countries in which it is present, a policy that is extended throughout its supply chain through the contractual requirement of strict fulfilment of the laws of each country.

In Brazil, four companies in the Telefónica Group have obtained the Child Friendly Company certificate, in a programme that deals with the challenge of developing policies to protect childhood in social and labour terms. These companies are TeleSP, Telefónica Data, Assist and t-gestiona.

Non-discrimination**Gender e-quality**

An average of 45% of the workforce of the Telefónica Group is comprised of women, in percentages ranging from 32% in Argentina to 60% in Brasil. By lines of activity, Atento stands out with 67% of women in the company. As to the management levels, there are more than 1,250 women executives in the Company.

In Chile, Telefónica employees held a cultural event in the Company auditorium to celebrate the International Women's Day, which was attended by the Minister of the National Women's Service.

Integration of disabled persons

In relation to disabled persons, apart from the responsible action of each company, the Telefónica Group has an institution specialised in these matters to support all the companies in these fields. It is the Telefónica Association to Aid the Handicapped (ATAM). Among its missions, there is that of ensuring the highest possible levels of social integration for disabled persons through different means, including participation in the labour force.

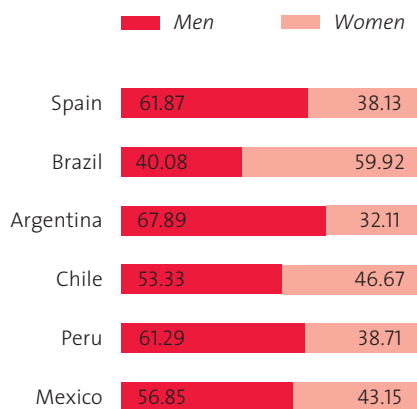
During 2003, ATAM held conferences at its headquarters on labour integration of the disabled, aimed at human resources managers at 23 companies in the Telefónica Group. The objectives of the meeting were:

- To facilitate exchange between companies in the group to allow opinions and concerns to be shared in relation to labour integration of disabled persons.
- To examine in greater depth the alternatives available for fulfilment of the current laws on the matter (LISMI) and to allow evaluation of the companies.
- To share an integrated management / collaboration system for labour integration with the companies in the group, to generate a synergy effect, with benefit for companies, their employees and the disabled.

ATAM offers the different companies the possibility of using any of the formulas considered in the LISMI and other legislative development. To that end, it provides two fundamental mechanisms: the labour integration service of ATAM (SILA) and the special employment centres.

GENDER DISTRIBUTION OF THE WORKFORCE. 2003

(Data in percentages)



Other types of discrimination

As to sexual equality and non-discrimination, the Collective Bargaining Agreement of Telefónica de España has included recognition of common law partnerships for the purposes of granting paid leave. Moreover, the agreement on representation of the workers has included concern in the Collective Agreement for defence of personal dignity, embodied in the commitment to avoid sexual and moral harassment (mobbing), and to implement joint actions to discover possible situations in which this may arise.

In Chile, Atento has spent 3 years developing the Elderly Adult programme, through which this company provides work for senior citizens. The degree of satisfaction among the people who work on that programme encourages development of other such initiatives.

Work / family life balance

The 2003 collective bargaining policy for the Telefónica Group companies identifies the need to manage work time, the duration and distribution of the working day, even its annual calculation and flexible distribution. The use of flexi-time systems must have the main aim of balancing the need of the companies and that of the male and female workers, making their working life compatible with their personal and family life.

Telefónica and a group of known Spanish companies has signed an agreement between the Ministry of Labour and the '+Familia Foundation' to create a Family-Friendly Company Certificate. The aim of the certificate is to reward companies who facilitate the balance of work and family.

Telefónica Móviles España has worked on the launch in 2004 of a plan to balance personal and working life, in collaboration with 'Más Vida Red'. Its basic factors are the family advisor, free services aimed at solving day to day problems and low cost services.

Tele-work

Telefónica considers tele-work to be yet another step in its strategy of technological, cultural and organisational transformation. The key aspects it puts in practice are flexibility and confidence in its collaborators.

Telefónica de España performed an evaluation of the results of its tele-work project eWready! three months after it was set up. At the time of evaluation, 100 employees were participating in the project on conditions outside collective agreement, a figure that was increased to 400 at the end of 2003. The objective for financial year 2004, is to extend that practice to 1,000 employees outside the collective agreement, it being foreseen to extend that mode to personnel within the Agreement just as agreed in the Collective Agreement for 2003-2005.

The hierarchical superiors as well as the tele-workers, above all the latter group, perceive certain improvement in performance, better planning and more quality in their work. On the other hand, one of the key factors that explain satisfaction among tele-workers is the favourable environment they enjoy, with their family as well as with the working team. Moreover, 80.7% of the sample, with only an average of 10.52 hours of tele-work a week, state they had saved approximately 3.19 hours per week on travel.

Telefónica I+D implemented a tele-work project with favourable results in 2003, fundamentally evaluating the professional activity, personal life and relations with the working team. At other countries, there have been different experiences in the field of tele-work or the virtual office, in which 900 employees have participated.

Reduced working day

In December 2003, 4,906 employees took advantage of flexi-time in Telefónica Group companies to work less hours, amounting to 3.3% of the workforce. Among the causes

SATISFACTION WITH THE TELE-WORK EXPERIENCE AT TELEFÓNICA I+D

(Data on a scale of 1-5)

	SEPT 2003	OCT 2002
• Professional activity	4.5	4
• Media	3.2	3.1
• Relation with supervisor	3.3	4.16
• Relation with work team	4.2	4.16
• Relation with customers	3.5	3.6
• Personal life	4.4	4.6

expressed by the employees when requesting this model, are: illness (42% of the cases), maternity (27%) or studies (16%).

The duration of maternity leave is according to the current legal requisites in each country, ranging from 12 weeks in some countries to 18 in others. In the case of Spain, that leave lasts 16 weeks.

Leisure Club

Under the slogan of *An amusing way to keep company*, the Leisure Club was presented at Telefónica Móviles España, being understood as a permanent service to provide games, sports, cultural and recreational activities in general, for leisure among all the workforce. The initiative arose to respond to diverse needs observed when studying the working atmosphere, due to lack of knowledge of activities in other areas or lack of interdepartmental collaboration.

The aim of the Leisure Club is to help relations among people from different departments, to encourage and improve relations between the employees of Telefónica Móviles, by allowing them to participate in group leisure activities outside the working environment.

GLOBAL SATISFACTION WITH THE TELE-WORK EXPERIENCE eWREADY!

(Data on a scale of 1 to 7)



Atento Peru created the a plan in 2004 for the Atento Perú Cultural Centre, which has the mission of training all who are interested in developing their artistic and acting skills.

Other initiatives

In 2003, Telefónica I+D created the Commission for the Balance of personal and professional life, formed by 11 members, to improve satisfaction among people and the results of the company, through motivation and commitment among its professionals. Among the new measures implemented, there is arranging flexible working hours, the physiotherapy service or the favourable conditions for mothers, related to lactation periods or maternity leave.

Some companies in the Group offer complementary aid to their workers, especially in matters of family aid (grants, crèches, or support for maternity). During 2003, nearly 30,000 employees of the Telefónica Group benefited from these.

Moreover, and also drawn on a heading of Social Funds agreed in the Collective Agreement of Telefónica de España, diverse promotion and aid options were also implemented in relation to employee leisure time, through offers of hotel accommodation and subsidies. In this sense, different holiday plans are offered at different seasons of the year, holiday camps for employees and aid for study and exchanges abroad. The possibility of enjoying diverse options also includes retired and pre-retired employees. Throughout financial year 2003, a total 9,909 applications were granted out of a total 16,387. Grants were also awarded to study away from home to 575 employees.

In 2002, Atento Perú founded a Children's Club, in order to organise activities for the more than 180 children registered on the programme, to cover the needs of employees who are parents.

**HEALTH CHECK-UPS.
PREVENTION SERVICE IN SPAIN**

Activity	No. of attentions
Diagnostic tests	140,927
Health campaigns	49,433
Health queries	77,998
Vaccination	9,102
Check-ups	42,858

**HEALTH RISKS
PREVENTION ACTIVITIES**

Prevention activity	No. of activities
Technical assistance	4,038
Reports and technical studies	2,092
Fire prevention	508
Risk evaluation	312

05 HEALTH AND SAFETY

The three main lines of action within Labour Risk Prevention in the Telefónica Group are detailed in the Annual Report on Activities by the Common Labour Risk Prevention Service, published in 2003.

- Surveillance, promotion and maintenance of health at work, mainly consisting of three types of health assistance:
 - Health check-ups (including diagnostic tests).
 - Health campaigns for prevention and vaccination campaigns.
 - Health queries, by the labour doctor and/or SRN/SEN at the Company.
- Prevention of labour risks, underpinned by five basic concepts:
 - Preventive planning.
 - Risk evaluation (Initial, specialised according to the risks and psycho-social risks).
 - Fire prevention (emergency simulation and plans of action).
 - Reports and technical studies.
 - Technical advice (health and safety committees, official bodies and different departments of the company).
- Accident Rate Control, with the following aspects:
 - Evaluation of companies with zero accident rates. Every year, more companies manage to fulfil that objective.
 - Comparison of frequency and severity indexes, not only between the different companies in the Group, but also with the service sector.

The companies in the Telefónica Group work along with their employees on more than 75 health and safety committees worldwide:

- The Directorate General of Operations of Telefónica de España, in collaboration with the Directorate General of Human Resources, has set up a Communication Plan on Labour Risk Prevention, aimed fundamentally at operating personnel performing work related to External Plant and Installation and Maintenance.
- A notable factor is that of risk reports prepared at the base stations and installations that are delivered to personnel from Telefónica Móviles España and collaborating subcontractors.
- An ambitious training programme has been set up in Argentina, aimed at decreasing accidents at work. Approximately 3,000 people have participated in it, concentrating on such matters as fire prevention, emergency evacuations and electricity risk.
- In Chile, within the field of health, a training plan has been set up to decrease the accident rate of company vehicles, through diverse actions that combine purely training aspects, with responsibility awareness factors.

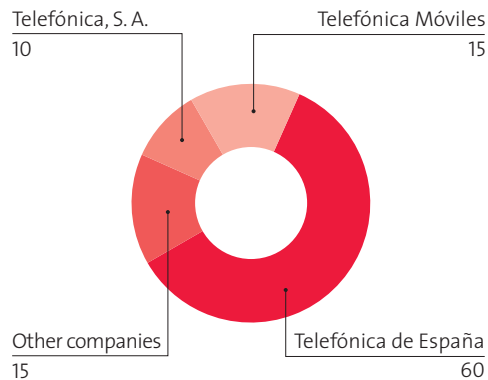
06 EMPLOYEE SOLIDARITY

a) Corporate volunteers

Since it commenced in 2001, nearly seven hundred employees of the Telefónica Group have joined the Corporate Volunteer programme, through which social promotion projects are co-ordinated and implemented at the initiative of the Fundación Telefónica, or are proposed by the volunteers themselves, the majority of which are carried out in collaboration with social organisations.

DISTRIBUTION OF EMPLOYEES COLLABORATING IN THE CORPORATE VOLUNTEERS PROJECT SPAIN 2003

(Data in percentages)



The projects chosen are related to childhood, disability, the elderly and culture, and among them, priority is given to those that feature the importance follow the benefit and its direct effect on the community.

During financial year 2003, the corporate volunteers project was set up in Spain, under co-ordination by the Fundación Telefónica and with collaboration by approximately 1,000 workers. The demand for volunteer posts at non-profit entities exceeds one hundred posts, the outstanding areas being information system, management, administration and marketing. The different projects carried out in 2003 are calculated to have taken more than 10,000 hours of voluntary activity.

In June 2003, the Corporate Volunteer Programme was presented in Chile. During 2003, nearly 2,000 workers participated directly in the diverse projects and solidarity actions performed, also obtaining collaboration in the

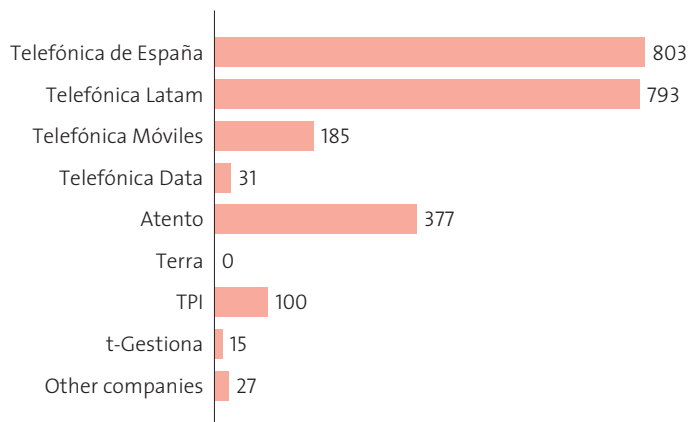
programme by relatives of employees, suppliers and customer, whose actions benefited about 600 needy people.

Among the activities carried out by the volunteers from the Telefónica Group there was *A Ceiling for Chile*, (construction of Mediaguas, a basic wooden housing unit with a surface area of 18 metres) for the needy, contributing to eradicate poverty; and *Christmas with Sense*, providing a telephone service to select children who are then provided gifts donated by the employees.

Throughout the year, the volunteer group at Atento Argentina collaborated with the needs of society, organising collection of non perishable foodstuffs, clothes, school equipment and toys, which were delivered to different educational institutions, kindergartens, common dining halls and shelters. Another initiative was an educational market garden project for a children's' home in the province of Buenos Aires.

ACCIDENTS AT WORK*

(No. of accidents at work in 2003)



(*) The labour accidents are recorded according to the recommendations of the WLO (World Labour Organisation).

SOME CORPORATE VOLUNTEER INITIATIVES IN ARGENTINA. 2003

Project	Activity
Satchels and school equipment	– 1,160 satchels with school material were delivered at 26 schools to needy pupils
Children's day	– 27 different activities to improve facilities or provide sewing machines for sewing workshops. – These activities benefited a total of 7,200 people.
Community Libraries	– Modernising the library computer equipment – Providing study books to stimulate reading among the young
Volunteer training	– 40 employees prepare and motivate other volunteers to carry out community actions, providing them tools to evaluate projects
Educating to learn / t-gestiona	– Volunteers on the Corporate Volunteer Programme of the t-gestiona area to perform school support tasks at schools with few financial resources in Buenos Aires

In Peru, the "Peru gives a Hand" plan was implemented, to provide relief for victims of the heavy flooding in the southern area of the country, where Atento collaborated with one tonne of food and clothing. Telefónica Móviles Perú created the Social Aid Committee in order to promote social action among the company workers, who organised a Christmas campaign to help more than 250 boys and girls at the Felipe Alva Settlement in the city of Lima. The operators of Atento Perú visited an area in need, taking a great deal of joy and amusement to more than 300 children living in deficient conditions.

In Brazil, Telefónica volunteers have carried out numerous corporate voluntary actions. For example, about 30,000 employees of the Telefónica companies in Brazil, as well as relatives and guests, participated in the July Festival, organised by Telefónica SP to support collection for the Social Solidarity Foundation in the State of São Paulo, campaigns to collect products and gifts for children at Christmas, collaboration in campaigns of the Hunger Zero programme. Atento employees organised 18 campaigns to collect goods and/or donations to support the underprivileged.

In Puerto Rico, Atento employees collaborated in the Christmas campaign to aid the Niño Jesús Home and the Campaign against AIDS.

b) Telefónica Association to Aid the Handicapped

ATAM was founded in 1973 among Telefónica employees and the social agents of the

Company, in order to attend to the group of people with physical, mental and sensorial disabilities. After nearly 30 years in existence, and in a phase of expansion ATAM received a major recognition of its work in 2003:

- Telefónica was awarded the Company and Society Prize for the Best Social Action in collaboration with employees for the initiative ATAM (Telefónica Association to Aid the Handicapped). That prize was dedicated to the 65,000 employees who collaborate with the association.
- Fundación Sagardoy awarded Telefónica an extraordinary prize for its prevention and social and labour integration task through ATAM (Telefónica Association to Aid the Handicapped).
- The Regional Government of Catalonia recognised the record of ATAM in an act of appreciation for entities representing the handicapped who have been working for more than 25 years.

ATAM has the following figures:

- Number of associated employees: 62,854 in December 2003, between employees, early retirees and pensioners of the 23 companies in the Telefónica Group.
- Number on the census: 3,562 at the end of 2003, nationwide, who have been provided the necessary support and measures to develop their potential at the centres of the association or through other aid and/or

SOME CORPORATE VOLUNTEER ACTIVITIES IN SPAIN. 2003

Project	Activity
Prestige	<ul style="list-style-type: none"> – Participation by Telefónica volunteers on certain working days – Participation by 102 employees
Learning to venture	<ul style="list-style-type: none"> – Participation as teachers on 35 courses for children from 7 to 17, aimed at educating to achieve goals within a framework of freedom and education. – Participation by 45 teachers and benefited 875 children.
Recovery of computer equipment	<ul style="list-style-type: none"> – Reinstatement of obsolete computer material, for later use in social projects (donated through the Bip-Bip Foundation) – Participation by 60 employees who recycled 500 sets of equipment
Solidarity telephone operators	<ul style="list-style-type: none"> – 162 employees attended to 12,000 calls to the Inocente Inocente 2003, charity drive to collect funds to research cancer in children.

services. During 2003, a total 409 disabled persons were attended through their own territorial centres.

- The aid the Association grants to registered sufferers of disability are individual and aimed at helping to pay part of the expense of the needs arising from the person's disability, considering such factors as age and social-family and financial circumstances. During 2003, a total 14,422 grants were awarded under this heading.
- Annual budget for 2003: 17,904,138 euros

Some notable events at ATAM in 2003:

- Implementation of a total quality management system for its services. Moreover, in September, ATAM collaborated in conferences co-ordinated with FEAPS Madrid on quality services for the intellectually disabled and their families.
- CIF System to evaluate the degree of disability. That pioneering tool in Spain aims to prepare an evaluation mechanism to provide an integral response (covering all the dimensions of the person) and one that is ongoing (throughout the different stages of life).
- Agreement with the Spanish Royal Trustees of Disability, aimed at joint participation in developing innovative projects to prevent deficiencies, evaluate disability and for social and labour integration of disabled persons.
- ATAM and the Spanish Committee of Representatives of Disabled Persons (CERMI), signed an agreement last December to co-operate in matters of social integration of disabled persons.
- Discapsalud: design of a maximum accessibility portal, intended on one hand to provide inform, guidance and prevention of deficiencies and disabilities, and on the other hand, knowledge and diffusion of all aspects related to health and the specific characteristics of diverse deficiencies. This portal will be operational in the first quarter of 2004.
- First congress on the Labour Market and Disability: the entities forming Mercadis organised a congress on 18th and 19th June at which all the aspects to be taken into account when planning social and labour policies were debated, in order to improve access to jobs for the disabled. Mercadis is a project promoted by the Telefónica Foundation with the technical support of ATAM, in which the main entities and associations from the world of disability participate.

06

Society: contribution and proximity



01

Commitment in the countries in which it operates

- Commitment to investment
- Commitment to development
- Boosting the economy
- Supporting local providers

TELEFÓNICA REVENUES
average contribution **1.85%**
of Spain, Argentina, Chile, Peru and Brazil

02

Digital inclusion

- Actions against the geographic divide
- Actions against the economic divide
- Actions against the skills divide

LOW COST LINES IN SPAIN AND LATIN AMERICA
3,334,560

03

Development of the information society

- Services that add value
- Collaboration with universities

UNIVERSITIES AND BUSINESS SCHOOLS
120 agreements

04

Social use of communications

- Education
- Co-operation
- Emergency situations
- Art and culture

PROJECTS BY FUNDACIÓN TELEFÓNICA
14,559,319 beneficiaries

05

Support for the disabled

- Awareness
- Technology for the disabled
- Training
- Employment

INTERNET TRAINING
1,000 disabled persons in Chile

Revenue from Telefónica Group operations in the world in 2003

28,399.8
millions of euros

01 COMMITMENT TO THE COUNTRIES IN WHICH IT OPERATES

Telefónica is the reference operator in Spanish and Portuguese speaking societies, due to its firm commitment to development of each one of the countries in which it is present and its determination to adapt to the reality and needs of each one of them. This regional nature is appreciated in the distribution of revenues, where the revenue from Latin America accounted for 33.3% of the revenue of the Telefónica Group 2003.

During 2003, Telefónica once more proved its commitment to development of the countries in which it operates; being the top investor in Latin America, with an accumulated investment of more than 65,000 million euros.

- **Spain:** Telefónica de España has invested 2,000 million euros in the period 2000/03 to develop broadband, which has allowed the figure of one and a half million ADSL lines to be exceeded. Telefónica Móviles España set up the first UMTS service in pre-commercial use launched by a mobile telephony operator in Spain in a real environment; the service was launched for corporate customer in February

2004. Telefónica Móviles has scheduled investment of 1,000 million euros to develop the Third Generation infrastructures (3G) in the period 2004/06.

- **Argentina:** announcement of 2,000 million pesos in investment (approximately 600 million euros) over the next four years. These investments include installation of one million basic telephony lines, nationwide deployment of the mobile telephony network with GSM/GPRS technology, installation of 50,000 new public telephone lines, creation of latest generation transport networks and launching new services to satisfy the needs of the economically weaker sectors.
- **Brazil:** Telefónica Móviles, through the purchase of TCO, will make the first major investment by a foreign company in the country since the new Government took office. Moreover, TeleSP was the first company to attract external debt (specifically in Japan) since the political transition took place.
- **Chile:** Telefónica Móvil Chile has begun to implement a mobile telephony network of 2.5G on GSM.

DISTRIBUTION OF REVENUE BY COUNTRIES

(Data in percentages)



A COMMITMENT TO THE ECONOMIES AND DEVELOPMENT OF THE COUNTRIES

	Spain	Argentina	Brazil	Chile	Mexico	Peru
% of Telefónica revenue	61.6	4.01	16.94	4.84	2.12	4.48
% Telefónica revenue / GNP	2.35	1.01	1.12	2.02	0.12	2.36
No. of employees	58,189	14,100	42,496	8,795	5,228	9,422
% local suppliers by number of contracts	84	96	99	98	—	94
% local suppliers by economic volume	85	89	96	79	—	85
Company ranking (revenue per country)	1ST	6TH	1ST (private)	4TH	—	1ST

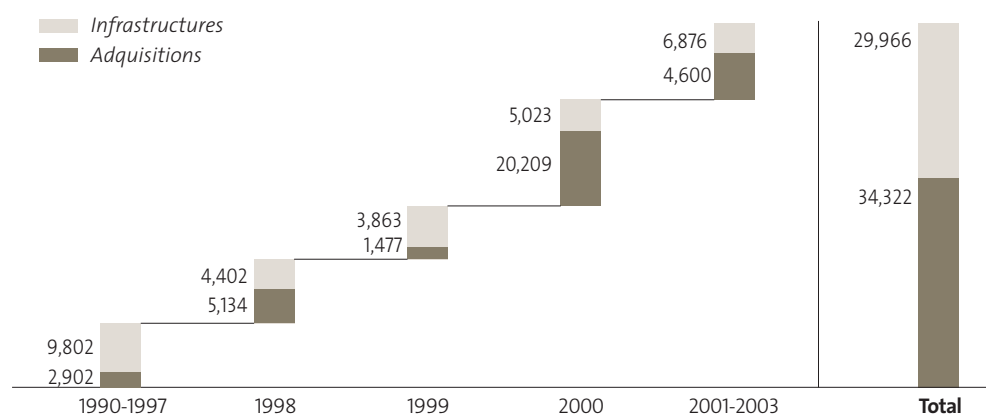
- **Mexico:** announcement of 1,200 million euros in investment in the period 2003/06, becoming a long term investor involved in the economic and social development of the country. Deployment of the GSM network by Telefónica Movistar took place in scarcely seven months, which is a record time worldwide for installation of a new network of such a dimension and characteristics. In December 2003, 96 cities in the country had GSM coverage.
- **Peru:** launching new tariff plans has reinforced the commitments by Telefónica to development of the country, while the bid by Telefónica for broadband typical is embodied in investments over 150 million soles per annum in the coming years. In 2003, Peru was the first country in Latin America to have the Telefónica NTSpeedy WiFi system, that allows wireless broadband browsing from public places. Telefónica Móviles Perú has launched a network based on CDMA 1X that allows speeds of 144 kbps to be achieved.

The commitment of Telefónica to the countries goes beyond development of infrastructures and takes on a key role in collaboration between the civil society and corporate one, in economic and social development, promotion of SMEs or support for the information society.

- The Chairman of Telefónica in Brazil is a member of the National Council for Economic and Social Development, formed by representatives of civil and corporate society, that aims to debate matters of national interest and promote human interest through access to quality education in Brazil.
- At the heat of the economic crisis, Telefónica de Argentina joined forces with the public sector to encourage exports by Argentinean SMEs. Through encounters and videoconferences, access to new markets abroad was facilitated, along with direct promotion of Argentinean products. That business circle is set within the programme Companies in Expansion developed by Telefónica, which consists of offering small companies that wish to commence, or incentivise their export activity, an comprehensive service that covers and supports the whole sequence of activities related to international buying and selling.
- Telefónica also inaugurated the subsidiary of Telefónica Investigación y Desarrollo incorporated in Brazil, the mission of which is to increase competitiveness and growth of companies within the Group that

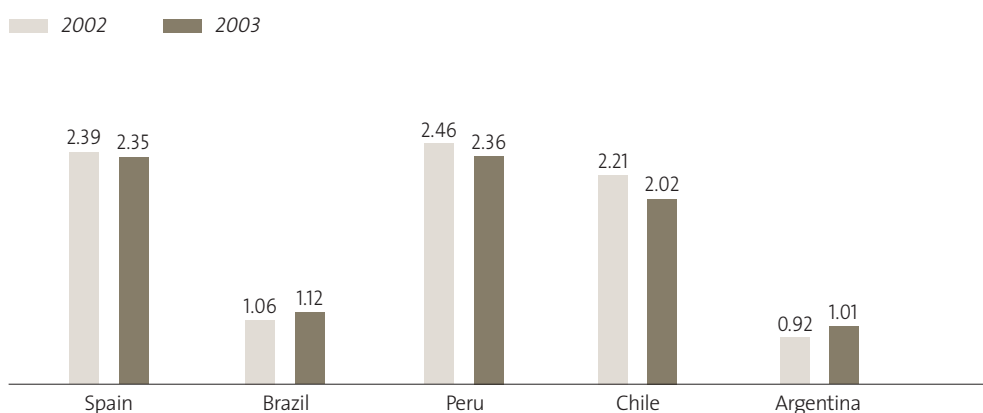
TELEFÓNICA GROUP ACCUMULATED INVESTMENT IN LATIN AMERICA

(Data in millions of euros)



REVENUE / GROSS DOMESTIC PRODUCT

(Data in percentages)



operate in Brazil and throughout Latin America, through technological innovation and creation of more advanced products and services. TP+D began its activities with 15 employees, 7 interns and nearly 50 collaborators.

Telefónica, as one of the leading national companies in each one of the countries, assumes a driving role in the national economy. The proportion of revenue of Telefónica in relation to the Gross Domestic Product of the countries in which it operates is recorded in figures ranging from 1% in Argentina to 2.35% in Spain or Peru.

The high proportion of supplier contracts located in the actual country, greater than 90% on average, is yet another sign of the importance of the economic activity of Telefónica in each territory, confirmed by the economic volume of these purchases.

Lastly, it is important to emphasise the indirect impact of the services provided by the companies in the Telefónica Group. For example, actions to reduce the digital divide, reduction of prices of the services, increased bandwidth available and permanent connectivity, have a significant impact on the productivity of persons, corporate sectors and the economy in general.

02 DIGITAL INCLUSION

According to the Report published in July 2003 by the Latin American Integration Association (ALADI), the concept of digital divide is used to describe the existing differences in access to new technologies. However, digital technology in itself is not responsible for the digital divide. The main factors that cause it are the establishment of infrastructures throughout the whole territory, as well as the income and skills levels and training to use the new technologies.

From its position as reference operator on the Spanish and Portuguese speaking markets, and in fulfilment of its commitments to proximity and confidence, for the last ten years Telefónica has undertaken numerous initiatives aimed at reduction of the digital breach within its regions of influence.

Universal Service in Spain

Up to present, in Spain, Telefónica de España has assumed the net cost of providing the universal service, that in addition to covering the telephone service, including Internet access covers a series of obligations of an eminently social nature, such as special social rate, and special services for the disabled, described below, a toll free information service from public phones, free telephone guides for customers and a wide coverage of public phones.

The net cost of the universal service operations in 2002 came to 224 million euros according to Telefónica de España. The Telecommunications Market Commission recognised in 2003 that the cost to Telefónica of the universal service provided in 2002 had amounted to 110 million euros, the difference being due to discrepancies in consideration of non monetary profit on account of ubiquity, the cost of termination of outgoing international traffic and the grouping of the 795 zones proposed by Telefónica de España in 587.

Neither of Telefónica estimations, nor CMT recognised costs do fully cover this obligation's expenses for Telefónica de España. Due to methodology ruled by CMT; several other costs are compensated; eg: Telefónica de España maintains 17,605 phone boxes in locations where their use does not cover their maintenance cost, at a net cost of 63 million euros. It also operates the only regulated information service (11818/1003), with a limited offer, toll free from phone boxes, at a loss of 13 million euros.

UNIVERSAL SERVICES NET COST ACCORDING TO TELEFÓNICA DE ESPAÑA

Concept	Description	Euros
Social Rare	More than 400,000 people paid 0.6 euros per month instead of 12.6	70 million
Total geographic coverage	More than three million lines in loss making zones	154 million

TELEFÓNICA CONTRIBUTION TO UNIVERSAL SERVICE FUNDS IN LATIN AMERICA

	Amount	Local currency	Exchange rate	Euros
Brazil	102.70 millions	Brazilian Real	3.454	29.73 millions
Peru	28.68 millions	Peruvian new sol	3.91	7.34 millions
Argentina	8.50 millions	Argentinean peso	3.324	2.56 millions
Total				39.63 millions

a) Actions against the 'geographic divide'

universalisation goals foreseen for December 2003 in December 2001.

Rural telephony

Telefónica provides communications in communities that are located in rural zones at the same price as those in urban areas. In December 2003, more than 200,000 customers benefited from this service in Spain and more than 74,000 in Latin America countries.

- In Chile, CTC is performing service and applications promotion programmes on its own account (for example, providing Internet access to 5,500 schools) to complement the programmes by the Telecommunications Development Fund (FDT) financed directly by the Government.

Universal Service Funds

In Latin America, Telefónica companies collaborate with the different public initiatives to universalise the service, with a contribution to the universalisation funds of nearly 40 million euros :

- In Argentina, in spite of the Universal Service Fund (FSU), to which it is foreseen that the operators will contribute 1% of their turnover, not yet having been constituted, Telefónica de Argentina has been providing services at a loss.
- In Brazil, the Telecommunications Services Universalisation Fund (FUST) is formed by 1% of the gross operating turnover; TeleSP contributed 102.7 million reals. A noteworthy fact is early fulfilment by Telefónica, of the

- A Telecommunications Investment Fund (FITEL) has been set up in Peru, formed by contributions by the operators equivalent to 1% of their total gross turnover. Due to its specific importance, Telefónica del Perú has a very relevant contribution to that fund, aimed at establishing services in rural areas and other places of preferential social interest.

Broadband

In Spain, 91% of the fixed telephony network has coverage to provide broadband services through ADSL, offering these services to 93% of the population. That high capillarity of the network has led to more than one and a half million ADSL connections in Spain, more than one million of which belong to the retail service by Telefónica de España. The study Information Society 2003

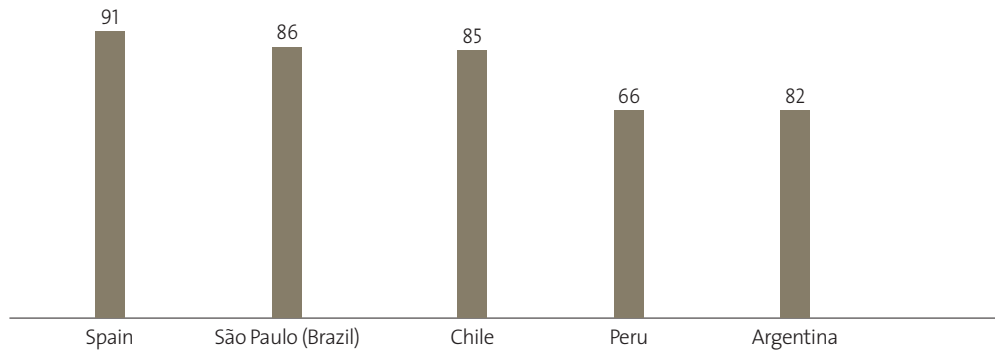
RURAL TELEPHONE SERVICES.

NUMBER OF CUSTOMERS

(December 2003)



FIXED TELEPHONY NETWORK AVAILABLE FOR ADSL
(Data in percentage)



concluded that 25% of Spanish homes with Internet use broadband to connect to the Net, much higher than the European average (13%).

In order to extend coverage of broadband services throughout the national territory, Telefónica de España has set up a satellite Internet access service. Thanks to establishment of new bidirectional modes, the Internet broadband access customer does not need to have an extra telephone line, as both directions of the communication are established by satellite.

The investment effort by Telefónica in Latin America to encourage broadband (exceeding 1,000 million dollars) is shown by the high coverage of the broadband (Speedy) services on the fixed telephony network, reaching 85% in Chile, 82% in Argentina, 66% in Perú or 86% in the state of São Paulo in Brazil.

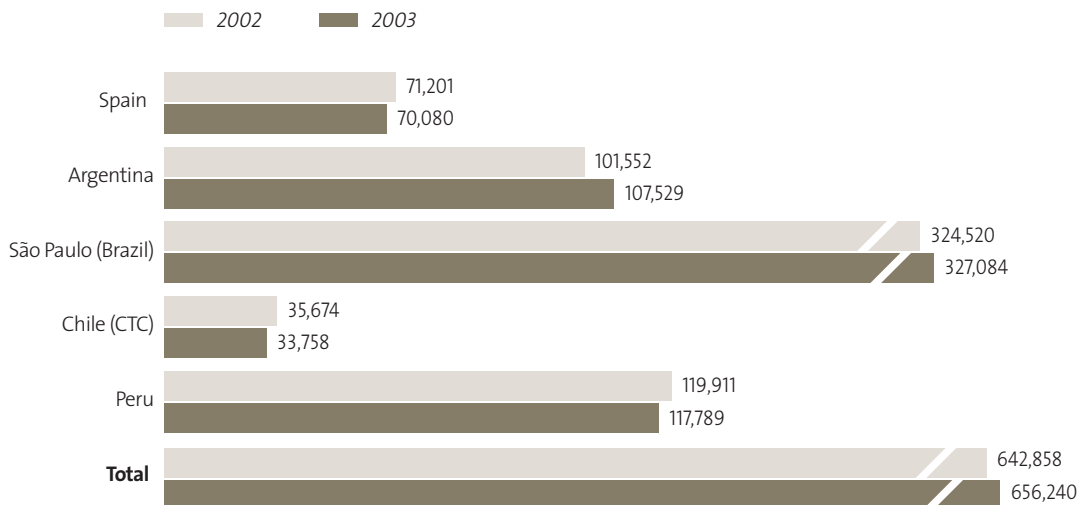
During 2003, Telefónica de España and Telefónica Latinoamérica have provided mobility to its broadband offer through implementation

of WiFi hotspots in such places as hotels, offices, convention rooms, airports and other public locations. The figures are significant, with 188 spots set up in Latin America in December 2003, and implementation of a further 400 in progress.

Public telephony

Public telephony is yet another option for the home telephone to provide access to communications to the whole population. Two significant facts in promotion of this service by Telefónica are that: Peru is the country in the world with the largest penetration of public telephony in relation to the total number of telephone lines (6%) and São Paulo has more than 10 appliances per 1,000 inhabitants in its metropolitan area. Aware of the important role of infrastructures for public use in development of the new services, Telefónica has included short messaging functions, e-mail, or Internet access in its public terminals in Spain, Peru or Brazil.

PUBLIC USE TELEPHONES. TELEFÓNICA GROUP
(Data in units)



2,5G AND 3G NETWORKS DEPLOYED BY TELEFÓNICA MÓVILES

	Network deployment
Spain	GSM-GPRS: national coverage UMTS in all the provincial capitals
Brazil	CDMA 1X RTT in Sao Paulo, Rio de Janeiro, Espirito Santo, Brasilia, Rio Grande do Sul and regions of the centre-east and north of the country
Argentina	GSM/GPRS in Buenos Aires, Mendoza and Bariloche
Peru	CDMA 1X RTT in Lima, Trujillo, Arequipa, Chiclayo, Piura, Chimbote, Ica, Huancayo, Tacna, Cajamarca and Cuzco (34% of the population)
Chile	GSM/GPRS: national coverage EDGE: Metropolitan Region and V Region

Mobile telephony

Due to the growing use of mobile telephony, Telefónica Móviles offers coverage levels in all the countries where it operates that are always greater than those required by the licences, continually seeking to optimise that coverage and efficiently managing the geographic, demographic and seasonal conditions. Moreover, Telefónica Móviles has pioneered the introduction of technologies 2,5G and 3G in all the countries where it operates, providing a good alternative to extend services with broadband, multimedia or mobile Internet features.

b) Actions against the 'economic divide'

During 2003, Telefónica has continued its offer of products in keeping with the social and economic reality of the regions in which it operates, to thus attend to the needs of sectors in which, for economic reasons, there is no access to telecommunications services.

Spain

Telefónica de España provides Social Rate, in order to provide access for customers with financial difficulties to the basic telecommunications services in Spain. It consists of a discount of 70% of the current amount of the connection fee and installation of the network terminal equipment (PTR) and a 95% discount on the monthly telephone line fee (free of any maintenance contract). The number of beneficiaries of this Social Rate in December 2003 was 414,456.

In 2003, Telefónica has developed initiatives aimed at sectors of society with difficulties in digital inclusion.

- The group formed by immigrants from other countries have new schemes that allow them to speak to their countries of origin on very advantageous economic terms. These plans concentrate on Latin American immigrants.

- Bono Américas is a special rate which covers calls to fixed telephones in the Dominican Republic, Argentina, Bolivia, Brazil, Colombia, Peru, Venezuela, Ecuador, Mexico, Chile and Uruguay.
- Bono Magreb covers Morocco and Algeria.
- Bono Europa del Este covers calls to Romania, the Ukraine, Bulgaria, Russia, Poland or the Czech Republic.

- Telefónica participates in a scheme to help large families (Plan + Familia, www.masfamilia.org) offering a set of economic advantages specifically designed for them. The Telefónica Group members who participate in the Plan are: Telefónica de España, Telefónica Móviles, Terra, Educaterra, Telefónica Data and Atento, through specific offers (such as those by Telefónica de España, Telefónica Móviles, Terra and Educaterra) and promotion of its activities by free contribution to products and services (hosting services and a toll free hotline).

Latin America

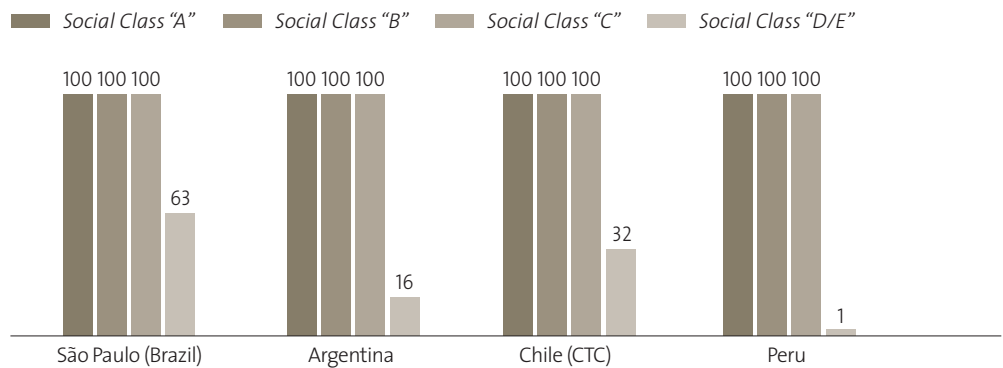
In Latin America, pre-payment, along with public telephony and restricted service lines are the basic pillars on which Telefónica has based its deployment of services aimed at low income groups. According to studies performed by the Group, such initiatives are necessary to encourage digital inclusion, as social classes D and E (those with the least income) would find it hard to meet the basic standing fee.

Argentina

In Argentina, Telefónica has reached 1.2 million agreements with customers with payment difficulties since 2001. Thanks to flexible terms to enter into instalment payment agreements, Telefónica managed to prevent a higher level of line withdrawals and enabled customers who were suffering financial difficulties to remain in

ESTIMATES OF LATIN AMERICAN HOMES THAT CAN PAY THE BASIC STANDING FEE*

(Data in percentages)



(*) Based on a maximum of 4% of income spent on telecommunications and according to the basic fee in each country, which determines the minimum income a home must have to afford the expense.

contact, avoiding the loss of the telephone service. That task required work in close contact with customers, with case by case study and consideration of the payment history and additional information requested on the potential beneficiary, before granting the agreement. The funds refinanced in that accumulated manner came to 400 million Argentinean pesos.

Several products were also developed to provide customers adequate control over telephone expenses. Those known as Líneas Control, Recupero and Línea Cero now have more than 1,259,000 users.

Brazil

In Brazil, TeleSP offers the Linha da Economia, that had 530,925 users at the end of 2003. In that line, TeleSP launched a pre-paid card, Super 15, that allows customers to make national and international calls from any fixed telephone in the country controlling the expense, available balance and specific information on the time available for each call before beginning it. During 2003, the number of pre-paid cards in public use acquired by customers amounted to 110 million.

In order to promote Internet access to the communities with greatest economic difficulties, TeleSP and Fundación Telefónica are offering neighbourhoods telecentre facilities to provide

connectivity for youths, children and adults who previously had no contact with the virtual world. Moreover, collaboration by TeleSP with Telefónica Empresas has allowed it to attend to the Acesa São Paulo Programme, through which the Government of the State provides free Internet access to the population. That same project was awarded the Prize for Excellence in Electronic Governance by the Brazilian Association for State Data Processing Companies.

Chile

In Chile, Telefónica CTC offers a new product aimed at segments of the population with less resources: the Plan Bajo Consumo. This is a pre-paid fixed telephone where the customer is the subscriber. The use of pre-paid cards allows the customer to keep control of telephone expenditure.

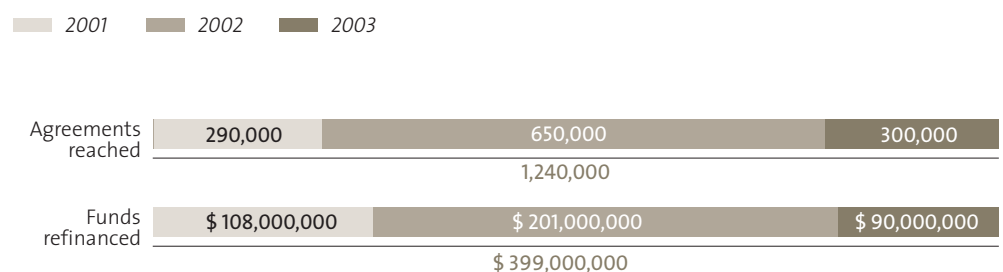
There are also numerous other products¹ adapted to the customers' needs. In December 2003, there were a total 269,404 lines that benefited from such contracts, and 10.7 prepaid cards had been used.

Moreover, during 2003, Telefónica CTC proceeded to reconnect customers with debts of 120 days or more, so they may have the telephone service to receive calls and use a pre-paid card to make them. Nearly 200,000 telephone lines will be released, providing customers a communication alternative.

(1) Includes the products: (Cuenta Segura Repactado / Cuenta Segura Solicitada por Clientes / Plan Solución / Servicio Activo Clientes / Servicio Activo Comodato / Servicio Activo Ex-Clientes / Servicio Activo Nuevos Clientes / Bajo Consumo / FULL Variable / Plan Solución Pyme)

AGREEMENTS WITH CUSTOMERS WITH DIFFICULTY TO PAY IN ARGENTINA

(Data in pesos)



Peru

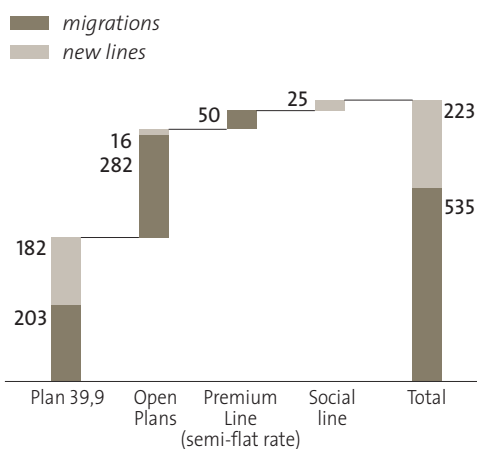
In March 2003, Telefónica del Perú provided its users a series of new tariff plans, that allow a 15% average saving and a maximum of up to 30.9% based on monthly income, local calls from fixed to fixed and Internet consumption. These plans were a success, as at the end of November, more than 750,000 customers chose the new plan, allowing it to reach 49% of the residential customers. 72% of the migrations were in homes with socio-economic levels C, D and E. At the end of 2003, 860,734 customers were users of the low consumption products in Peru² and the average saving for the consumer reached 18%, above the 15% initially foreseen.

The 147 Card is a pre-paid card that allows calls to be made from fixed telephones and public terminals, allowing spending control by the users. Its success is shown by the 129,781,468 cards distributed throughout 2003.

Telefónica provides its Latin American customers the benefits of belonging to a group

CUSTOMERS SUBSCRIBED TO NEW PLANS IN PERU BY TYPE OF PLAN. (30th NOV. 2003)

(Data in thousands)



with presence in several countries and encourages the synergy between its diverse subsidiaries. Thus, Telefónica has set up the De Punta a Punta scheme in Peru and Chile, which offers discounts of up to 50% during normal time bands, for fixed telephone numbers in both countries. This plan will be extended to Argentina and Brazil in a second phase.

Mobile telephony

Additionally, in the field of mobile telephony, mass use of SMS messages shows how simple, cheap services may be used to solve communication needs at a very low cost.

Another factor that has contributed decisively to reducing barriers of an economic kind has been manufacturing, by Telefónica Móviles, of its own brand terminals, at lower cost to users.

c) Actions against the 'skills divide'

Technological barriers are not the only ones that may cause the appearance of the digital divide. There are skills and knowledge barriers

NUMBER OF SHORT MESSAGES SENT FROM MOBILE NETWORKS

(Data in millions)

	Millions of SMS
Telefónica Móviles España	9,302
Telefónica Unifón Argentina	26
Telefónica Móviles México (since april)	87
Telefónica Móviles Perú	80
Telefónica Móvil Chile	85
Telefónica Centroamérica Guatemala	2
Telefónica Móviles El Salvador	3
Movistar Puerto Rico	5
Meditel (Morocco)	140

(2) Popular, Línea70, Línea100, LDC-Inicial, LDC-Personal, LDC-Familiar, LDC-Máxima, LDC-Especial, LDC-Internet, LDC-Internet Plus, LDC-Económica, LDC-Súper Económica, Flexilínea, Fonofácil Plus, Fono4

that may be higher than the technological ones, especially in developing countries and in groups such as the elderly or disabled. Telefónica, in collaboration with its Foundation, is developing programmes aimed at providing society skills in the use of new technologies.

- In 2003, Telefónica de Argentina began the third round of the Interactive Classroom programme, designed to provide skills in Internet use to students in the primary and middle cycles of public and private schools. The initiative includes students from more than 80 schools in La Plata, Mar del Plata and the provinces of Pampa, Neuquén, Mendoza and Río Negro, in addition to Capital Federal and Gran Buenos Aires.
- In Brasil, Fundación Telefónica, in collaboration with the Municipal Secretariat of Education of São Paulo, provided skills training during the first semester of 2003 to more than 2,000 teachers, on the pedagogical use of computers and the Internet. That project, that benefits more than 450 primary schools, is part of the EducaRed project.
- Telefónica CTC Chile, with support from Fundación Telefónica, has completed its fifth year of the Internet Educativa programme, thanks to which 5,500 schools and lyceums throughout the country were linked to the Internet thanks to the Company.
- Telefónica CTC Chile, in collaboration with the Rural Life Foundation, provided Internet skills training courses to 10,000 students, elderly and disabled adults. In its four year history, the programme has trained more than 45,000 people.
- In Santiago, Fundación Telefónica has organised training courses for 500 teachers, aimed at learning about the possibilities and pedagogical use of the Internet.

- In Spain, Terra, together with the main associations of students' parents and teaching unions, have set up the Terra initiative Aulas edu.es. It is a project aimed at 60,000 students between 12 and 17 years old, parents and teachers, the objective of which is to provide information on Internet facilities in education and leisure, as well as the risks of its improper use.

In November 2003, Telefónica Móviles España created the Usability Group, in order to improve usability, user experience and homogeneity between services and interfaces. To manage to achieve these objectives, the group carried out studies aimed at obtaining knowledge of the usability of the present mobile services and services, as well as the needs of potential customers.

03 DEVELOPMENT OF THE INFORMATION SOCIETY

Telefónica has a firm commitment to transformation of the potential benefits of the information in real benefits for its users. To do so, along with development of its basic infrastructures and combating the digital divide, it develops an important activity in development of services, joint work with other companies and collaboration with universities.

a) Services that add value to the company

a.1) Services with added value for civil society

- Telefónica Soluciones collaborates with the Ministry of Science and Technology and with the Spanish Federation of Municipalities and Provinces in development of the Electronic Administration. The project considers creation of a full digital city on a platform that integrates an information portal, an administrative tele-counter, an agenda of activities and other communication tools.

- Telefónica Móviles España has presented the Ciudad Móvil (Mobile City) project, aimed at modernising the processes and management of local corporations with their citizens through mobile telephony. Ciudad Móvil is based on the opportunities provided by such a universal access device as the mobile telephone and its growing use, and allows the Local Governments to establish a closer, more dynamic, two-way relation with the citizens, in addition to providing a service at any time, at any place, and to modernise municipal management.
- Telefónica de España provided the technological support for the first Internet voting. This took place in Hoyo de Pinares, Ávila, in co-ordination with the Ministry of Internal Affairs and the Ministry of Science and Technology. In that same electoral context, Telefónica Móviles España and the Local Government of Leganés set up a system to provide the voters information on the census.
- The infrastructure of Telefónica Empresas in São Paulo has allowed trials to be held with prisoner examination taking place from the prison, by videoconference, thus saving on travel costs of the prisoners to the court, due to the high security measures required.

a.2) Added value services for small and medium sized companies.

Telefónica de España, through its participation in such schemes as the Office to Support the Information Society¹, the SME Modernisation Programme² or Banespyme³, aims to facilitate, integrate and make it possible for SMEs to join the information society.

Among the objectives of these schemes, there is providing companies the specific solutions of information technologies that are useful for their processes of modernisation and improvement of competitiveness. For example, Telefónica de España has completed its family

of ADSL Solutions with the ADSL solution known as e-gestión, a new application that provides small and medium enterprises and professionals complete customer management software (CRM). All the applications and data of the SMEs that use them are housed in the information centres of Telefónica de España, equipped with all the security elements of its network 24 hours a day. In December 2003, more than one hundred thousand customers of the Group had hired such services.

Telefónica de España is also developing the Project of Agreements with Professional Groups and Associations to encourage better commercial attention to groups of economists, engineers, architects, lawyers and other professionals, continually providing them the most advanced telecommunication services, that will allow them to improve their management as professionals within the information society, in which they have to perform their duties.

Telefónica Móviles España, Microsoft Business Solutions and Indra have entered into a collaboration agreement to jointly develop a set of mobile business solutions adapted to specific corporate needs. Within the framework of that agreement, two solutions have been developed aimed at the roaming sales force and mobile project management. Specifically, the Mobile Sales Force solution (Comerciales en Movilidad) provides perfect communication between the sales staff and the company and allows access in real time to all the information on customer interactions. Thus, sales staff response time is shortened, task assignment is optimised with the location tool that includes the solution and improves communication between the company and the sales staff through SMS notifications and alerts.

At the initiative of Atento, a survey will be made on the export capacity of SMEs in Argentina. On the basis of approximately 4,000 SMEs in the metropolitan area and interior of the country, 600 effective surveys

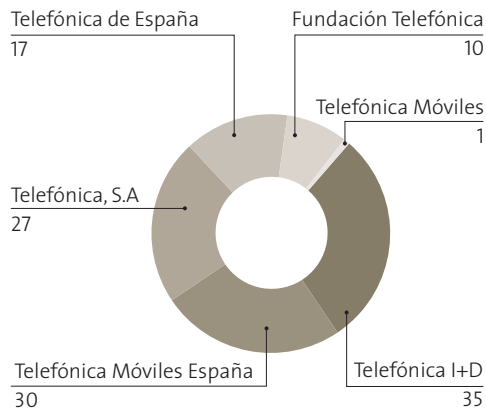
- (1) Joint initiative with BBVA, HP and Microsoft
 (2) Joint initiative with Bankinter, IBM, Informática El Corte Inglés and SP
 (3) Initiative by Banesto with participation by Microsoft, Intel, HP, ICES, DHL, Cisco Systems and Barrabés Internet

PROFESSIONAL AGREEMENTS ESTABLISHED BY TELEFÓNICA DE ESPAÑA WITH PROFESSIONAL GROUPS AND ASSOCIATIONS

Region	No. of Agreements
Andalucía	105
Aragón	23
Asturias	15
Balearic Islands	9
Canary Islands	32
Cantabria	15
Castilla y León	27
Castilla La Mancha	22
Cataluña	62
Extremadura	5
Galicia	23
Madrid	40
Murcia	16
Navarra	8
Basque Country	31
Rioja	10
Valencia	50

**INITIATIVES WITH UNIVERSITIES
BY BUSINESS LINES 2003**

(Data in percentages)



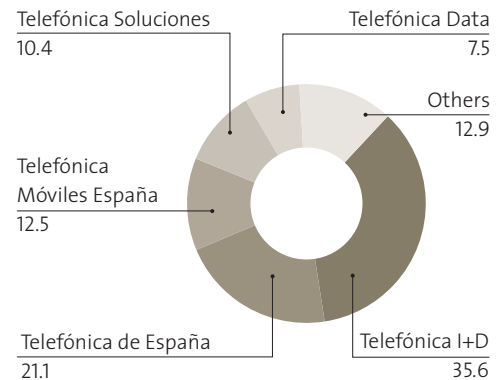
were carried out. Through this study, Atento Argentina wished to investigate whether small and medium sized companies in the country are ready to export.

a.3) Solutions adapted to the needs of the different corporate sectors.

- Transport sector:
 - Telefónica Móviles España collaborates actively with the Spanish Merchandise Transport Confederation (CETM) in the Strategic Plan for Road Transport of Merchandise, supported by the Ministry of Development.
 - In Brazil, Vivo presented a communication module that, when installed in vehicles, allows monitoring of entire fleets or individual vehicles, the use of which is aimed at logistics and security processes.
 - Telefónica Soluciones has launched a cell based monitoring and location service, that allows location and management of mobile telephones within the company. That service allows companies to optimise their logistic resources, by knowing the exact location of their personnel, vehicles and merchandise, with time saving and improved their worker productivity estimated at 15% to 20%.
 - TPI-Páginas Amarillas has launched a new street map service on Internet that shows the state of the traffic in real time in the main Spanish capital cities. The user may consult more than 180 cameras located in the main areas of Madrid, Barcelona, Bilbao, Seville and Las Palmas de Gran Canaria.
- Distribution Sector
 - Telefónica I+D has developed a family of solutions (Atlantis M2M) that allows

**INVESTMENT IN GRANTS
BY BUSINESS LINES**

(Data in percentages)



communication between machines based on the mobile telephone. This provides companies information in real time on the state of their machines and remote devices (industry, transport, logistics, vending, telemetrics, etc.), to configure and activate the machines without the need to travel.

- Insurance sector
 - Telefónica Móviles España has developed a project that builds mobility into the car verification process when taking insurance. Thus, the appraisers will receive the information on their visits by short message to fill in the car verification form. They may also send the report data from their mobile telephone.
- Construction sector
 - The Connected Home solution provides the home owner the necessary devices for remote management or control of his house, through a safe access system from anywhere in the world where there is an Internet connection or telephone communication. In July 2003, the first housing estate built with this solution was presented in the province of La Coruña.
 - Telefónica de España imposes the use of broadband connectivity solutions between professionals in the construction world (contractors, subcontractors, architects, draftsmen, etc.) through an agreement with Obralia (Internet portal driven by 32 construction companies, with more than 50,000 registered companies).
 - Telefónica Móviles España and Ferrovial have reached an agreement to collaborate in development of mobile technology

TELEFÓNICA PROFESSORSHIPS



solutions such as tracking and payment by mobile telephone, using the present GPRS networks and the third generation (UMTS) and applying them to their areas of services, infrastructures, real estate promotion and construction.

- Health sector
 - Telefónica I+D has developed a prototype application of electronic prescription for professionals, doctors, health centres, resources and patients. That system allows prescriptions to be written, dispensed and billed, replacing the present one on paper. It will increase the quality of the assistance process, as it avoids erroneous interpretations arising from manual prescription and detects possible incompatibilities in the medication the patient is to be supplied, as complete information is available on the drugs prescribed and dispensed.

b) Collaboration with universities

In 2003, the Telefónica Group established or renewed more than two hundred agreements with Spanish universities. The financial effort by the Telefónica Group, aimed at supporting university training, has amounted to ten million euros in the last financial year, two million

being assigned to professorships, courses and seminars, and eight million to grants.

The number of total training initiatives by Telefónica with universities and business schools during 2003, amounted to 120 (65 in 2002). One of the most outstanding initiatives in 2003 was that set up by Telefónica Móviles España, the Technological Promotion Plan for the UMTS Network, at fifteen Spanish universities, developed through research grants, calling prizes, training activities and access to the UMTS network for research activities.

The Telefónica professorships are an initiative aimed at promoting the leverage effect of technological innovation, encouraging basic and applied research, encouraging training of future professionals and helping SMEs to train staff in new technologies. This programme, in operation from 2000, now has 17 initiatives.

The Telefónica Group offered 1,100 grants in 2003, to students on technical degree courses at diverse Spanish universities, through 201 agreements. Fundación Telefónica also collaborates with the Fundación Carolina, created at the initiative of the Spanish Government to promote cultural relations and co-operation in the educational and scientific fields between Spain and the rest of the world, especially in the countries of the Latin America community.

Some results of the Telefónica Professorships in 2003

42
technological innovation projects (24 in 2002)

19
collaboration projects with companies in the Group (9 in 2002)

48
courses taught with training at:

3,020
students (compared with 1.350 in 2002)

3,442
hours of training (791 in 2002)

106
grants awarded in the scope of the Professorships (66 en 2002)

Presentations of the research results in

27
forums

37
publications

11
own webs

SOCIAL AND CULTURAL ACTION BUDGET. TELEFÓNICA GROUP 2003

Contribution	Millions of euros
Telefónica Foundation	23,477
ATAM (*)	8,800
Rest of Telefónica Group (**)	14,271
TOTAL	46,548

(*) Contribution by the Company in the Telefónica Group to ATAM to complement the contribution by the employees.

(**) Includes activities performed by companies in the Telefónica Group according to the basic criteria of Social and Cultural Action: actions of general interest, voluntary and non-profit.

Throughout the year, the companies in the Telefónica Group have awarded prizes to recognise diverse research work performed by the universities. This is the case of the research work into UMTS technologies awarded by Telefónica Móviles España or the R&D prizes for innovation awarded by Telefónica I+D in Spain and Brazil.

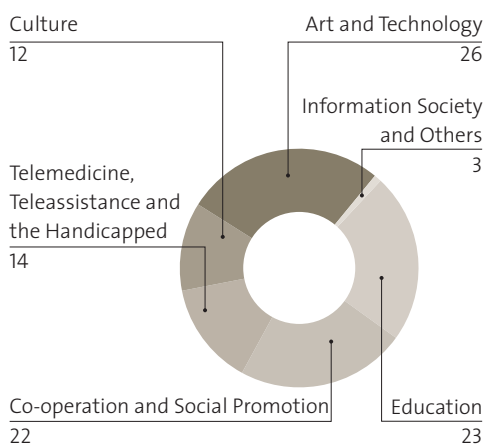
CampusRed.net, an initiative of the Fundación Telefónica, is an initiative that encourages exchange of information and knowledge among the Latin American university communities, facilitating teaching on the Net and shared management. In 2003, it received 823,959 visits, with a 153% growth on 2002.

04 SOCIAL USE OF COMMUNICATIONS

Fundación Telefónica is the main channel for social and cultural action of the Telefónica Group in the countries in which it is present: Spain, Argentina, Brazil, Morocco, Peru, and since 2003, Mexico. To that end, it develops different projects in collaboration with social organisations, in which application of new

FUNDACIÓN TELEFÓNICA BUDGET IN SPAIN BY AREAS OF ACTIVITY

(Data in percentages)



information technologies and communication is the fundamental study aimed at improving educational processes, access to culture and art, as well as develop society and improve people's quality of life, with special attention to the least favoured groups. However, other companies in the Group also perform non-profit activities aimed at social and cultural development of the societies in which they operate.

All the actions carried out by the Fundación Telefónica in the countries in which it operates, on the basis of transnational, or specifically national projects, are characterised by their general interest, their voluntary commitment beyond what is established by law, and their being of a non-profit nature.

During 2003, Fundación Telefónica had a budget of 23,477,000 euros and developed 209 social and cultural action projects that have directly or indirectly benefitted 20,092 organisations and 14,559,319 persons.

The distribution of the budgets by areas of activity shows the interest the Fundación has in developing its activities in all the fields in which it is present. A more detailed analysis of the organisations with which it collaborates and the people who are beneficiaries shows that social use of information technologies may have a major impact in such fields as education, co-operation or teleassistance.

In 2003, Fundación Telefónica gathered the opinion of different representatives of the social and cultural organisations with which it has collaborated, that has allowed it to ascertain the degree of social utility of the activities carried out, as well as a series of aspects that may contribute to improving future relations between Fundación Telefónica and those organisations. Nearly 55% of the total 197 questionnaires sent to the representatives of those organisations were answered. These opinions are recorded in the 2003 Social Memorandum of the Fundación Telefónica.

a) Educational development

The action by Fundación Telefónica in the area of education involves development of powerful technological platforms on the Net able to provide the most advanced tools, to create innovative educational content and support training of teachers, students and parents in the use of the new resources. It also encourages creation of spaces for reflection and debate among the experts, the educational community and society, and creates virtual work areas and exchange of knowledge, that allow programmes to be established for the classroom, teaching and research on the Net.

- *EducaRed*, www.educared.net, is a transnational educational platform, adapted to the educational and social contexts of each country, the objective of which is to extend and improve educational resources on the Internet, concentrating on creation and promotion of new materials and pedagogical innovations. Educared received the Anuario Telecom 2003 citizens' prize in Brazil, in the category of contribution to the community. The II International Congress of EducaRed was attended by 2,000 teachers.
- *Aulas Unidas (United Classrooms)* is a twinning project between educational

centres and students that favours interrelation and collaboration between different schools in Argentina, Brasil, Chile, Peru, Morocco and Spain.

- Designed and developed by the Fundación Telefónica in Argentina, *Aulas Interactivas (Interactive Classrooms)* provides skills in the use of Internet to students in primary and secondary education in state and private schools in the country.
- In Brazil, Fundación Telefónica has developed the programme *Internet nas Escolas (Internet in Schools)*, through which it intends to provide broadband Internet connection to more than 700 primary and secondary schools. Also in that country, the Foundation provides its support in implementation of *Computer and Citizenship Schools (EICs)* in different underprivileged communities.
- The *Internet Educativa* project in Chile provides connectivity and free use of the Internet to all the educational centres in the country. Fundación Telefónica in Chile also develops a training programme in the pedagogical uses of Internet, aimed at people who perform activities in different areas of the community.

Spain: EducaRed:

11,091
schools registered

Argentina: Aulas Unidas:

8,945
student participants

Brazil: Computer and
Citizenship Schools:

5,300
students trained

Chile: Internet Educativa:

5,500
schools linked

FUNDACIÓN TELEFÓNICA PROJECTS' IMPACT BY AREAS OF ACTIVITY

	Spain			Latin America and Morocco		
	% projects	Char. Orgs.	Pers. Benef.	% projects	Char. Orgs.	Pers. Benef.
Education	7	11,166	4,297,292	17	5,527	3,667,838
Co-operation and Social Promotion	15	773	1,112,000	21	995	83,032
Telemedicine, Teleassistance and Disabilities	25	1,210	382,323	21	238	291,572
Culture	10	25	504,064	27	90	1,529,883
Art and Technology	28	34	1,852,532	14	28	823,783
Information Society	16	6	15,000	0	0	0
Total	100	13,214	8,163,211	100	6,878	6,396,108

Peru: Educational project
in Marankiari Bajo:

42

indigenous
communities benefit

Morocco: Village
of Bougdour:

380

adults on a literacy
programme

- Fundación Telefónica of Peru collaborates as administrator of the resources contributed by the Telefónica group to the *Huascarán Project*, the objective of which is to provide Internet access to thousands of schools, thus extending coverage of the educational services to the poorest, most remote areas of the country through distance education programmes.
- In the educational area, Fundación Telefónica in Morocco has collaborated in financing the construction and equipment of a rural school in the village of Bougdour, province of Tangiers-Asilah.
- Fundación Telefónica is working on the *Homeless Children project*, aimed at providing training and information to street children in Argentina, Brazil, Chile, Spain, Morocco, Mexico and Peru, through shelter centres that will have computerised classrooms, linked together on EducaRed.
- Peru has the Satellite Tele-education Pilot Centre, that benefits 42 indigenous communities, as well as 12,000 inhabitants in the district of Perené.

b) Support for co-operation

Contribution of infrastructure in favour of co-operation.

One of the aims of Fundación Telefónica is to place new information and communication technologies at the service of co-operation and development. To that end, the Foundation provides its support to a large number of non-profit entities and social organisations, providing them diverse communication solutions that allow them to increase the effectiveness of their actions, thus contributing to improve the living conditions of the people they attend.

- The portal Risolidaria (International Solidarity Network), www.risolidaria.org, is a

transnational platform that aims to facilitate the task of social organisations by linking them to a network that speeds up their contact and mutual collaboration. A key event in 2003 was its launch in Portuguese.

- *The Telecommunications Equipment Programme for Non-Profit Organisations* aims to ensure modernisation and technological adaptation of the information and orientation telephone services these entities are provided. In the 2003 edition, aid was granted to 519 entities out of the 700 who applied.
- For the eighth consecutive year, the Christmas Campaign provided free communication during the holidays between direct relatives of Spanish co-operation workers and missionaries performing humanitarian work in different countries in the Third World.

Collaboration in social projects

The Telefónica Group performs intense social work through collaboration in social development initiatives in each one of the countries in which it is present.

- In Argentina, Fundación Telefónica is working on the Integral Programme for Development of Civil Society, that provides social organisations tools to professionalise their human resources, as well as technical and consulting assistance. In alliance with organisations in the sector, Fundación Telefónica supports community growth through micro-ventures and micro-credits for local development.
- Fundación Telefónica in Brazil develops a programme aimed at supporting the work carried out by the municipal councils for the Rights of Children and Adolescents. The Foundation supports other social initiatives that promote labour integration of women who are heads of families, with children and adolescents in their charge.

- In Brazil, the Telefónica Group has collaborated in the Hunger Zero programme. It is a governmental programme that aims to aid nearly 10 million families (about 46 million people), resident in urban and rural areas. Along with the support provided by Telefónica to develop the project, Atento runs the telephone call centre that handles 257,000 queries concerning the scheme, and Terra sponsors the programme portal.
- Atento Brazil was the first company to sign the alliance with the Association for diffusion of Drug Information Centres in order to provide specialised attention for the population without access to information on prevention and use of drugs. Atento Brasil opened the first Drug Information Centre in the city of Ribeirao Preto and aims to extend that figure to its 14 centres.
- In Peru, the programme of Fundación Telefónica Sports Clinics 2003 has taken place for the third consecutive year. This edition has benefited 4,800 athletes of school age, 140% than last year, from thirteen cities in the country.

Use of communications to gather funds

Communications may be of major use in gathering funds for social projects. Telefónica, is aware of this and offers its services for these ends:

- Telefónica Móviles España and Aldeas Infantiles SOS de España have signed a collaboration agreement in order to perform actions based on new mobile technologies that allow resources to be obtained for development programmes and protection of childhood. The first actions were carried out during Christmas with the revenue generated by sending Telefónica Movistar multimedia postcards and short text messages (SMS) with greetings to the 404 mailbox.
- Fundación Telefónica provided a number that channelled the donations and all the

telephone infrastructure for the Telefood Pageant organised by the FAO, under the slogan *An international alliance against hunger*.

- Fundación Telefónica in Spain activated an Emergency Telephone to channel humanitarian aid in the Iraq war.
- On Childhood Day, Atento Argentina provided free management of all the donations to the television marathon Sunshine for the children a UNICEF charity drive. Its 400 volunteers managed to collect 641,866 and handled 41,020 calls. Telefónica also collaborated in Argentina with the annual collection by Cáritas.
- Atento in Peru participated in the Televida (Tele-life) project. That event allowed more than 260,000 euros to be collected to help cancer patients at the Neoplastic Diseases Specialist Institute.
- In Puerto Rico, Atento collaborated with the Muscular Dystrophy Association in call management during the annual radio and telephone marathons by that concern.

- In Brazil and Chile, Telefónica provides its support to the *Teleton* (fund collection to support and develop disabled children). The support provided by Telefónica consists of human, technological and financial resources.

- Yet another year Telefónica Data sponsors the awareness campaign *One Kilo of Help*, organised by the IUVE Foundation in order to promote solidarity buying of a donation card that is later converted to food, books, medicines or building materials.

c) Use of technology in emergency situations

Fundación Telefónica provides NGOs for development several Emergency Communication Units to palliate communication problems, as it did in previous catastrophe situations.

Spain: Telecommunications equipment programme for non-profit organisations.

519
beneficiary organisations

Argentina: Integral Plan for Development of Civil Society:

77
activities

Brazil: Pro-Direitos Programme:

207
assistance organisations that attend children

Chile: Risolidaria:

90
organisations registered

Peru: Sport Clinics for scholars:

4,800
athletes participated

- The city of Santa Fé in Argentina was struck by the most serious flooding in the whole of its history, that led to evacuation of more than 100,000 people, leaving the city without electricity and practically cut off. Unifón helped the catastrophe victims by donating 400,000 minutes of calls and delivering terminals to the NGOs and Civil Defense. Atento Argentina provided Civil Defence and the Solidarity Network its platform to receive help from those who decided to offer all kinds of donations. The campaign received a total 13,974 calls.
- Telefónica de España, in collaboration with Fundación Telefónica, transferred two mobile phone booth units (equipped with 36 cabins) to the Galician coast to collaborate in the cleaning tasks after the oil spillage from the Prestige. To complement this, the Foundation distributed free telephone cards among the volunteers and Telefónica Móviles sent 12 mobile units to reinforce coverage all along the coast.
- During 2003, Telefónica de España set up nationwide deployment of the ENASIS service (Advanced Routing for Services of Social Interest) that allows calls from users of services of social interest in local areas (municipal police, national police, municipal information, fire brigade, etc.) to be accessed by dialling short numbers (090, 091, 010 or 080).
- Fundación Telefónica is to collaborate with the Spanish Red Cross in maintenance of its Mobile Co-ordination Centre and will support the Contact Centre and Emergency Response Unit (ERU) project.

Mobile telephones are a good help to ensure effective coverage of the communications needs of the emergency services: fire brigade, ambulances, helping people at risk, search and rescue services, police actions, etc.

More than 70% of participants in the opinion channels of Telefónica Móviles, on use of

technologies, declared that mobile telephony had been of great use to solve an emergency.

d) Combatting gender violence

Telefónica Móviles España has provided the Directorate General of Police free call traffic to set up the Ministry of Internal Affairs Assistance Programme for Abused Women. Each woman assigned to the programme will be given a mobile telephone with abbreviated dialling, restricted to four pre-programmed numbers. Telefónica Móviles España will grant each of the women on the programme 12 euros per month in free calls, in addition to free connection of the service and its monthly standing fee. The company has also developed and installed a specific corporate network to facilitate communications between the police and women concerned, and has provided technical training to the police on operation of multimedia terminals.

In addition to this national agreement, Telefónica Móviles España, through its territorial directorates, has signed agreements with several Local Governments and Autonomous Regions (Galicia, Basque Country, Castilla-La Mancha and Andalucía) to promote assistance programmes for abused women in diverse areas. Fundación Telefónica is collaborating with Local Governments in Palma de Mallorca and Santander in setting up similar projects.

e) Legal use of communications

Telefónica considers it part of its responsibility to collaborate with the authorities in combating use of technology for purposes that violate the laws in force. In this sense, during 2003, major measures were taken against robbery of mobile telephones, child pornography and content piracy.

e.1) Measures to discourage mobile phone theft

Due to the high rate of phone theft, Telefónica Móviles is working with the authorities and rest

of the operators in the countries to create systems that allow the equipment to be blocked, and thus hinder such criminal activity.

In Spain, it works with the other operators and the authorities to inform users of the procedure to follow if their phone is stolen and to later block the terminals reported missing. In 2003, 59,577 terminals were blocked after being reported stolen.

A similar procedure is in place in Latin America, applying information exchange to the bordering countries. The number of terminals deactivated in Argentina during 2003 came to 98,712. In Chile, information exchange between operators was activated in

January 2004, with an average 415 terminals deactivated. In Peru, as soon as a phone theft or loss is reported, the electric series of the equipment is deactivated in order to prevent it being unduly reactivated.

e.2) Measures against child pornography on the Net

In order to facilitate persecution of child pornography, Terra developed the following initiatives:

- Suppression of the anonymous personal web page service. According to data provided by the Civil Guard and Police, due to which exhibition of pornography was reduced 99%.

SOCIAL SERVICES ACCESSIBLE FROM TELEFÓNICA MÓVILES NETWORKS

Country	Number of services	Services
Telefónica Móviles España	3	112, 088 and 085 (central emergency services)
Unifón Argentina	7	Fire Brigade, Police, Abused Children, Civil Defence, Coastguards and Medical Emergency
Telefónica Móvil Chile	10	Ambulance, Fire Brigade, Police, Emergency 136, Emergency Conaf, Drugs Phone, Police Information, Sea Rescue, Search Service
Telefónica Móviles Perú	5	Police Emergency, Civil Defence, Fire Brigade, Hospital Emergency, Emergency Switchboard
Telefónica Móviles Guatemala	1	911 (Central Emergency Service)
Telefónica Móviles El Salvador	1	911 (Central Emergency Service)
Méditel Morocco	4	112 (Even without Sim Méditel Card), National Police, Royal Gendarmes and Civil Protection

- Initiation of a campaign on the portal, in which users are called on to denounce any illegal activity in personal pages, included in or accessible through these. The number of reports is practically non-existent at present, which confirms the success of the measures adopted.

e.3) Legal alternatives to musical piracy

Mundo ADSL, a service marketed by Telefónica de España and Terra, has included a new Music Download feature in its range of products and services, that strictly complies with the regulations in force concerning protection of authors' rights. Through that service, Telefónica has become the first telecommunications operator to offer Internet users a catalogue of more than 50,000 musical themes, in order to offer legal alternatives to download and record music on broadband.

f) Internet use by children

In June 2003 the *Framework Agreement for Collaboration in Promotion of Safe Internet Use by Children and Youths* was signed by Terra and the following bodies: *The Children's Ombudsman* of the Region of Madrid, Red.es, Unicef, *Save the Children*, Asociación contra la Pornografía Infantil, Protégeles, Cocapa, Ceapa and Trade Unions. It aims to provide a framework for collaboration that guarantees protection of children and encourages the use of new technologies.

- Terra España has launched a new service that allows filtering of access to specific Internet sites and contents considered non appropriate for consumption by children and youths. The new service, called *Terra Control Paternal*, allows supervision of Internet browsing, limiting access to certain web pages, so the user determines which pages may be accessible through his computer, filtering the content. The content that may be limited are those related to racism, violence, drugs, pornography, sects and construction of explosives.

- Telefónica de España offers a similar service, *CanguroNet*, with filters to prevent access to certain Internet sites and content considered inappropriate for family or corporate consumption.

g) Support for the Spanish language

Telefónica is noted for its active collaboration in promotion and use of the Spanish language throughout the world. Thus, in 2003, it renewed its collaboration agreements with the Spanish Royal Academy and the Cervantes Institute, that have led to numerous programmes:

- The Spanish Royal Academy, Fundación Telefónica and Terra Lycos collaborate in promotion and diffusion of Spanish on the Internet. Due to this, users may access the 22nd edition of the Dictionary of the Spanish Royal Academy and submit queries free of charge.
- For the seventh consecutive year, Telefónica and Fundación Telefónica provided the technological and telecommunications infrastructure for the reading of *El Quijote*, that was held continuously for 48 hours. The technological novelty this year was the chapter read by the text-voice converter developed by Telefónica I+D and included in the Hispanic Studies portal of the Cervantes Institute.
- Digitization of archives and content in Spanish of the San Millán de la Cogolla Foundation or the Miguel de Cervantes Virtual Library Foundation.
- Spanish Up-to-date Service, that now receives and dispatches an average 275 queries per day from all over the world.
- Drafting and revision of the *Diccionario Panhispánico de Dudas*, a work in which all the academies of the Spanish Language have participated actively, to satisfy the demand for an academic publication providing guidance on the rules of correct use of the Spanish language.

h) Diffusion of art and culture

From its birth, Fundación Telefónica has considered that one of its priority objectives is to include the new information technologies, and most especially, Internet in the diffusion processes of any artistic and cultural manifestation, not only to bring culture to people anywhere in the world, but also as a tool to explore and develop new forms of cultural expression.

The National Culture Institute (INC) in Peru awarded Fundación Telefónica the Medal of Honour for Peruvian Culture, to recognise the valuable ongoing contribution the institution makes to Peruvian culture. *“This prize is in appreciation of the work the Foundation has carried out since 1999, in order to recover, conserve and make the historical heritage of Peru known, that involves bringing the common citizen nearer to all the wealth of his past and present culture”.*

Some initiatives developed in 2003:

- The programme *Ars Virtual* (www.arsvirtual.com), is a three dimensional recreation of the main monuments of the artistic and cultural heritage of Spain, such as Cathedrals and the Royal Palaces. In 2003, there was a notable virtual reproduction of the Cathedral of Cuzco in Peru and the Royal Monastery of the Incarnation in Madrid.
- Technological collaboration with different Spanish institutions of great prestige such as the Casa de América, Círculo de Bellas Artes, Fundació Orfeó Català-Palau de la Música or the Fundación Las Médulas, to develop diverse projects to modernise infrastructures, equipment and services to allow better diffusion of their cultural activities.
- The internet portal *Centro Cultural Perú Virtual* (www.perucultural.org.pe),

developed by Fundación Telefónica in Peru, is a space that shows the main public and private institutions in the field of culture, art and education in Peru, where Internet users are shown the historical legacy of the country.

- Collaboration in the *Djehuty project*, the first Spanish archaeological expedition to Egypt.
- Fundación Telefónica called the fifth edition of the international competition, *Artificial Life 6.0*, a worldwide project that explores new creative frontiers and encourages works of life related to *artificial life*.

Fundación Telefónica in Spain manages the artistic and historical-technological heritage of the Telefónica Group, through creation of a series of collections to conserve, catalogue, acquire and exhibit these at the Art Centre and Telecommunications Museum, located at the head office of the company in the Gran Vía in Madrid.

- Temporary exhibitions of different artistic disciplines: painting, sculpture, engraving, photography, electronic and digital art, multimedia, artificial life or robotics, either its own or in collaboration with other institutions.
- Fundación Telefónica has an active policy of exchange and loans with other cultural institutions in Spain and abroad, which allows its works of art and exhibitions the widest diffusion.
- Art Galleries in all the countries where Fundación Telefónica is present, developing an active programme related to contemporary art and the new technologies.
- The Ministry of Education and Culture of Spain and Fundación Telefónica signed an agreement in 2003 for temporary cession of the exhibition halls of the Fundación.

Spain
Ars Virtual

15
virtual recreations of
emblematic monuments

Peru
Centro Cultural Perú Virtual

1,900,000
visitors

05 SUPPORT FOR THE DISABLED

The Telefónica Group has participated, along with public and private concerns, in diverse activities of the European Year of Disability, held between June and November 2003. The Group has represented through the ATAM (Telefónica Association for Assistance to the Handicapped), Fundación Telefónica and diverse lines of business and it maintains the same commitment as in 2004, the year when the Latin American Year of Disability.

This intense social work has received considerable public recognition by the main organisations that encourage integration and equal opportunities for the disabled.

- Fundación Telefónica was awarded the *Prize for Social and Cultural Action CERMI.ES 2003*, granted by the Spanish Committee of Representatives of Disabled Persons, for its *"important task in supporting the least privileged sectors of society and for having developed different programmes aimed at achieving social integration and improvement of the living conditions of the disabled"*.
- Telefónica was awarded the *Fundación Empresa y Sociedad Prize for the Best Social Action* in collaboration with employees for the initiative ATAM. That prize was dedicated to the 65,000 employees who collaborate with the association.
- Fundación Sagardoy awarded Telefónica an extraordinary prize for its prevention and social and labour integration task through ATAM.
- The Regional Government of Catalonia recognised the record of ATAM in an act of appreciation for entities representing the disabled who have been working for more than 25 years.
- In Peru, the Ministry for Women and Social Development, MINDES, through the National

Council for Integration of the Disabled, CONADIS, awarded Fundación Telefónica recognition for its outstanding work in defence and promotion of the rights of the disabled.

- Fundación Telefónica and Atento Chile earned distinction as one of the country's most important institutions helping to integrate the blind population. The prize was granted by the Chile Programme, a project aimed at labour insertion of that group.
- In Chile, the co-ordinator of the disability programmes at Fundación Telefónica Chile was appointed National Councillor for the National Handicap Fund. That personal appointment is also a recognition of the work done by Fundación for the benefit of the disabled.

a) Awareness of disabled persons

The Telefónica Group has encouraged debate on the reality of the disabled through numerous initiatives:

- Fundación Telefónica called the 1st Market Congress on Work and Disability, which debated such relevant matters as the standardised work situation, supported employment, public employment, the issues of work station management for the disabled, the situation of underprivileged groups (such as people with mental illness), the labour intermediation services or barriers to access to the labour market.
- Fundación Telefónica participated in the Second Conference of Ministers responsible for Integration Policies for Disabled Persons, with a presentation given by the Adapted Equipment Demonstration Unit.
- Fundación Telefónica has created a channel for projects related to disabled people, with participation by the entities that participate with it.

- Telefónica shared its experience in the field of the disabled with the rest of the companies forming the Corporate Reputation Forum, at a working day conference at ATAM.
- Telefónica del Peru, in co-ordination with the Ombudsman and other social bodies, has launched a series of pre-paid cards with different designs aimed at making the population aware of preferential attention for pregnant women, children, the elderly and the disabled.

Sporting events for the disabled have been supported by Fundación Telefónica in Spain and Peru, as a means to help these persons achieve self fulfilment and to encourage social awareness of their social integration.

b) Technology at the service of disabled persons

In 2003, Fundación Telefónica presented its guide Communication Solutions for the Elderly or Disabled, a volume that explains the services the Telefónica companies provide these groups in a clear, didactic manner.

Some of the services this community is offered are as follows:

- Telefónica de España promotes specific actions for the underprivileged, such as the bill in Braille, or a discount on the first 10 calls to the information number 1003 in each billing period.
- Moreover, with the blind and deaf in mind, the Intermediation Centre was created, so calls to these users are received by a centre where specially trained operators make a conventional call on behalf of the disabled person and transmit the content of the conversations as text. The cost of the centre is borne by the IMSERSO and Telefónica de España provides a discount on incoming calls to that centre to lower the cost of communication for people with disability.

- Telefónica de Argentina receives 10,000 calls a month through its intermediation service between deaf and hearing users. That service, which has been in operation since 1998, receives 50,000 calls a month, ten thousand communications being set up and completed through an operator provided by the service.

In 2003, the service was used to save the life of a deaf person who was ill, a circumstance that led to the service operator being awarded a prize.

- The agreement established between Telefónica Móviles España and the Spanish Committee of Representatives of the Disabled (CERMI) includes several initiatives aimed at the group of disabled persons. For example, the messaging service with voice allows short text messages to be sent, which are received as a voice call, or access to information on services for the disabled, published on the Telefónica Móviles web page.

- Telefónica Móviles España and the FEAPS have launched a pilot project with the geographic person location service, Localízame, that allows information to be obtained on a person's location from a call, a short message, browsing or the Internet, which may be of great use to groups who require family support, tutors or carers, due to any kind of disability.

- Telefónica Soluciones has set up TeleAcceso.com, the first portal in Spain specialised in electronic commerce and integral telecommunications solutions for the disabled. TeleAcceso.com provides the users complete information on the types of devices and computer products, telephony and multimedia devices that best adapt to their handicap such as, for example, mouse emulators for people with motor disfunction, screen magnification programmes for the visually impaired, or special communicators for people with hearing problems.

Spain
Mercadis
4,146
jobs offered

Argentina
Web Design Course
for the Disabled
105
participants

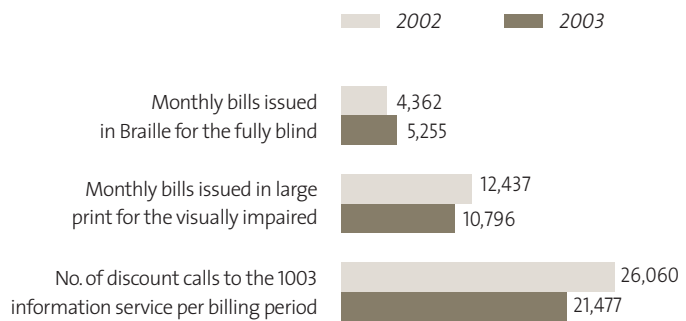
Brazil
SACI Project
4
information and
residential centres

Chile
Mercadis
2,704
jobs offered

Peru
Labour Training Centre
200
disabled beneficiaries

SPECIAL BILLS FOR THE VISUALLY IMPAIRED

(Data in units)



Moreover, the Telefónica Group is active in research work to develop new technologies to improve living standards for disabled persons:

- For years, Fundación Telefónica has been developing the programme SICLA of alternative communication systems for people who cannot talk and require other non verbal systems. This programme enables communication within the family and social groups using the voice, its novelty lying in the fact that they may communicate by telephone, Internet or electronic mail.
- In Argentina, CARE (Centre for Adaptation and Special Rehabilitation) developed computer devices adapted for the disabled, with support from Fundación Telefónica.
- In Brazil, the technicians from TeleSP presented a telephone for the deaf.

c) Training for the disabled and their relatives

Fundación Telefónica has developed different training initiatives to integrate disabled persons in society.

- Fundación Telefónica in Peru has collaborated with the Foundation for Solidarity Development, Fundades, on the project to Promote Municipal Offices to Attend to Disabled Persons, OMAPEDs, as well as other initiatives aimed at full integration in society, such as the Labour Skills Centre or the Information Service for the Disabled, INFODIS.
- In Chile, Fundación Telefónica promotes delivery of computers adapted for the disabled and develops and implements an ongoing training project for them in use of basic computing and the Internet. In the last three years, Fundación Telefónica has helped more than a thousand disabled people.
- In Argentina, Fundación Telefónica organises diverse projects aimed at allowing the disabled to use the new information technologies, providing greater facility for their integration in the labour market, improving management of non-profit organisations working for them and encouraging companies in the sector to research and develop new adapted equipment.

**COST TO TELEFÓNICA DE ESPAÑA OF THE
INTERMEDIATION CENTRE FOR THE DISABLED**
(Data in euros)

Group	2002	2003
Blind persons	12,605	11,422
Deaf persons	26,715	24,617

Along with specific training for the disabled, it is important to develop training activities for the people who live with them. Thus, the following activities were carried out in 2003:

- ATAM presented the Model of Attention for Disabled People's Group, organised around three basic axes: integral assessment of the person's abilities, custom planning of personal support itineraries and application, with constant monitoring and evaluation of the results. The attention model is based on the principle of empowerment or social integration, that means one must ensure that people are trained to perform tasks and activities they were initially not able to do.
- ATAM has designed an information plan for Early Detection of Disability, as some problems that are later difficult to solve may easily be corrected during childhood. That is the context of this early detection campaign, aimed at disturbance which may be found in children aged from 4 to 12 (language, motor co-ordination, socialisation and school learning), problems that affect approximately 15% of children.
- The Project Rede Saci (Solidarity, Support, Communication and Information) in Brazil, aims to encourage communication and diffusion of information among the disabled and among these and their relatives, specialised professionals and public bodies, through two important working tools: the Internet and the Information and Cohabitation Centres (CICs).
- Fundación Telefónica in Argentina, in an alliance with the Association AMAR (A non-profit association to attend to the disabled) organised reflection workshops for siblings of the disabled, to allow them a space for information, reflection, orientation and support to strengthen their family bonds.
- Fundación Telefónica and the Liliane Fonds Foundation trained professionals, parents and voluntaries nationwide, who work with children and youths with motor, sensorial and mental disability.

d) Employment for the disabled

The Telefónica companies collaborate in the integration of the disabled. Labour Integration

Conferences were held for that purpose, to encourage labour integration of the disabled and including the participation of ATAM, the Human Resources Department, and Corporate Reputation Department of Telefónica in a multidisciplinary team.

- Atento Chile was the prize awardee of the Chile Programme for Labour Insertion of the Blind Population, in recognition of its effort at integration. Seven visually impaired people now work at the company.
- In Argentina, Telefónica inaugurated the first public telephone booth centre attended and managed by disabled people, along with the Solidarity Micro-ventures Foundation.
- Telefónica de España and ATAM inaugurated a new tele-attention centre in Barcelona, attended by 27 disabled people, with plans to include a further nine.
- ATAM is to provide advice and technical support to Atento España to set up a Special Employment Centre, that will hire people who are physically disabled. ATAM will collaborate with Atento in assessing and recruiting personnel through the Labour Integration Service (SILA) in the initial training, providing technical support to study accessibility and

the design of the personal and social adjustment programmes.

Moreover, numerous actions by Fundación Telefónica give rise to a seedbed in society for labour integration of the disabled.

- The Demonstration Unit for Equipment Adapted to Disabled Persons of the CEAPAT (State Centre for Personal Autonomy and Technical Aid) in Madrid, or the Information and Orientation Centre of Cantabria, show the possibilities of tele-working, as a means of labour integration for people with sensorial, physical or mental deficiencies.
- Merc@dis (www.mercadis.com), is a virtual job pool aimed at promoting access to the labour market among working aged disabled people. This portal, which operates in Spain and Chile, provides different services related to information of interest for associations and disabled workers who seek employment, as well as employers interested in hiring them.
- In Argentina, the Par Foundation was aided by Fundación Telefónica to organise the Second Competition of Micro-ventures for persons with motor and/or sensorial handicaps, in order to train and encourage them to develop their own companies.

**CORPORATE SOCIAL
RESPONSIBILITY COMMITTEE**

*(The main lines of work considered
for financial year 2004 are related to)*

-
- Latin American Year of Disability
 - National Accessibility Plan
 - Institutional presence in associations / bodies for the disabled
 - “Design for all” in the products and services the company offers
-

07

Environment: respect and protection



01 Environmental Commitment

- Public commitment
- Environmental policy
- Collaboration with other organisations
- Environmental communication

UNITED NATIONS
GLOBAL COMPACT

signed by
Telefónica

02 Environmental Management

- Spain
- Latin America

CERTIFICATION

ISO14001

03 Minimising impact

- Visual impact
- Resource consumption
- Waste management
- Electromagnetic emissions

ELECTROMAGNETIC EMISSIONS

+7,000
base stations certified in 2003

04 Developing services with positive impact on the environment

- Improvement in transport and distribution systems
- Improvement in energy efficiency
- Paper saving
- Dematerialisation

TELEFÓNICA I+D

projects: **353**
environmental assessments

01 TELEFÓNICA, COMMITTED TO THE ENVIRONMENT

a) Public commitment to the environment

Telefónica considers respect for the environment to be a fundamental issue in all its activities, and therefore, the companies in the Telefónica Group have maintained a public commitment to the environment for several years:

- In 1996, Telefónica de España supported the environment commitment of *ETNO* (*European Telecommunications Network Operators Association*) and was a member of the ETNO working group on the environment. As a result of that commitment, in 1999 it adopted its Environmental Policy, structured in ten lines of co-ordinated action..
- In 1997, Telefónica I+D undertook its environmental policy, slightly amended in June 2003. It includes the commitment to develop telecommunications services that contribute to protection of the environment and sustainable development of society.
- Telefónica Móviles España defined its environmental policy in 1998, by which it acquired the following commitments:

UNITED NATIONS GLOBAL COMPACT ENVIRONMENTAL PRINCIPLES

-
- 7 companies must maintain a preventive approach that favours the environment
 - 8 companies must encourage initiatives that promote greater environmental responsibility
 - 9 companies must favour development and diffusion of environmentally respectful technologies
-

- To evaluate and identify the environmental aspects, either positive or negative, arising from activity by the Company.
- To fulfil the laws in force on environmental matters.
- To optimise consumption of raw materials by improving processes, recycling materials and adequate treatment of waste.
- To increase efficient use of energy.
- To gradually include environmental considerations in decisions to purchase and withdraw equipment.
- To guarantee communication and awareness, training all the company employees in environment matters.
- In 2002, the Telefónica Group signed the United Nations Global Compact, three principles of which are related to respect for the environment.
- In 2002, Telefónica Móviles España and another 15 companies formed the Sustainability Excellence Club, in order to Encourage Sustainable Development from the corporate sector, sharing responsible practices to contribute to excellence in companies and to progress in society.
- During 2003, Telefónica made an effective contribution to the GeSI (*Global e-Sustainability Initiative*), which is promoted by the UNEP (United Nations Environmental Programme) and the UIT (International Telecommunication Union), for the purpose of bringing together manufacturers and operators in the information technologies sector, in order to promote sustainable development of the information society.

- In 2003, Telefónica launched in Brazil its environmental policy based on a working group formed by experts and employees, aimed at rational use of electric power and water, as well as recycling materials and the repercussion these processes have on the environment.

In addition to these commitments, for many years the Telefónica Group has collaborated with diverse organisations and foundations dedicated to promoting respect for the environment.

- In Spain, Telefónica Móviles is a company that collaborates with the Environment Foundation and has participated in diverse working groups aimed at implementing environmental good practice in the corporate community.
- In Argentina, Unifón has provided financial support for the Wildlife Foundation for five years. This organisation, that has been operating for more than 20 years, has the mission of preserving biological diversity, proposing alternatives for sustainable use, controlling fulfilment of environmental policies, co-operating in environmental planning and educating and informing society about ecology related activities.
- In Mexico, Fundación Telefónica has created an Environmental Education Fund with the mission of encouraging communication and environmental education. Through a system of virtual information *eambiental.org*, this project will provide information, educational content and links to organisations that work in the environmental area.
- In Peru, Telefónica Móviles is the main sponsor of the 'Cambie' Environmental Conservation prize, convened annually by the Southern Scientific University (UCSUR). It aims to provide recognition for persons and institutions who have worked constantly and permanently in favour of conserving the environment.

ENVIRONMENTAL POLICY OF TELEFÓNICA DE ESPAÑA

Transform into daily practice the goal of exceeding the minimum standards established in environmental legislation.

Evaluate the environmental impact arising from development and management of processes and services.

Lead in achieving maximum energy efficiency and increasing the use of clean fuel and renewable energy.

Establish environmental criteria in research and development of new products and services that are respectful to the environment and encourage sustainable development.

Facilitate training in environmental management systems, encouraging participation by all people and institutions of Telefónica on a regular basis.

Organise management of materials, equipment and buildings with environmental criteria, reducing, reusing, recycling and minimising waste and providing specific treatment of hazardous materials.

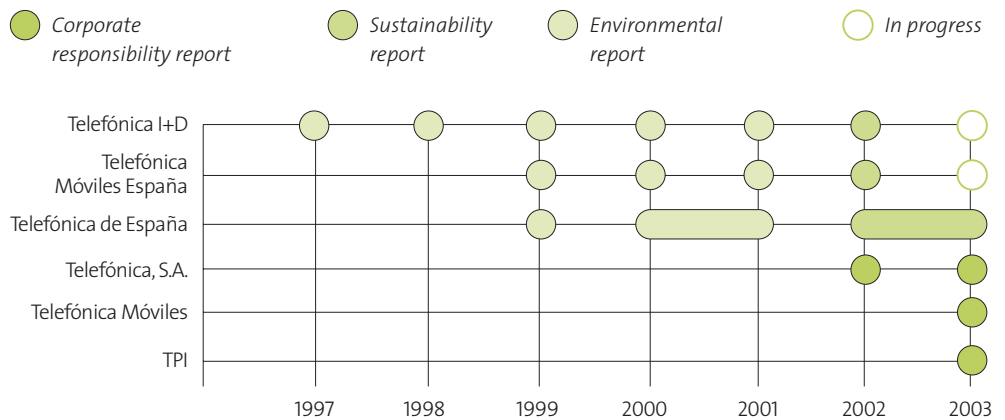
Normalize fulfilment of environmental requisites when selecting and assessing products and services provided by suppliers, evaluating the extent to which environmental systems are implemented.

Implement environmental management systems that encourage prevention and continual improvement of the environmental aspects of the Company.

Communicate the most significant events in the matter, to heighten the awareness of all economic agents, employees, customers, shareholders, public administrations and society at large.

Adopt environmental criteria in sponsorships of projects or social events

TELFÓNICA GROUP ENVIRONMENTAL REPORTS



- In Brazil, Vivo collaborates in Río de Janeiro with the prefecture of Paraty. This municipality, where the biosphere reserve of Mata Atlántica is located, is the first city to be nominated a candidate for inclusion in the World Heritage catalogue by UNESCO in the category of natural landscape.

public may pose questions concerning the natural environment This is complemented by an environmental hotline (1437) and an e-mail address (medioambiente@tsm.es). The web page of Telefónica I+D includes a specific environmental section, where its environmental policy and associated reports may be consulted.

b) Environmental communication

Different companies in the Telefónica Group publish environmental reports, which are evolving toward sustainability reports.

Telefónica Móviles España became the first Spanish telecommunications company to have a Sustainability Report certified under the GRI 2002 (Global Reporting Initiative) Guidelines.

The Environmental Report 2001 by Telefónica de España, as well as its Sustainability Report 2003 have been validated by AENOR, in the latter case under the criteria of GRI 2002 Guidelines.

Telefónica I+D has developed its Environmental Report into a Sustainability Report, based on the GRI model for preparation of sustainability reports. As part of the commitment to all the other interest groups, the report included an e-mail address (sostenibilidad@tid.es) to allow the parties concerned to make any relevant remark or suggestion. However, it plans to continue to publish the Telefónica I+D Environmental Report twice a year.

In 2003, Telefónica also published its first Corporate Responsibility Report, that group the different actions by the companies in the Group aimed at different interest groups in general, including a chapter dedicated to the environment.

The Corporate Responsibility section of the Telefónica web includes an environmental section that includes the policies of the companies in the group, as well as reports and news on the matter. Telefónica Móviles España has a environmental section on its corporate web page, where customers and the general

O2 ENVIRONMENTAL MANAGEMENT

a) Spain

Telefónica de España has implemented an Environmental Management Project since 1999 based on the model of standard UNE-EN ISO 14001. As part of that project, the Logistics Centre implemented an Environmental Management System certified by AENOR. This logistics centre, located in Villaverde, Madrid, has the main mission of reception, storage and distribution of the materials managed by Telefónica de España. The offices and laboratories to assure the quality of the materials managed by the Company are also located in the same building.

Telefónica de España has included environmental impact analysis in 480 projects by the Company during 2003. Telefónica de España runs a tele-training course called Environmental Management at Telefónica de España, the main objective of which is to heighten the environmental awareness of all its employees. In 2003, 85 students participated.

The environmental management system at Telefónica Móviles España covers 100% of its activities and it has been certified by AENOR to standard UNE EN ISO 14001:1996 since 1998. This certificate is renewed every three years and received its last validation in June 2001. During 2003, Telefónica Móviles España successfully passed two monitoring audits in which the audit team emphasised the high degree of implementation of the system in the Company, as well as the communication programme for radio electric emissions.

2003 ENVIRONMENTAL OBJECTIVES. TELEFÓNICA I+D

- Ascertaining how new technologies in the home contribute to improvement of the environment.
- Improvement of environmental and social communication by Telefónica I+D.
- Optimization of consumption and quality of water used by Telefónica I+D.
- Reduction of paper consumption, 65.4% by end 2009, reaching a maximum of 24.91 sheets / thousands € in 2009 (measured on the paper indicator / production + innovation).
- Preparation of an energy balance for the building at Boecillo

Some aspects of the Telefónica Móviles España environmental programme are: reduction of paper and energy consumption; minimising waste; environmental awareness activities (internal and external); employee training activities and checking base stations (control of emissions, noise and visual impact).

Telefónica Móviles España has a course for employees, taken by 70% of them, that includes general aspects of environmental management, waste management, visual impact of base stations and electromagnetic emissions.

The environmental management system at Telefónica I+D has had its Environmental Management Certificate since 1998. It also has several online courses to show its employees the main issues and implications of environmental management. In 2003, Telefónica I+D held a Conference on Sustainability, on World Environment Day, in which it presented the company's first Sustainability Report.

b) Latin America

During 2003, Telefónica performed a preliminary analysis of the environmental risks of the

Telefónica Group in Latin America, further to a prior study of its activities in Spain. At first analysis, the conclusion was reached that companies providing fixed or mobile telephony services were those that could have the greatest environmental impact; due to the type of activity as well as having a larger number of installations. The analysis of the companies in Latin America, through the Corporate Internal Audit department and with Telefónica I+D as an expert advisor, concentrated on identifying the main environmental risks of the fixed and mobile telephony services.

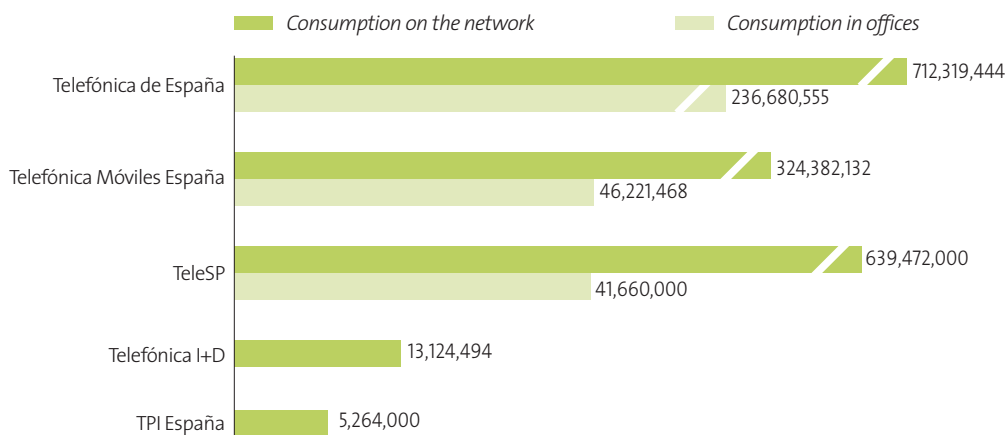
An important area of the study was analysis of legislation in the different countries, with important differences being noted between them in regulatory aspects. The existence of international agreements such as the Basle Convention of Basil or the Montreal Protocol are a help in the effort to standardise regulations in their fields of application, such as, for example, cross border transport of hazardous waste or elimination of substances that weaken the ozone layer. Other aspects, such as waste management, radio electric emissions or noise, are regulated in different ways in different countries.

2003 ENVIRONMENTAL OBJECTIVES. TELEFÓNICA DE ESPAÑA.

- Prevention and control of legionnaire's disease in cooling towers.
- Replacement of 2.7% of the fleet of vehicles without catalysts with others that comply with current regulations on emissions.
- Measures to reduce electricity consumption to 2000 levels.
- Disposal of the stocks of Halon 1211.
- Guide to environmental good practices for installers at the customer's home.
- Extension of Telefónica de España's permit for waste production.
- Reduction of micro-computer waste produced by printers at work stations.
- Reduction of micro-computer waste caused by terminals at work stations.
- Disposal of the stocks of Halon 1301 (carried forward from 2002).
- Adaptation to current regulations on fuel tanks for boilers and generators (carried forward from 2002).

ELECTRIC POWER CONSUMPTION

(Data in kwh)



This study has allowed evaluation of the main environmental issues that have arisen in the activities of the different companies in the Telefónica Group and identification of the associated risks and points for improvement. Work is now being performed on definition of standard management practice for the Group, to minimise the impact of Telefónica on the environment, following the principle of preventing pollution.

In Brazil, TeleSP and Vivo are advancing in implementation of an environmental management system. The initiative by TeleSP is based on the overall work by employees and experts in environmental management. The objective of the initiative is correct use of such natural resources as electric power and water, assuring adequate recycling of the different materials and managing the repercussion the company's processes have on the environment.

Moreover, the Advanced Environmental Management project (GAA) by Vivo, is carried out in collaboration with the Institute for Development of the Environment, Antroposphere and the Foundation for Development of Scientific, Technological and Cultural Research of the UFPR. This project received the first prize for *Brazilian Environmental Benchmarking 2003* and the *Cidadà Company Prize 2003*, in recognition of the environmental actions carried out thanks to this initiative.

On the other hand, Vivo has undertaken an internal education programme, using the channels of communication with the employees, to reduce consumption of water and electricity in the Company buildings. The first results have materialised in the buildings in Paraná and Santa Catarina, where a total 15% saving on energy used has been achieved.

Telefónica Móviles began its project in Mexico in financial year 2003 to implement the Environmental Management System, aimed at being the leading telecommunications operator

in the country to obtain ISO 14001 certification, during the first quarter of 2004. Parallel to the implementation project, a study was carried out to determine what activities by the company may interfere with the environment positively or unfavourably. An environmental awareness programme was also developed for all the company employees, and a course on the Environmental Management System.

Telefónica Móvil Chile is now developing a working plan for future implementation of its Environmental Management System. In Argentina, Unifón has had specific projects for years, such as collection of used batteries or paper recycling, and it has also begun the global environmental management process.

03 MINIMISING THE IMPACT OF OPERATIONS

The basic environmental concerns of the Telefónica Group and its management processes and systems are: reduction of the visual impact of infrastructure; collection of obsolete batteries and terminals; management and recycling of waste; efficient use of energy and other scarce resources and control of electromagnetic emissions.

a) Reduction of the impact of infrastructures on the environment

Throughout the world, Telefónica manages a large number of installations, that may be summarised as follows: more than 2,500 office buildings, more than 17,000 communications masts and more than 9,000 switching centres.

When deploying networks in natural or urban areas of special interest due to their landscape or historic-artistic heritage, Telefónica aims to reduce their visual impact. To do so, it takes into account such options as imitating the surroundings, reuse of existing structures (own or shared with other operators), reduction of the size of the equipment, or camouflaging the structures.

Telefónica Móviles España establishes minimum determining factors for the manufacture, supply and installation of solutions, to reduce visual impact to the minimum, and to integrate radiating systems in the environment by locating them on rooftops. To do so, it is working in two lines:

- Presentation of catalogued solutions that are defined in a single generic project. After passing the certification process, they may be systemically implemented on the network.
- Design of unique solutions that require approval of a complete project for each site. In 2003, a pilot project was set up to renew the image of base stations located on the roofs in the centre of Madrid.

Telefónica Móviles España performed 63 environmental impact studies in 2003, including internal and external studies and visual impact analysis. Moreover, in 2003, the company infrastructures have been modified and/or camouflaged on 194 sites.

Telefónica de España carried out environmental impact studies in 2003 on the infrastructures located on 16 sites. In seven of the cases analysed, modifications were undertaken in the layout for camouflage purposes, or to reduce their visual impact on the environment.

b) Reducing consumption of scarce resources

Electric power

Powering the communications networks is a major consumption item for both fixed and mobile telecommunications operators. Consumption by the Telefónica de España, Telefónica Móviles España and TeleSP networks exceeded 6 million GJ in 2003, compared with the 1.1 million GJ consumed by the offices of these companies. The operators in the Telefónica Group are developing important improvements in the energy efficiency of their networks through monitoring and control systems, or by increasing operating temperature of some equipment and technical rooms, thus saving energy on cooling systems.

Summary of installations

+2,500
office buildings

+17,000
communication towers

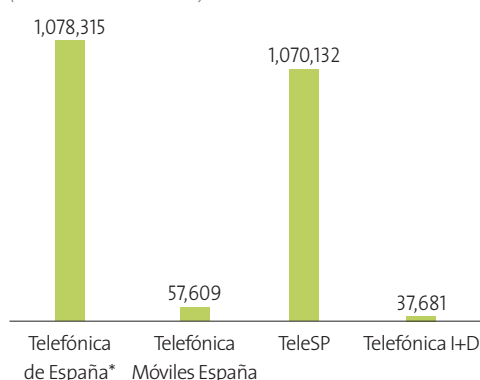
+9,000
plants

TELEFÓNICA MÓVILES ACTIONS TO DECREASE VISUAL IMPACT ON THE ENVIRONMENT

Country	Measures
Spain	<ul style="list-style-type: none"> – Minimum determining factors for the manufacture, supply and installation of solutions. – Analysis of impact on the landscape using a visual fragility index.
Mexico	<ul style="list-style-type: none"> – Evaluation of visual impact in the planning stage. – Use of special solutions (camouflaged towers, cylindrical antennae, etc.) – Use of shared sites (rental of towers by companies).
Argentina	<ul style="list-style-type: none"> – Reuse of infrastructures (existing infrastructures used in 95% of the cases in deployment of the GSM network). – Joint use of sites with other operators (remaining 5% of the network).
Chile	<ul style="list-style-type: none"> – Analysis of the visual impact of projects, in conjunction with municipal authorities. – Redesign of base stations that have been in service for many years.
Peru	<ul style="list-style-type: none"> – Plans to apply draft regulations requiring infrastructure sharing in certain areas.
Puerto Rico	<ul style="list-style-type: none"> – Search for locations with less visual impact. – Joint use of towers with other operators.
Central America	<ul style="list-style-type: none"> – Joint use of infrastructures in El Salvador, foreseen by 2004 in Guatemala.
Morocco	<ul style="list-style-type: none"> – Camouflage of antennae in areas of historic interest. – Joint use of infrastructures.

WATER CONSUMPTION

(Data in cubic metres)



(*) Estimated consumption based on billing for consumption, with an estimated average price of 1,126 euro/m³

In Brazil, TeleSP reduced its energy consumption by 8.4% due to its programmes to encourage awareness of energy use and application of technical measures to improve the performance of the resources.

Water

Water consumption in the telecommunications sector has minor significance when compared with other industries or service sectors. Its main impact consists of water consumption in offices and air cooling systems.

Telefónica I+D completed the water cycle studies for its buildings in Madrid and Boecillo in 2003, aimed at optimising water quality and consumption.

Paper

The Telefónica Group companies have developed diverse initiatives aimed at rationalising paper consumption:

- The high paper consumption required to prepare some of the TPI products (more than 50,000 tonnes) is minimised in environmental impact by requiring paper suppliers to hold the ISO 14001 environmental certificate and for the raw materials used to prepare the end products to have a sustainable origin (renewable forests, the trees of which are planted by paper factories on desert or low productivity land).

- Paper consumption at Telefónica de España offices in Spain is reduced year by year due to evolution toward the paperless office concept, double sided bills and launching the electronic bill. The reduction target for 2003 was 12%, which was achieved through measuring consumption by departments, awareness campaigns among employees or implementation of technical advance, such as default double sided printing.

- Telefónica Móviles España organised the campaign "Your paper (role) is important," recycle to involve all the employees in saving on consumption of resources. To do so, it first set up an awareness and saving operation among all the employees, based on encouraging the use of e-mail, printing documents on both sides and the use of recycled paper.

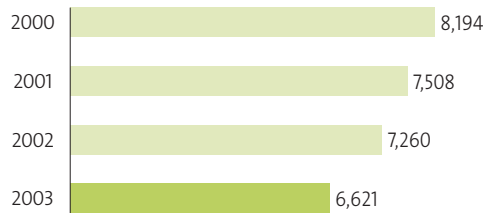
- Telefónica Móviles España consumed 26 million sheets of paper in its offices in 2003, more than 68% of which were recycled paper, which was a spectacular advance over the 8% in 2002.

- Telefónica I+D reduced paper consumption 27.4% during 2003 (measured in sheets /production+innovation), thus meeting its 10% annual target by a wide margin, aiming to achieve the paperless office in 2009. That landmark was mainly achieved by encouraging awareness among its employees, by multiple printing, scanning

PAPER CONSUMPTION

(Data in tonnes)

Company	Paper consumption in offices	Paper consumption in operations
Telefónica de España	707	3,474
Telefónica Móviles España	131	
TeleSP	2,302	1,954
Telefónica I+D	37	

TELFÓNICA DE ESPAÑA VEHICLE FLEET*(Data in units)*

documents, use of computer applications to replace paper and the campaigns promoted by the Environmental Committee.

- Méditel (Morocco) and TeleSP (Brazil) have developed programmes that contribute to saving of natural resources, issuing bills printed on both sides, just as it has been done since 2002 at Telefónica de España or Telefónica Móviles España.

Fuel

The telecommunications sector is not one that generates a large direct demand for fuel, since its consumption is associated with vehicle fleets, heating boilers, emergency actions or service in places with difficult access to power sources.

- The most significant fuel consumption by Telefónica de España is that of its fleet of vehicles, amounting to 8.8 million litres. Generator equipment at Telefónica de España also consumed a total 0.5 million litres.
- The 269 vehicles in the fleet at Telefónica Móviles España consumed a total 529 thousand litres in 2003.
- In Brazil, TeleSP has a fleet of 2,465 vehicles, that consumed nearly 4,530 thousand litres of fuel in 2003. The Group generator equipment consumed a total 367 thousand litres.
- In 2003, Telefónica I+D used 150 thousand litres of heating fuel oil and 266,190 m³ of natural gas, mostly at the cogeneration plant. Its small fleet of seven vehicles consumed 16,000 litres of fuel.
- The mobile telephony and fixed telephony companies in Latin America have generators, mostly only for emergencies. Only in three cases (Telefónica del Perú, Telefónica Unifón Argentina and Telefónica Móviles Perú) are there generators that run continuously, which reduces fuel consumption.

c) Responsible waste management

Telefónica separates and manages each type of waste generated by its activity separately. All the hazardous waste is processed by authorised managers. The largest waste generation is by the offices, electronic and building waste, and batteries.

Management of own waste

- During 2003, Telefónica de España generated a total 15,101,940 kilogrammes of non hazardous waste, a category that includes the paper collected, disassembly of internal plant, cables, telephone equipment, scrap aluminium, iron and wood, plastics and vehicles for scrap. The 857,400 kilogrammes of hazardous waste were biosanitary and radiological waste, stationary lead-acid batteries and waste from disassembly of equipment with Halon 1301 and Halon 1211.
- Telefónica Móviles España managed 219,753 kilogrammes of paper and cardboard, 97 kilogrammes of printing residues, as well as 448 kilogrammes of hazardous waste from fluorescent tubes. As to other waste, it set up the project "Application of the future Directive on Waste from Electric and Electronic Equipment at Telefónica Móviles España". The object of the project is to manage the electronic waste of the Company at the end of its useful life, following the guidelines marked by the European directive, that establishes requisites for management and recovery of electronic equipment.
- TeleSP managed a total 480,000 kilogrammes of non hazardous waste (most of this was held by the users) and 10,606 kilogrammes of hazardous waste in 2003.
- Telefónica I+D managed 101,889 kilogrammes of non hazardous waste and 15,848 kilogrammes of hazardous waste in 2003.

Handling of non-hazardous waste
(data in thousands of kg)

15,101

Telefónica de España

220

Telefónica Móviles España

480

TeleSP

102

Telefónica I+D

Handling of hazardous waste
(data in thousands of kg)

857

Telefónica de España

10

TeleSP

16

Telefónica I+D

Social use of waste

- In Peru, for the fourth consecutive year, Páginas Amarillas carried out its Recycling Campaign 2003, in co-ordination with Fundación Telefónica, this time to aid the General Volunteer Fire Brigade of Peru. It collected 462 tonnes of paper from the yellow and white directories, supported by the residents of Lima and Callao.
- In the area of waste management and recycling, Unifón Argentina has a Paper Recycling Programme, that donates to the Garrahan Paediatric Hospital Foundation. The average amount of paper collected is 900 kilogrammes a month, and the total, since the campaign began, exceeds 105,000 kilogrammes.
- Telefónica Móviles Perú is also concerned with waste management and recycling. One of its initiatives is with toner cartridges. These are stored and donated to FUNDADES, a non-profit organisation with the mission of promoting and arranging activities to improve the quality of life of lower income sectors, especially the disabled.
- In the field of waste management and recycling, Vivo has several initiatives in progress. Through the programme *Transforming life with art*, the used paper from the Vivo offices in Paraná and Santa Catarina is donated to environmental education projects for children in lower income communities, for use in craft objects. The paper and plastic from the São Paulo offices are sold to a recycling company and the money obtained is donated to Semear (Association for integration and aid for the disabled), a non-profit organisation designed to help children of company employees. In 2003, 115,000 kilogrammes of paper were collected, and the money obtained from its sale is donated to diverse charitable concerns.

- The initiative to recycle equipment at Telefónica I+D allows employees to be offered electronic or other kinds of obsolete but reusable company equipment, by draw. The person awarded the equipment is just asked to give a minimum donation of six euros to the NGO he prefers, or to make a cash donation in a collection box provided for that purpose for final delivery to an NGO. Nearly 1,000 euros were collected in 2003.

Management of waste held by the users

The companies in the Telefónica Group are developing diverse initiatives to manage unused terminals and batteries held by the users:

- Telefónica Móviles España has set up its own initiative aimed at selective mobile telephone batteries. There are 60 drop-off points at all the company's management buildings, which collected more than 587 kilogrammes in 2003. In the same line, Telefónica Móviles España collaborates with two initiatives: *Recycle your mobile*, by ANIEL¹ and *Mobile-swallower*, organised by ASIMELEC.
- In Argentina, Unifón has had a Battery Collection and Recycling Programme since 1999, that has collected 550,000 batteries to date. This campaign, backed by the Argentinean Wildlife Foundation, consists of bins placed in 24 commercial offices, where any customer may drop off dead batteries.
- In Brasil, Vivo has set up a telephone battery collection scheme for its customers, that also includes storage, adequate transport and return to the manufacturers. Since 1999, the operators now forming Vivo have collected more than 700,000 batteries.
- During 2003, Telefónica de España has withdrawn 1,198,005 kilogrammes of equipment from its customers homes, including terminals and telephone equipment.

(1) ANIEL: Asociación Nacional de Industrias Electrónicas y de las Telecomunicaciones.

GREENHOUSE EFFECT GASES EMISSIONS IN 2003*(Data in equivalent tonnes)*

	Directs	Indirects	Total
Telefónica de España	28,655	305,578	334,233
Telefónica Móviles España	1,565	156,024	157,589
Telefónica I+D			182

d) Emissions into the atmosphere

For some years, the companies in the Telefónica Group have carried out improvement actions to favour reduction of GEGs (greenhouse effect gasses):

- Renewal and reduction of the vehicle fleet, replacing vehicles without a catalyser with others that comply with current regulations on emissions.
- Measures to save electric energy, such as raising maintenance temperature in equipment rooms up to 23°C, disconnection of underused rectifiers, reducing time of use of management buildings, decreasing illumination in traffic areas in telephone centres, etc.
- Optimising spaces occupied in buildings, isolating unoccupied areas to suppress their climate management.
- Internal awareness campaigns on energy saving.
- Use of alternative energy sources to power mobile infrastructure networks.

Adoption of these measures by Telefónica de España has allowed it to achieve reductions of 11.2% in GEG emissions in relation to the base year (1998) and it aims to achieve a 15% reduction in the year 2008 compared with that same base year.

At Telefónica I+D, the target reduction of CO₂ emissions associated with energy consumption by its building in Boecillo provides a 6% monthly reduction in emissions, which is being achieved by optimising its cogeneration plant with heat and cold recovery.

e) Electromagnetic emissions

Telefónica Móviles has a solid commitment to guarantee and ensure the safety of its infrastructures. It is also scrupulously

respectful in its fulfilment of the current regulations and the laws in force. Due to this, it not only rigorously controls the electromagnetic emissions from the base stations, but also collaborates with the local authorities to achieve optimum deployment of the network, striving to provide internal and external communication of everything related to this important factor.

The base station emission measurement processes have been carried out in the different countries we operate in. They have always proven to comply, within ample margins, with the regulations in force, the limits established by the international reference bodies (ICNIRP, WHO) and health recommendations by the European Union, based on constant revision of the ongoing research.

In Spain in 2002, all the base stations were measured, pursuant to the stipulations of Royal Decree 1066/2001. As a result of this process, the conclusion was reached that the emission measurement from the antennas was 1,200 times lower than the limits set under Spanish law and the European health recommendations. Throughout 2003, measurements were taken at 5,872 sites and 100% compliance with the established limits was obtained.

In Argentina, the measurements were taken pursuant to Resolution CNC 269/2002. During 2003, 130 sites were measured, in addition to the 70 measurements taken in 2002. Of these 130 measurements, 85 were performed fulfilling the verification requisites established in Resolution CNC 269/2002; the remaining ones were taken at the specific request of the municipal authorities. At all the sites, the measurement proved compliance, with an ample margin, of the most demanding standards established in Resolution 202/95, as well as by the national and international standards set by the reference bodies.

Electromagnetic emissions

5,872
Sites audited in 2003

100%
approval
Telefónica Móviles España

In Chile, in fulfilment of current regulations, and in order to inform the authorities, emission levels were measured at 596 stations on the TDMA network and 622 GSM stations.

In Peru, specific measurements were taken at the request of certain local authorities, showing that all that the installations measured comply with international regulations. In 2004, the relevant measures were taken, in fulfilment of the regulations of the Ministry of Transport and Communications on the Maximum Permissible Limits for Non-Ionizing Radiation in the Telecommunications Sector.

All mobile telephones must comply with standards that assure that the maximum radiation levels specified in the standards are not exceeded. The World Health Organisation and the *International Commission on Non-Ionizing Radiation (ICNIRP)* supervise the levels specified in the different standards. The limit value SAR (*Standard Absorption Rate*) generally used for mobile telephones is 2.0 Watt/Kg (W/Kg) on average per 10 grammes of tissue. That value includes a considerable security margin to also protect all people and exclude divergent measurement.

The SAR values may vary depending on the demands in the different countries and network bands. Although the SAR value may vary according to the appliance or position in which it is used, all the values comply with the EU requirements for exposure to radio electric wave emissions. The practices used by manufacturers in relation to terminal SAR is the SAR measurement according to the European directive R&TTE (EC seal), checking that the limits set by the International Commission on Protection against Non-Ionizing Radiation are complied with. All that information, the SAR data measured (specific for each terminal) and the information on the ICNIRP values, are systemically provided in the instruction booklets accompanying the terminal.

The responsibility with which Telefónica Móviles has managed the social alarm in connection with electromagnetic emissions has been identified as good practice on a world-wide scale, in application of the principle of precaution. Telefónica participated in the Third Global Compact Learning Forum, held in Brazil in December 2003, with the presentation of a practical case on application of the principle of precaution in management of electromagnetic emissions.

04 DEVELOPMENT OF SERVICES WITH A POSITIVE IMPACT ON THE ENVIRONMENT

The use of telecommunications services by the industrial, commercial, agricultural and services sectors, as well as households, has a positive impact on the environment. Some of these services with positive environmental impact are:

- Tele-working, remote office.
- Audioconferences and videoconferencing.
- Tele-education.
- Electronic commerce
- Mobile service to consult personalised information (e-moción).
- Added value services (network answering machine, call identification or multimedia messaging).

These also contribute to improvement of:

- The transport and distribution systems.
- Energy efficiency in buildings.
- Paper saving through electronic catalogues and invoices.

- Replacement of individual answering machines by network voice mail (collaborating to reduce use of materials).

In January 2002, Telefónica I+D set up a procedure aimed at systemically evaluating the environmental influence of its new developments. During 2003, the results of 353 projects were analysed.

More than 20% of the projects analysed were noted to contribute to reducing energy

consumption and more than 30% contributed to reducing the need for travel, improving access to education, health assistance or remote control of installations.

Work is now being carried out, within the environmental goals set by the organisation, to improve the evaluation procedure to make it more quantitative, evaluating the impact generated by a new service in comparison with the process existing prior to its implementation.

353
projects analysed

20%
contribute to reduce
energy consumption

30%
contribute to reduce
the need to travel

08

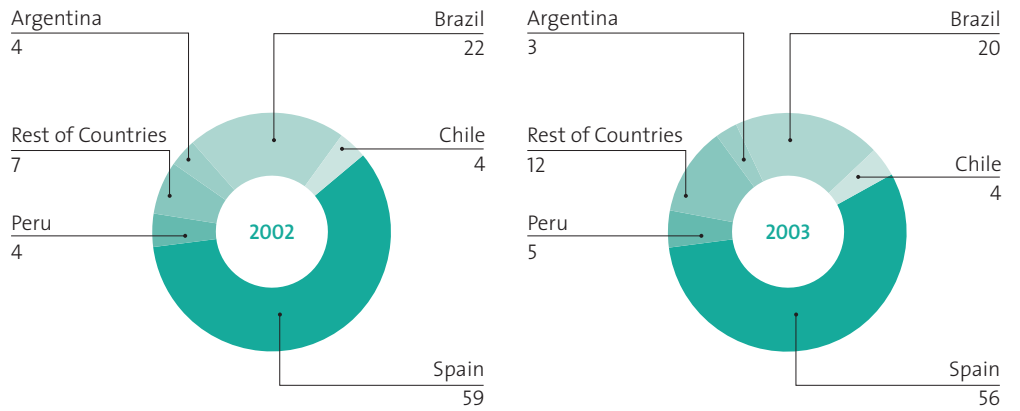
Suppliers: equal opportunities and mutual benefit



01	Large number of suppliers	<ul style="list-style-type: none"> • Volume of procurement by the Group • Number of awardee suppliers 	<p>AWARDEE SUPPLIERS</p> <p>17,100</p>
02	Equal opportunities	<ul style="list-style-type: none"> • Advanced Procurement System • Mechanisms that facilitate transparent award 	<p>33,153</p> <p>SUPPLIERS REGISTERED IN THE CATALOGUE</p>
03	Mutual benefit	<ul style="list-style-type: none"> • B2B Trade • Supplier website • Supplier development programme • Procurement Club for suppliers 	<p>SUPPLIER DEVELOPMENT PROJECTS</p> <p>53</p>
04	Sustainable development of society	<ul style="list-style-type: none"> • Boosting local suppliers • Ethical standards • Prize for quality 	<p>PURCHASING VOLUME</p> <p>88% from local suppliers</p>

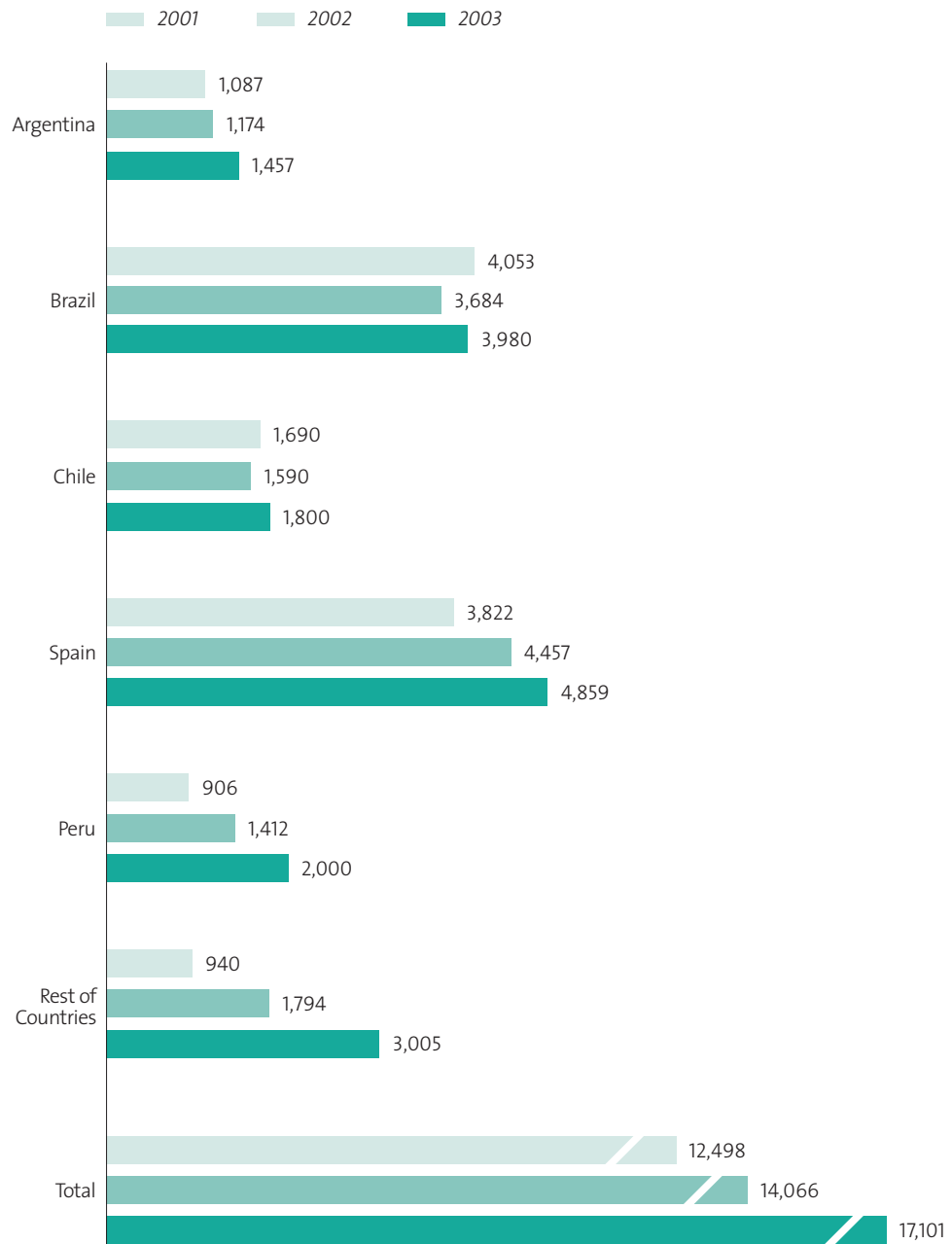
DISTRIBUTION OF PURCHASING VOLUME BY COUNTRIES

(Data in percentages)



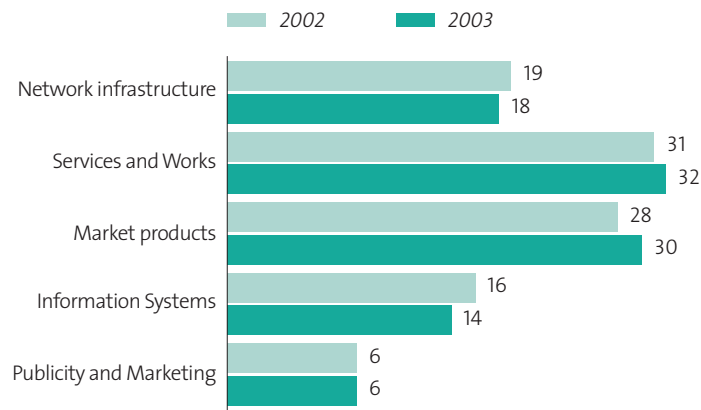
NUMBER OF AWARDEE SUPPLIERS

(Data in units)



DISTRIBUTION OF VOLUME OF PURCHASING BY PRODUCT LINES

(Data in percentages)



01 LARGE NUMBER OF SUPPLIERS...

During 2003, the volume of procurement by the Telefónica Group amounted to more than 10,500 million euros. That volume was awarded to more than 17,000 suppliers (20% more than in 2002).

The ten main suppliers, in procurement volume, were (in alphabetical order): Alcatel, Carat España, Ericsson, IBM, Lucent, Motorola, Nokia, Samsung, Siemens and Vitelcom.

02 PRINCIPLES OF OBJECTIVENESS, TRANSPARENCY AND EQUAL OPPORTUNITIES

Aware of the importance that purchasing and supplier relations have on the results of the business, Telefónica manages these using a common management model for all the companies in the Group: the Advanced Purchasing System. Its aim is to optimise purchasing in its triple dimension of price, quality and service, to reduce costs, improve competitiveness and create value.

At present, this system manages the purchases of 94 companies in the Telefónica Group, distributed among the 15 countries where it is present.

According to this model, the procurement management process is articulated around Purchasing Boards, forums that gather the different departments involved in procurement to analyse it, to establish targets or objective prices, and finally to decide, unanimously, on the award. There are now seven Purchasing Boards located in Madrid, São Paulo, Río de Janeiro, Lima, Buenos Aires, Santiago de Chile and Mexico D.F., which allows global or local management of purchasing, as most appropriate in each case.

The purchasing model used by Telefónica is designed to facilitate objectiveness and transparency in procurement:

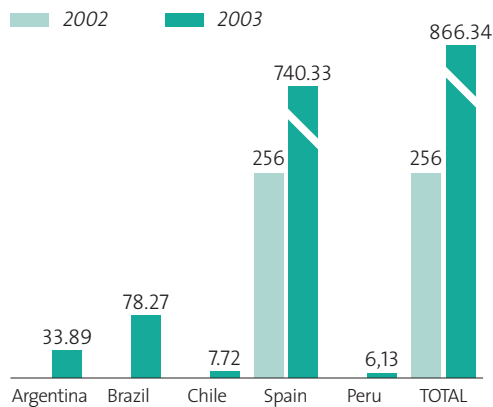
- The possibility of inclusion in the Telefónica Catalogue of Suppliers is available to all those companies interested in working with Telefónica. There were 33,153 suppliers registered in the Telefónica catalogue as possible bidders at the end of 2003.
- All the departments involved in purchasing participate in the Purchasing Boards and the decisions are taken unanimously, which ensures objectiveness and transparency, in the analysis as well as in decision making.
- Telefónica has a Style Manual SAC, that describes the general principles, values and guidelines for action that must govern the conduct and activity of the procurement managers and the rest of the areas involved in the purchasing process, as well as their relation with suppliers. A basic principle of this manual is equitable treatment and equal opportunities for all the suppliers bidding.
- Likewise, the B2B electronic commerce applications that are being used and developed at the Telefónica Group allow, in addition to automation and optimisation of the processes, a greater transparency in management of offers with the suppliers.

NUMBER OF SUPPLIERS REGISTERED IN THE TELEFÓNICA CATALOGUE

(Data in units)

Year	N.º of suppliers
2001	20,804
2002	26,180
2003	33,153

**B2B ELECTRONIC COMMERCE:
VOLUME OF PURCHASING MANAGED**
(Million euros)



03 MUTUAL BENEFIT

Telefónica has developed a series of tools to extend improvements to its whole supply chain and to collaborate with its suppliers.

a) B2B electronic commerce

Telefónica uses spearhead technology in its supplier relations, in order to automate and optimise the whole procurement process and establish new, better channels of communication and collaboration.

To that end, Telefónica applies e-business technology to management of the different stages of the purchasing process: electronic management of offers (*e-sourcing*); electronic management of service requests and orders from previously negotiated catalogues (*e-procurement*); electronic formalisation and signing of contracts; electronic billing, etc.

This is all performed through the electronic commerce platform Adquira, a leading company in Spain in solutions and negotiation and supplies services, that facilitates commercial relations between companies and institutions through electronic commerce. Five of the main Spanish companies hold a stake in Adquira: BBVA, Telefónica de España, TPI-Páginas Amarillas, Iberia and Repsol-YPF.

Numerous advantages for suppliers

These *e-business* initiatives allow suppliers numerous advantages, among which are cost reduction related to sales, improved control over the processes and documentation, and greater agility in exchange of information.

They also favour greater transparency in negotiation and, in general, in the whole procurement process, as well as equal opportunities for all the suppliers, by guaranteeing that the information to prepare

the bids is made available to all at the same time and that such information is the same for all.

In addition to these advantages, the Adquira platform increases the possibilities of sale by the suppliers through access to a virtual market in which, in addition to all the Telefónica companies, there are such companies as BBVA, Iberia or Repsol-YPF.

Progress of these initiatives in 2003

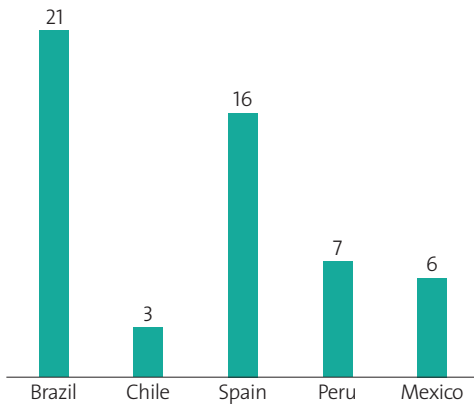
At present, electronic management of bids (*e-sourcing*) for certain products and services is already a reality in Spain, Brazil, Argentina, Chile and Peru. The volume of procurement managed in 2003 through the electronic market of Adquira amounted to 866 million euros, and at the end of 2003 a total 3,432 suppliers had joined it.

As to the rest of the initiatives, during 2003 development of an electronic stocking corporate model (*e-procurement*) was completed, to integrate the different existing initiatives at the Telefónica companies, and its implementation began at Telefónica de España and Telesp (Brasil). Corporate projects were also set up for electronic formalisation of contracts and electronic billing.

b) Supplier website

The Supplier website (www.telefonica.es/proveedores), is the main channel of information between Telefónica and its suppliers, providing access to global information on how to become a supplier to the Telefónica Group, the procurement process and the main projects that Telefónica is undertaking in relation to suppliers. During 2003, the portal had 18,601 sessions.

The Supplier Portal may also be used to manage the application for registration on the Supplier Catalogue of the Telefónica Group, to access the electronic commerce platform of Adquira (main

SUPPLIER DEVELOPMENT PROJECTS 2003*(Data in units)*

operating channel for relations with suppliers), to the Procurement Club for Suppliers and other initiatives and applications that Telefónica provides its suppliers.

It also allows access to other specific portals of the Telefónica companies, such as e-Agora, a portal for suppliers and companies that collaborate with Telefónica de España, through which they have exclusive, personalised access, by extranet, to the applications, contents and services of common interest to the suppliers of the Company.

c) Supplier development

Through Supplier Development, Telefónica provides a team and a methodology, at no cost to the suppliers, to help the supplier company implement ongoing improvement processes.

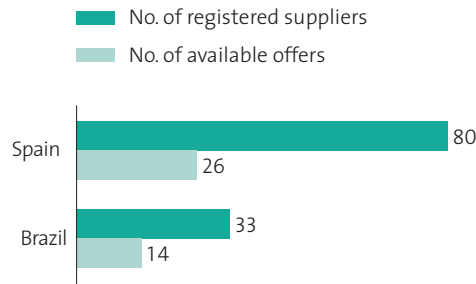
This activity is aimed at:

- Collaborating with the supplier, proving a methodology through which opportunities for improvement are identified.
- Facilitating implementation of a process of continual improvement of the supplier in the context of a participative work philosophy.
- Identifying processes in which costs may be reduced, which will allow improved competitiveness, adding value for the end customer.

The 53 ongoing improvement processes developed in financial year 2003 took place in Spain, Brazil, Chile, Peru and Mexico.

d) Procurement club for suppliers

The Purchasing Club for awardee suppliers is another collaboration initiative, through which Telefónica allows its suppliers to

SUPPLIER PURCHASING CLUB*(Data in units)*

obtain more advantageous purchasing conditions on certain products offered by other suppliers to the Company. In the experience of 2003, a total 113 registered in Brazil and Spain and 40 offers were managed.

In 2004, the club is foreseen to extend to other countries and to more widespread use by adding it to the Adquira platform.

e) Supplier training

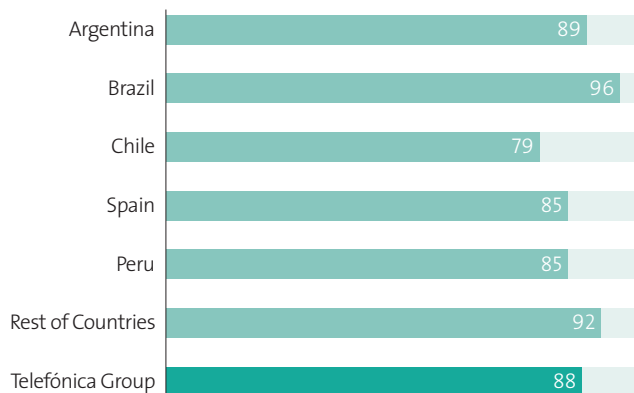
Telefónica de España, in collaboration with Educaterra, has developed a Specific Training Project for the 3,000 Distributors on its Indirect Channel. A new e-learning training project, in which people from outside the Telefónica Group participate for the first time, provides continually updated quality training that, in principle, is to address all the shops forming the Telefónica Indirect Channel in Spain.

NUMBER OF SUPPLIERS INCLUDED IN TELEFÓNICA MARKET PLACE

Country	2002	2003
Argentina	79	906
Brazil	225	888
Chile		200
Spain	797	1,247
Peru	44	161
Mexico		30
Total	1,145	3,432

**PERCENTAGE OF LOCAL SUPPLIER AWARDEES
PER COUNTRY**

(Data in percentages)



04 SUSTAINABLE DEVELOPMENT OF SOCIETIES

a) Boosting local suppliers

Telefónica is a company that is committed to the economic and social progress of the countries where it is present. That commitment is embodied in the high proportion of contracts with suppliers located in the actual country, who are awarded an average of 88% of the contracts awarded in each territory.

b) Encouraging ethical standards in the supply chain

In addition to demanding fulfilment of current laws on working conditions, safety and hygiene at work or environmental impact in the general conditions for supply of goods, Telefónica contributes to promotion of responsible practices throughout its whole supply chain.

That commitment is made public through adherence to or participation in some of the social responsibility initiatives, that work in greater depth in relation to companies with their suppliers, such as the United Nations Global Compact, or the projects developed by the ETNO (European Telecommunication Network Operators).

Telefónica also participates in the work group on the supply chain, imposed by GeSI (Global e-Sustainability Initiative), that is aimed at the identification and implementation of corporate responsibility initiatives in relation to the supply chain in the telecommunications sector.

b.1. Fulfilment of the current laws

In the General Terms for Supply of Goods to Telefónica S.A and companies in its Group, a document that is sent to the suppliers with the sheet of conditions, they undertake to

fulfil social, labour and environmental obligations. Since 2001, suppliers of goods who apply to be registered in the Catalogue of Suppliers must deliver, among other information, a signed copy of that document.

“The supplier – or subcontractor as appropriate – is bound to fulfil the legal provisions in force at all times concerning labour matters, the Social Security, Safety and Hygiene and Health at work and the Environment.

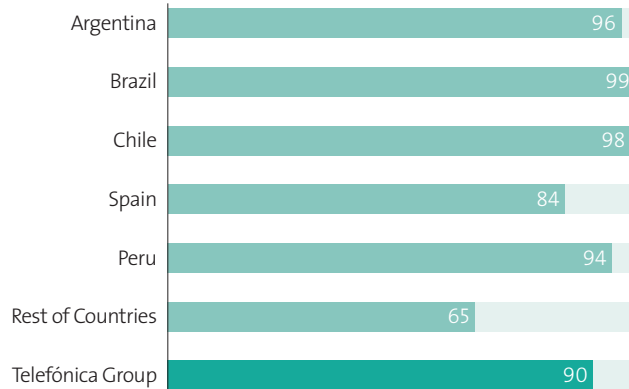
The supplier – or subcontractor as appropriate – hereby undertakes, under exclusive title, the status of principal or employer in relation to the personnel it employs to execute the contract. In this respect, the Telefónica Group is not party to the relations between the supplier and, if appropriate, the subcontractor, and the said personnel; and the supplier guarantees the Telefónica Group absolute indemnity for any liability that may arise from relations with its personnel, and as appropriate, that of the subcontractor.

The supplier undertakes and binds itself to fulfil, exactly and directly, all rights and obligations that are due to and arise from its condition as employer or principal, it bearing exclusive liability for payment of salaries, Social Security contributions, labour accident insurance, Labour Mutual Company fees, etc., as well as each and every social obligation imposed on the principal or employee from time to time by the laws in force, and the supplier also undertakes to require fulfilment of identical obligations by the subcontractor in relation to its personnel.

However, if the supplier breaches those commitments and such breach leads to any liability for the Telefónica Group, the supplier shall be obliged to compensate the amount of such liabilities, including any expenses or judicial costs arising from defence of the Telefónica Group.”

PERCENTAGE OF VOLUME OF PURCHASING
AWARDED TO LOCAL SUPPLIERS BY COUNTRY

(Data in percentages)



b.2. Initiatives exceeding the requisites
of the law

In addition to these corporate initiatives, there are others developed by the different Telefónica companies, such as, for example:

- *Telefónica de España published a guide of Good Operating Practice, aimed at the employees of collaborating companies. Specifically, the guide addresses companies performing installation of products and services at the customer's home and records the need to include environmental criteria in the processes and activities in which personnel from collaborating companies are involved. The guide provides a brief legislative summary concerning waste, its definition and classification (urban, hazardous, electric and electronic appliances), in each case identifying the waste that may be generated in such installations and the correct action to follow in each case. This edition is aimed at creating awareness among people performing such activity at collaborating companies concerning the importance of correct management of waste generated while performing their duties.*
- *Telefónica Móviles España has prepared, with support from the Intercentre Health and Safety Committee, a Contract Co-ordination module, that establishes an accreditation control system for workers at these companies and fulfilment of minimum standards in labour risk prevention. The aim is to ensure*

this series of criteria in prevention matters is taken into account when hiring such suppliers.

- *As a means to incentivise quality among the suppliers, in 2003 Telefónica Móviles España organised the III Edition of the Quality Prizes. The prizes were awarded to collaborating companies classified in three groups: generic collaborators with products and/or services, that includes logistical management of terminals, maintenance and operation of the network and network platforms; collaborators with content for Movistar and e-moción, whether general, premium or technologically innovative, and collaborators with good environmental conduct in relation to the activities carried out for Telefónica Móviles España.*
- *A recommendation was also sent from the Purchasing Department at Telefónica S.A. to the purchasing departments at the companies in the Group, asking them to bear in mind, in the award decision, social aspects such as fulfilment of the Act on Social Integration of the Disabled (LISMI).*

These corporate criteria are for general application, without detracting from the fact that in some countries or companies, other additional ones may be considered. Likewise, in the case of certain products and services, the contracts consider other aspects in addition to those discussed here, which are more directly related to the product or service being bought.

09

Media: information and transparency



01 Interest in Telefónica activities

- Impact of Telefónica in the media
- Type of Coverage given to Telefónica by the media

REFERENCES TO TELEFONICA
IN THE SPANISH PRESS

31,138

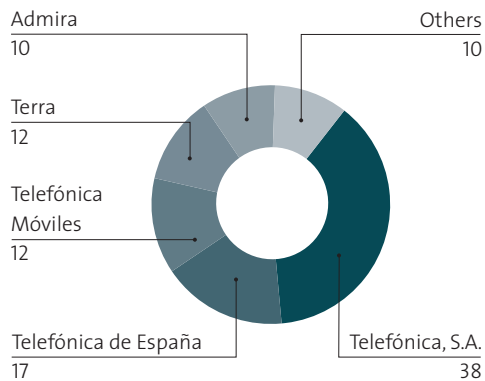
02 Complete, accurate information

- Press releases
- *Online* Press Room

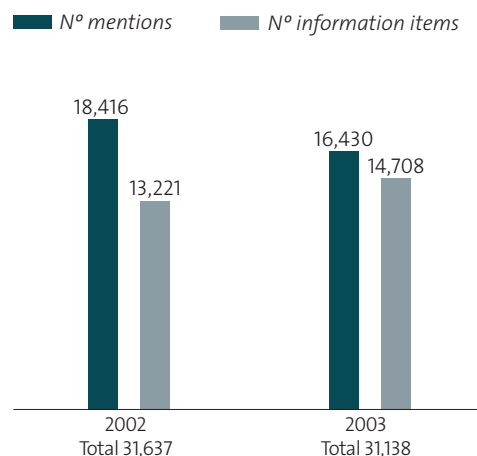
PRESS RELEASES
PUBLISHED WORLDWIDE

1,834

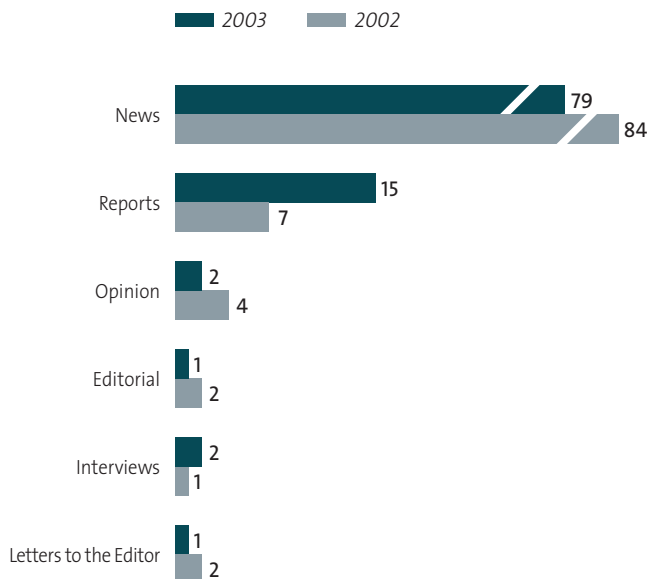
BUSINESS LINE DISTRIBUTION OF REFERENCES IN THE SPANISH PRESS
(Data in percentage)



TELEFÓNICA IMPACT ON THE SPANISH PRESS
(Data in units)



PRESS COVERAGE GIVEN TO THE TELEFÓNICA GROUP IN SPAIN
(Data in percentage)

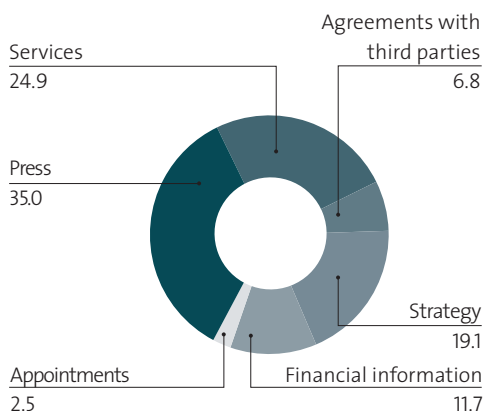


01 INTEREST IN THE ACTIVITIES OF TELEFÓNICA

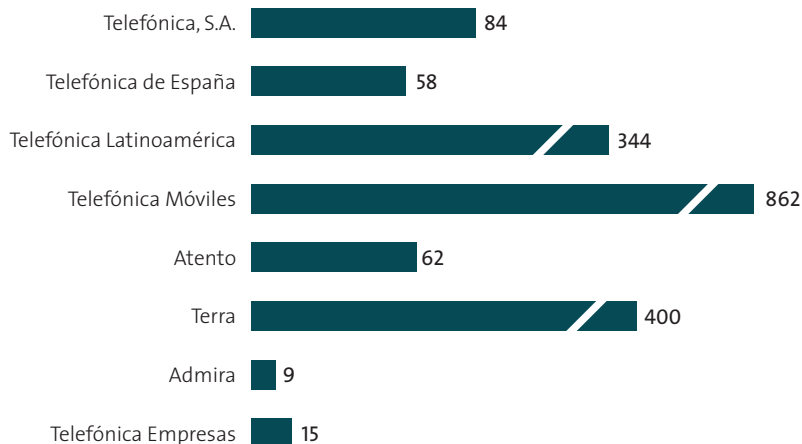
The Telefónica Group was referred to 31,138 times in the Spanish written press in 2003, amounting to an average of 40 information items and 45 mentions daily of Telefónica. The most included companies were Telefónica, S.A. (38%), Telefónica de España (17%), Telefónica Móviles (13%), Terra (12%) and Admira (10%).

The type of coverage given by the media to the Telefónica Group is fundamentally news (79%) and reports (15%); and secondarily opinion, interviews, editorials and letters to the press.

In Latin America, the companies in the Telefónica Group were referred to more than 12,687 times, as far as the written press is concerned in Argentina, Brazil, Chile and Peru.

DISTRIBUTION OF PRESS RELEASES*(Data in percentage)*

Sources: Corporate Center + Telefónica de España
+ Telefónica Latinoamérica

BUSINESS LINE DISTRIBUTION OF PRESS RELEASES*(Data in units)***02 COMPLETE, ACCURATE INFORMATION**

The Telefónica Group published 1,834 press releases during financial year 2003, the categories of new services and strategies being those that have generated the most notes. That distribution allows one to appreciate the adaptability of communication by Telefónica to the situation of the business in each one of the countries, as well as the informative demands of the local media.

The distribution of press releases is balanced by countries, the most active being Brazil, Spain and Chile. The most active line of activity in publication of press releases was Telefónica Móviles, which published 862 out of the total by the Telefónica Group, followed by Terra, with 400 and Telefónica Latinoamericana, with 344.

In order to encourage transparency, the Telefónica has a Press Room Online

(www.telefonica.es/saladeprensa) with the following services available:

- Publication of all the press releases since 1997.
- A press release search engine classified by country, lines of activity and dates, including a direct search service.
- Download area with 200 photographs, profiles and CVs of directors, graphs and results.
- Telefónica listings query.
- Link to the Telefónica Group web pages.

That channel had 446,048 visits in 2003 and provided 357,128 information downloads.

Along with the Press Room, it is fundamental to emphasise daily personal contact with the media.

10

Committed to you



100

million customers

1,7

million shareholders

148,000

employees

500

million persons in the
society we work for

17,000

suppliers to Telefónica

Redistribution of Revenue*

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.

● Customers
33,387

The 100 million customers world-wide appreciate the added value provided by the services offered by the Telefónica Group. The average payment for these services amounts to approximately 1.85% of the Gross Domestic Product of the main countries in which the Group operates (average data in Spain, Argentina, Brazil, Chile and Peru).

Others
234

34,801
millions of euros

● Sale of assets
1,180

● Investment
2,867

Total Income: 34,801

(In millions of euros)

Total Payments: 34,801



The profitable growth strategy of Telefónica is basically materialised in investment in assets that allow its business to be expanded in the future **(fundamentally investment in innovation, in development of the market and specific acquisitions)** and divestment from non strategic or non-profitable assets.

●
Public Administrations
6,090

A Group the size of Telefónica makes an important contribution to public funds in the countries where it has activities through direct taxes on its profit, rates for licences, and indirect taxes.

●
Suppliers

Commercial
12,651
CapEx
3,484

The Telefónica Group redistributes a major part of its revenue through the 17,000 companies with which it collaborates in each one of the countries in which it operates, that contribution is eminently local in each country, as confirmed by the fact that, on average, 88% of the volume of procurement in each country is from local suppliers.

●
Employees
3,958

The Telefónica Group has more than 148,000 employees, being one of the companies that generates more employment in Spain and Latin America.

●
Shareholders
1,487

Shareholder remuneration is one of the basic factors of the market economy the Telefónica Group operates under. Direct payment of dividends, the amount of which is shown on the graph, is in addition to other non monetary retributions such as capital increase issues, repurchase of shares and their later amortisation, or distribution of shares in subsidiary companies (Antena 3 TV).

●
Financial Creditors
4,264

Lending institutions provide a source of funds that allow growth and development. In this sense, the Telefónica Group has an intense activity in financial risks, providing dynamics to the financial sector in some of the countries it operates in.

It is important to emphasise the commitment the Telefónica Group has to the society in which it operates, a commitment involving:

- A contribution exceeding 46.7 million euros in social and cultural action, performed by Fundación Telefónica (23.5 million), ATAM (8.8 million) and the rest of the companies in the Telefónica Group (14.6 million).
- The net cost of the universal service obligations in Spain, that came to 224 million euros in 2002, according to Telefónica de España. The Telecommunications Market Commission recognised in February 2004 that the cost of the universal service provided in 2002 had amounted to 110 million euros, the difference being due to discrepancies in consideration of non monetary profit due to ubiquity, the cost of outgoing international traffic termination and the grouping of the 795 zones proposed by Telefónica de España into 587.
- The contribution to the Universal Service Funds in the Latin American countries (Argentina, Chile and Peru, amounting to 39 million euros).

(*)

The information published in this page has been obtained from internal sources of the Telefónica Group, so it must be considered for merely informative purposes. The data mentioned may be affected by later events and evolutionary effects that may cause modifications to the content.

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

Some details on the 2003 Corporate Responsibility Report

This document contains the commitments, actions and data of the Telefónica Group in the whole during 2003 in relation to its commitment to responsible Corporate Governance, efficient management of its intangible assets and its relations with customers, shareholders, employees, society, the environment, suppliers and the media.

Not all the information published in the report concerns consolidation of the data from all the companies in the Telefónica Group, and detail is provided of those in which this is not the case. The vocation of Telefónica is to continue to progressively include data, as the management and information reporting processes are gradually consolidated.

As in the 2002 Report, the 2003 Corporate Responsibility Report is based on the GRI (Global Reporting Initiative), through its general guidelines as well as the telecommunication sector supplement. It also aims to respond to all the information needs of the of Social Responsible Investment community.

The Corporate Responsibility reporting scheme at Telefónica has been reinforced during financial year 2003 by the following circumstances:

- Setting up an Integrated Information System based on corporate responsibility, that has allowed global, local or by line of business consolidation, of the performance of the companies in the Group in matters of corporate responsibility.
- Maintenance of a data base with all the news linking Telefónica to its different stakeholders

from the viewpoint of commitment and responsibility.

- Identification and involvement of responsible departments for checking information at the level of all the lines of activity, all the corporate centres in the countries and corporate areas.
- Involvement of the corporate departments assures the reliability and double control of the information presented in the report.
- Preparation of internal regulations on drafting of corporate responsibility reports, developed together with the Internal Audit Department.
- Extension of the model to other listed companies in the Group, such as Telefónica Móviles or TPI, which have adopted the same methodology of consolidation and disclosure of the information

This report, along with the complementary communications of the Telefónica Group in matters of corporate responsibility, may be consulted online in the section on the subject at www.telefonica.es/responsabilidadcorporativa. The validation report drafted by AENOR on this report will be available at the same address.

Note

The information published in the report has been obtained from internal sources of the Company, which may be considered to merely informative ends. The data mentioned in this document may be affected by later events and progression factors that may modify their content.

VALIDACIÓN DE LA MEMORIA DE SOSTENIBILIDAD



VMS-N° 006/04

La Asociación Española de Normalización y Certificación (AENOR) valida la Memoria de la empresa:

TELEFONICA, S.A.

Titulada: *INFORME ANUAL DE RESPONSABILIDAD CORPORATIVA 2003*

Con número de depósito legal: M-16588-2004

Es conforme con los requisitos establecidos por la Guía para la elaboración de Memorias de Sostenibilidad, sobre actuaciones económicas, medioambientales y sociales de la empresa, Junio 2003, elaborada por el Global Reporting Initiative (GRI). La validación se ha realizado con fecha 12 de abril de 2004 no considerando cualquier circunstancia acontecida con posterioridad.

La presente validación es vigente salvo suspensión o retirada notificada en tiempo por AENOR y en las condiciones particulares indicadas en la solicitud n° GRI-006/04 de fecha 29 de marzo de 2004 y en el Reglamento General de validación de memorias de sostenibilidad de fecha enero de 2003 que exige entre otros compromisos permitir las visitas de sus instalaciones por los servicios técnicos de AENOR para comprobar la veracidad de lo declarado.

Fecha de emisión: 16 de abril de 2004

AENOR

El Director General de AENOR

A blue ink signature is written over a rectangular stamp that contains the word "AENOR". Below the signature, the text "El Director General de AENOR" is printed.

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ORGANISATION PROFILE				
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G: Group L: Lines N. a.: Not available

TEF 02 indicates presence of the indicator in the Corporate Responsibility Report 2002.

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TEF 02 indicates presence of the indicator in the Corporate Responsibility Report 2002.

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CORPORATE DEPARTMENTS INVOLVED IN CONSOLIDATION OF INFORMATION FOR THE REPORT.

Chapter	Areas involved
01 Corporate Governance	Secretariat General
02 Intangibles	Communication (Brand, Sponsorship, Reputation and Corporate Social Responsibility) / Institutional Relations (includes Forums and Conferences) / Telefónica I+D / Secretariat General
03 Customers	Quality, marketing and customer care departments of main lines of business (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica, TPI, Terra, Atento, t-gestiona) / Secretariat General / Communication (Advertising, Media...)
04 Shareholders	Shareholder's Office / Investor Relations
05 Employees	Human Resources / Internal Communication / Fundación Telefónica / ATAM
06 Society	Marketing of main lines of business (Telefónica de España, Telefónica Latinoamérica, Telefónica Móviles, Atento, TPI) / Institutional Relations / Regulation / Corporate Reputation and Social Responsibility / Fundación Telefónica / ATAM
07 The Environment	Corporate Reputation and Social Responsibility / Environment departments of main lines of business (Telefónica de España, Telefónica Móviles España, TeleSP, Telefónica I+D, TPI)
08 Suppliers	Purchasing
09 Media	Communication
10 Co-ordination / Information System	Corporate Reputation and Social Responsibility (D.G. of Communication)

Telefonica, S.A.

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